*This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities. This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state of the United States or any other jurisdiction, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Bonds are being offered and sold only outside the United States in offshore transactions in compliance with Regulation S under the Securities Act. This announcement and the information contained herein are not for distribution, directly or indirectly, in or into the United States. No public offer of the securities referred to herein is being or will be made in the United States.*

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

***Notice to Hong Kong investors:** The Issuer and China Industrial Securities Co., Ltd.* (兴业证券股份有限公司) (the "**Guarantor**") confirm that the Bonds (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

兴证国际
INDUSTRIAL SECURITIES INTERNATIONAL

# China Industrial Securities International Financial Group Limited
# 興證國際金融集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6058)**

## U.S.$300,000,000 2.00 per cent. Guaranteed Bonds due 2024 (the "Bonds")
**(Stock Code: 40591)**

**unconditionally and irrevocably guaranteed by**

兴业证券股份有限公司
CHINA INDUSTRIAL SECURITIES CO.,LTD.

**China Industrial Securities Co., Ltd.***
**(兴业证券股份有限公司)**

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

# PUBLICATION OF THE OFFERING CIRCULAR

This announcement is issued pursuant to Rule 37.39A of the Listing Rules on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 2 February 2021 (the "**Offering Circular**") appended herein in relation to the issuance of the Bonds. As disclosed in the Offering Circular, the Bonds are intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Hong Kong Stock Exchange on that basis.

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

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

By order of the Board
**China Industrial Securities International Financial Group Limited**
**Huang Yilin**
*Chairman*

Hong Kong, 10 February 2021

*As at the date of this announcement, the directors of China Industrial Securities International Financial Group Limited are Mr. Huang Yilin (Chairman), four executive Directors, namely Mr. Li Baochen, Mr. Wang Xiang, Ms. Zeng Yanxia and Ms. Zhang Chunjuan, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo and the directors of China Industrial Securities Co., Ltd. are Mr. Yang Huahui (Chairman), five Directors, namely Mr. Liu Zhihui, Mr. Xia Jinliang, Mr. Geng Yong, Mr. Wang Fei and Mr. Cai Lvshui, and three independent Directors, namely Mr. Liu Hongzhong, Mr. Sun Zheng and Mr. Wu Shinong.*

* *For identification purpose only*

# IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to this offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE BONDS (THE "**BONDS**") AND THE GUARANTEE (THE "**GUARANTEE**") DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE BONDS MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON, ELECTRONICALLY OR OTHERWISE, AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

**Confirmation of your Representation**: In order to be eligible to view this Offering Circular or make an investment decision with respect to the Bonds and the Guarantee described herein, investors must not be located in the United States. This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to China Industrial Securities International Brokerage Limited, Bank of China Limited, Industrial Bank Co., Ltd. Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CMB International Capital Limited, CMB Wing Lung Bank Limited, CMBC Securities Company Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Chiyu Banking Corporation Limited, China Everbright Securities (HK) Limited, Guotai Junan Securities (Hong Kong) Limited, Guosen Securities (HK) Capital Company Limited, Guoyuan Capital (Hong Kong) Limited and Zhongtai International Securities Limited (the "**Joint Lead Managers**") that you and any customers you represent are not, and the electronic mail address that you gave the Joint Lead Managers to which this e-mail has been delivered is not, located in the United States and that you consent to delivery of such Offering Circular and any amendments or supplements thereto by electronic transmission.

**Singapore Securities and Futures Act Product Classification –** Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

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

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents (each as defined in the attached Offering Circular) to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of them is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee, the Agents, nor any person who controls any of them, nor their respective directors, officers, employees, representatives nor agents, nor affiliates of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

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

**STRICTLY CONFIDENTIAL**

兴证国际
INDUSTRIAL SECURITIES INTERNATIONAL

# China Industrial Securities International Financial Group Limited
# 兴证国际金融集团有限公司

*(incorporated in the Cayman Islands with limited liability)*

**U.S.$300,000,000 2.00 per cent. Guaranteed Bonds due 2024**
**unconditionally and irrevocably guaranteed by**

兴业证券股份有限公司
CHINA INDUSTRIAL SECURITIES CO.,LTD.

**China Industrial Securities Co., Ltd.**
**（兴业证券股份有限公司）**

Issue Price: 100.00 per cent.

The U.S.$300,000,000 2.00 per cent. Guaranteed Bonds due 2024 (the "**Bonds**") will be issued by China Industrial Securities International Financial Group Limited 兴证国际金融集团有限公司 (the "**Issuer**") and will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by China Industrial Securities Co., Ltd.（兴业证券股份有限公司）(the "**Guarantor**").

The Bonds bear interest on their outstanding principal amount from and including 9 February 2021 at the rate of 2.00 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.$10.00 per Calculation Amount (as defined in the Terms and Conditions of the Bonds) on 9 February and 9 August in each year (each an "**Interest Payment Date**") commencing 9 August 2021. All payments of principal, premium (if any) and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Cayman Islands, the PRC or any political subdivision or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Issuer and rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

The Guarantor is required by the Provisions on the Foreign Exchange Administration Rules on Cross-border Security（跨境担保外滙管理規定）promulgated by the State Administration of Foreign Exchange ("**SAFE**") on 12 May 2014 and effective from 1 June 2014 (the "**Cross-border Security Registration**") to register the Guarantee with SAFE within 15 working days after the execution of the Deed of Guarantee (as defined herein) in which the Guarantee is contained. If the Guarantee fails to complete the SAFE registration in connection with the Guarantee and the Cross-border Security Registration, there may be hurdles for cross-border payment under the Guarantee. The Guarantor intends to complete the registration of the Guarantee with SAFE as soon as practicable and in any event before the Registration Deadline (being 150 Registration Deadline Business Days (as defined in the Terms and Conditions of the Bonds) after the Issue Date (as defined below).

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations（國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015]2044號））(the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC or its local counterparts ("**NDRC**") on 14 September 2015 which came into effect on the same day, the Guarantor has registered the issuance of the Bonds with NDRC and obtained a certificate from NDRC on 9 December 2020 (amended 28 January 2021) evidencing such registration and intends to provide the requisite information on the issuance of the Bonds to NDRC within ten PRC Business Days (as defined in the Terms and Conditions of the Bonds) after the Closing Date (as defined below).

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 9 February 2024. The Bonds may be redeemed at the option of the Issuer in whole but not in part at any time, on giving not less than 30, not more than 60 days notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption but unpaid in the event of certain changes affecting taxes of the Cayman Islands, the PRC or any political subdivision or any authority thereof or therein having power to tax. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Taxation Reasons*". At any time following the occurrence of a Change of Control or No Registration Event (as defined in the Terms and Conditions of the Bonds), the holder of a Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date (as defined in the Terms and Conditions of the Bonds) at their principal amount, together with accrued interest to but excluding such Put Settlement Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase –* "*Redemption upon a Change of Control or No Registration Event*". For a more detailed description of the Bonds, see "*Terms and Conditions of the Bonds*".

The Bonds will be issued in denominations of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.

**Investing in the Bonds involves risks. See "*Risk Factors*" beginning on page 19 for a discussion of certain factors to be considered in connection with an investment in the Bonds.**

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only. This Offering Circular is for distribution to Professional Investors only.

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

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

**Singapore Securities and Futures Act Product Classification –** Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

**The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States. The Bonds are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*".**

The Bonds will be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about 9 February 2021 (the "**Closing Date**"), with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

*Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners*

**China Industrial Securities International**

**Bank of China**

**Industrial Bank Co., Ltd. Hong Kong Branch**

**China International Capital Corporation**

**China Minsheng Banking Corp., Ltd., Hong Kong Branch**

**CMB International**

**CMB Wing Lung Bank Limited**

**CMBC Capital**

**Shanghai Pudong Development Bank**

*Joint Lead Managers and Joint Bookrunners*

**Bank of China (Hong Kong)**

**BOCOM International**

**China CITIC Bank International**

**China Everbright Bank Hong Kong Branch**

**CEB International**

**Chiyu Banking Corporation Limited**

**Everbright Securities International**

**Guotai Junan International**

**Guosen Securities (HK)**

**Guoyuan Capital**

**Zhongtai International**

Offering Circular dated 2 February 2021

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## IMPORTANT NOTICE

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET OUT IN THIS OFFERING CIRCULAR IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE OF THIS OFFERING CIRCULAR.

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the offering of the Bonds described herein. If investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

The Issuer and the Guarantor, having made all reasonable enquiries, confirm that (i) this Offering Circular contains all information with respect to the Issuer and its subsidiaries taken as a whole (the "**Issuer Group**"), the Guarantor and its subsidiaries taken as a whole (the "**Group**"), the Bonds and the Guarantee, which is material in the context of the issue and offering of the Bonds; (ii) there are no other facts in relation to the Issuer, the Issuer Group, the Guarantor, the Group, the Guarantee or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular in any material respect misleading; (iii) this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iv) all statements of fact contained in this Offering Circular are in every material respect true and accurate and not misleading; (v) all statements of opinion, intention, belief or expectation contained in this Offering Circular are truly and honestly held and were or have been made after due and careful consideration of all relevant circumstances and were based on reasonable assumptions; (vi) all reasonable enquiries have been and will be made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such statements; (vii) the statistical, industry and market-related data included in this Offering Circular, are based on or derived or extracted from sources which each of the Issuer and the Guarantor believes to be accurate and reliable in all material respects, and represent its good faith estimates that are made on the basis of data so derived from such sources. Each of the Issuer and the Guarantor has taken reasonable care in reproducing or extracting such data into this Offering Circular and, to the extent required, the Issuer and the Guarantor have obtained the written consent to the use of such data from such sources.

This Offering Circular is highly confidential and has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular is limited to persons to whom securities may be sold in accordance with a relevant exemption from public offer regulations in that jurisdiction. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, China Industrial Securities International Brokerage Limited, Bank of China Limited, Industrial Bank Co., Ltd. Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CMB International Capital Limited, CMB Wing Lung Bank Limited, CMBC Securities Company Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Chiyu Banking Corporation Limited, China Everbright Securities (HK) Limited, Guotai Junan Securities (Hong Kong) Limited, Guosen Securities (HK) Capital Company Limited, Guoyuan Capital (Hong Kong) Limited and Zhongtai International Securities Limited (the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the subscription and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*".

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

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

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY OF THE JOINT LEAD MANAGERS ACTING AS THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Issuer Group, the Guarantor, the Group, the Bonds or the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers, Citicorp International Limited as Trustee (the "**Trustee**"), Citibank, N.A., London Branch as principal paying agent, transfer agent and registrar (the "**Principal Paying Agent**", "**Transfer Agent**" and "**Registrar**", and together, the "**Agents**"). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Issuer Group, the Guarantor, the Group or any of them since the date hereof or create any implication that the information contained herein is correct at any date subsequent to the date hereof.

The Issuer has submitted this Offering Circular confidentially to a limited number of professional investors so that they can consider a purchase of the Bonds. The Issuer has not authorised its use for any other purpose. This Offering Circular may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Circular, each investor agrees to these restrictions. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of any of its contents, without prior written consent of the Issuer is prohibited. By accepting delivery of this Offering Circular, each offeree agrees to the foregoing and to make no photocopies or other reproduction of this Offering Circular.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives. None of the Joint Lead Managers, the Trustee and the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives has independently verified any of the information contained in this Offering Circular (financial, legal or otherwise) and can give any assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential investor of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

In making an investment decision, investors must rely on their own examination of the Issuer, the Issuer Group, the Guarantor, the Group, and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents has authorised the provision of information different from that contained in this Offering Circular, to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, any of the Joint Lead Managers, the Trustee or the Agents. The information contained in this Offering Circular is accurate in all material respects only as at the date of this Offering Circular, regardless of the time of delivery of this Offering Circular or of any sale of the Bonds. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that there has not been a change in affairs of the Issuer, the Issuer Group, the Guarantor, the Group, or any of them or that the information set forth herein is correct in all material respects as at any date subsequent to the date hereof.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee or the Agents or any person affiliated with Joint Lead Managers, the Trustee or the Agents in connection with its investigation of the accuracy or completeness of such information or its investment decision. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee and the Agents or any of their respective employees, affiliates, directors, agents or advisors accepts any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any of their respective employees, affiliates, directors, agents or advisors or on its or their behalf in connection with the Issuer, the Issuer Group, the Guarantor, the Group, the Guarantee or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee and the Agents or any of their respective employees, affiliates, directors, agents or advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, employees, directors, advisors, agents or representatives undertakes to review the financial condition or affairs of the Issuer, the Issuer Group, the Guarantor or the Group for so long as the Bonds remain outstanding nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates.

**Presentation of Financial Information**

The Guarantor prepares its consolidated financial statements of the Group in accordance with Accounting Standards for Business Enterprises ("**PRC GAAP**"). PRC GAAP differs in certain material respects from the International Financial Reporting Standards ("**IFRS**"). For a discussion of certain differences between PRC GAAP and IFRS, see "*Description of Certain Differences between PRC GAAP and IFRS*" beginning on page 181. The selected consolidated income statements data of the Group for the years ended 31 December 2018 and 2019 and the selected consolidated balance sheet data of the Group as at 31 December 2018 and 2019, as set out in the section entitled "*Summary Financial Information*", have been derived from the Group's consolidated financial statements for the year ended 31 December 2019, which have been audited by KPMG Huazhen LLP ("**KPMG Huazhen"**), the independent auditor of the Group for the year ended 2019. The selected consolidated income statements data of the Group for the year ended 31 December 2017 and the selected consolidated balance sheet data of the Group as at 31 December 2017, as set out in the section entitled "*Summary Financial Information*", have been derived from the Group's consolidated financial statements for the year ended 31 December 2018, which have been audited by Deloitte Touche Tohmatsu CPA LLP ("**Deloitte CPA LLP**"), the independent auditor of the Group for the years ended 31 December 2017 and 2018. The Group's consolidated financial information as at and for the years ended 31 December 2018 and 2019 has been extracted from the consolidated financial statements of the Group as at and for the year ended 31 December 2019 (the "**2019 Annual Financial Statements of the Guarantor**"), which have been audited by KPMG Huazhen, and the Group's consolidated financial information as at and for the year ended 31 December 2017 has been extracted from the consolidated financial statements of the Group as at and for the year ended 31 December 2018 (the "**2018 Annual Financial Statements of the Guarantor**"), which have been audited by Deloitte CPA LLP, and included elsewhere in this Offering Circular together with the auditor's report in respect of such financial year.

The Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 are only issued in Chinese (the "**Chinese Financial Statements**"). An English translation of the Chinese Financial Statements (the "**Financial Statements Translation**") is included elsewhere in this Offering Circular for reference only and solely for the convenience of English speaking readers. The Guarantor's financial statements should be read in conjunction with, and construed in accordance with, the relevant rules in China and professional accounting and assurance standards applicable in China. The Financial Statements Translation does not itself constitute audited or reviewed financial statements and is qualified in its entirety by, and is subject to the more detailed information and the financial information set out or referred to in, the Chinese Financial Statements. The Guarantor's Chinese auditors' reports, financial statements and notes to financial statements shall prevail if there is a conflict or inconsistency between information contained in the English translation and the Chinese version. None of the Joint Lead Managers or any of their respective affiliates, directors, officers, employees, agents, advisors or representatives has independently verified or checked the accuracy of the English translation of the consolidated financial statements of the Guarantor and give no assurance that the information contained in such English translation is accurate or complete. Each of the Joint Lead Managers or any of their respective affiliates, directors, officers, employees, agents, advisors or representatives disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of any financial information of the Group.

The Guarantor's Chinese auditors' reports set forth below are incorporated by reference in this Offering Circular:

- The auditor's report dated 23 April 2020 and the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2019 (together with the auditor's report and the notes thereto) included in the Guarantor's annual report (Chinese version) published on the Shanghai Stock Exchange's website (http://www.sse.com.cn) on 25 April 2020; and

- The auditor's report dated 1 April 2019 and the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2018 (together with the auditor's report and the notes thereto) included in the Guarantor's annual report (Chinese version) published on the Shanghai Stock Exchange's website (http://www.sse.com.cn) on 3 April 2019.

The information incorporated by reference is considered to be a part of this Offering Circular. Each document incorporated by reference is current only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the Group's affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date. Nothing else in the Shanghai Stock Exchange's website cited above, other than the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 (together with the auditor's reports and the notes thereto), is incorporated by reference into, or made a part of, this Offering Circular.

The selected consolidated income statements data of the Issuer Group for the year ended 31 December 2019 and the selected consolidated balance sheet data of the Issuer Group as at 31 December 2019, as set out in the section entitled "*Summary Financial Information*", have been derived from the Issuer Group's consolidated financial statements for the year ended 31 December 2019, which have been audited by KPMG ("**KPMG**"), the independent auditor of the Issuer Group for the year ended 2019. The selected consolidated income statements data of the Issuer Group for the years ended 31 December 2017 and 2018 and the selected consolidated balance sheet data of the Issuer Group as at 31 December 2017 and 2018, as set out in the section entitled "*Summary Financial Information*", have been derived from the Issuer Group's consolidated financial statements for the year ended 31 December 2018, which have been audited by Deloitte Touche Tohmatsu ("**Deloitte HK**"), the independent auditor of the Issuer Group for the years ended 31 December 2017 and 2018. The selected consolidated financial information of the Issuer Group should not be relied upon to the same extent where financial information is presented together with the audited consolidated financial statements and the notes thereto. The Issuer Group's consolidated financial information as at and for the year ended 31 December 2019 has been extracted from the audited consolidated financial statements of the Issuer Group as at and for the year ended 31 December 2019 (the "**2019 Annual Financial Statements of the Issuer**"), which have been audited by KPMG, and the Issuer Group's consolidated financial information as at and for the years ended 31 December 2017 and 2018 has been extracted from the audited consolidated financial statements of the Issuer Group as at and for the year ended 31 December 2018 (the "**2018 Annual Financial Statements of the Issuer**"), which have been audited by Deloitte HK, and included elsewhere in this Offering Circular together with the auditor's reports in respect of such financial years. Such consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**").

## CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

The Issuer and the Guarantor have prepared this Offering Circular using a number of conventions which investors should consider when reading the information contained herein.

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| "**Agents**" | the Principal Paying Agent, Transfer Agent and Registrar |
| "**Arrangement**" | the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) which was promulgated on 21 August 2006, as amended |
| "**AUM**" | assets under management |
| "**Board of the Guarantor**" | the board of directors of the Guarantor |
| "**Board of the Issuer**" | the board of directors of the Issuer |
| "**CBBC**" | callable bull/bear contract |
| "**China**", "**Chinese**" and the "**PRC**" | the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan. |
| "**Circular 36**" | the Circular of Full Implementation of Business Tax to VAT Reform, Notice on Clarification of VAT Policies for Finance, Real Estate Development, Education Support Services (excluding Article 17 thereof), and other related rules and regulations |
| "**CISI Asset Management**" | China Industrial Securities International Asset Management Limited (興證國際資產管理有限公司) |
| "**CISI Brokerage**" | China Industrial Securities International Brokerage Limited 興證國際證券有限公司 |
| "**CISI Capital**" | China Industrial Securities International Capital Limited (興證國際融資有限公司) |
| "**CISI Finance**" | China Industrial Securities International Finance Limited (興證國際財務有限公司) |
| "**CISI Futures**" | China Industrial Securities International Futures Limited (興證國際期貨有限公司) |
| "**CISI Investment**" | China Industrial Securities International Investment Limited (興證國際投資有限公司) |
| "**CISI Wealth Management**" | China Industrial Securities International Wealth Management Limited (興證國際私人財富管理有限公司) |
| "**Clearing System Business Day**" | Monday to Friday inclusive except 25 December and 1 January |
| "**Clearstream**" | Clearstream Banking S.A. |

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| "**Closing Date**" . . . . . . . | 9 February 2021 |
| "**Code of Conduct**" . . . . | Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (證券及期貨事務監察委員會持牌人或註冊人操守準則) |
| "**Commission's proposal**" | the proposal published by the European Commission published for a Directive for a common FTT in participating Member States |
| "**Conditions**" or the "**Terms and Conditions**" . . . . . . . . | terms and conditions governing the Bonds, as set out in the section "*Terms and Conditions of the Bonds*" |
| "**controlling shareholder(s)**" . . . . . . | any person or group of persons who satisfy the requirements of such term as such term is defined in the Listing Rules |
| "**CSRC**" . . . . . . . . . . . | the China Securities Regulatory Commission |
| "**C(WUMP)O**" . . . . . . . . | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong |
| "**Deloitte CPA LLP**" . . . | Deloitte Touche Tohmatsu CPA LLP, the Guarantor's auditors for the year ended 31 December 2018 |
| "**Deloitte HK**" . . . . . . . . | Deloitte Touche Tohmatsu, the Issuer's auditor for the year ended 31 December 2018 |
| "**EIT Law**" . . . . . . . . . . | Enterprise Income Tax Law |
| "**ETF**" . . . . . . . . . . . . . | exchange-traded fund |
| "**Euroclear**" . . . . . . . . . | Euroclear Bank SA/NV |
| "**Exchange Participants**" | a corporation licensed to carry out Type 1 (dealing insecurities) regulated activity under the Securities and Futures Ordinance (Cap. 571) of Hong Kong who, in accordance with the rules of the Hong Kong Stock Exchange, may trade on or through the Stock Exchange and whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange |
| "**FATCA**" . . . . . . . . . . . | Foreign Account Tax Compliance Act |
| "**FIEA**" . . . . . . . . . . . . . | Financial Instruments and Exchange Act of Japan (Act no. 25 of 1948) |
| "**FRR**" . . . . . . . . . . . . . | Securities and Futures (Financial Resources) Rules (Cap. 571N) of Hong Kong |
| "**FSMA**" . . . . . . . . . . . . | Financial Services and Markets Act 2000 |
| "**FTT**" . . . . . . . . . . . . . | the proposed financial transaction tax |
| "**Futures Exchange**" . . . . | the Hong Kong Futures Exchange Limited |
| "**G3 currencies**" . . . . . . | the U.S. dollar, the euro and the Japanese yen |

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| "**GEM**" | the Growth Enterprise Market board of the Hong Kong Stock Exchange |
| "**Global Certificate**" | the global certificate in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date, with a common depositary for, Euroclear and Clearstream |
| "**Guarantor**" | China Industrial Securities Co., Ltd. (兴业证券股份有限公司), a company established under the laws of the PRC on 30 June 1994 with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 601377) and a controlling shareholder of the Issuer and together with its subsidiaries, the "**Group**" |
| "**Guarantor Group**" | the Guarantor and its subsidiaries taken as a whole |
| "**HK$**" | Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region |
| "**HKFRS**" | Hong Kong Financial Reporting Standards |
| "**HKSCC**" | the Hong Kong Securities Clearing Company Limited |
| "**Hong Kong Stock Exchange**" | The Stock Exchange of Hong Kong Limited |
| "**Hong Kong**" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "**IGA**" | intergovernmental agreement signed between Hong Kong and the United States for implementation of FATCA |
| "**IPO**" | initial public offering |
| "**Issuer**" | China Industrial Securities International Financial Group Limited 兴证国际金融集团有限公司 |
| "**Issuer Group**" | the Issuer and its subsidiaries taken as a whole |
| "**IT Circular**" | the Circular to All Licensed Corporations on Information Technology Management issued by the SFC on 16 March 2010 |
| "**Joint Lead Managers**" | China Industrial Securities International Brokerage Limited, Bank of China Limited, Industrial Bank Co., Ltd. Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CMB International Capital Limited, CMB Wing Lung Bank Limited, CMBC Securities Company Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Chiyu Banking Corporation Limited, China Everbright Securities (HK) Limited, Guotai Junan Securities (Hong Kong) Limited, Guosen Securities (HK) Capital Company Limited, Guoyuan Capital (Hong Kong) Limited and Zhongtai International Securities Limited |

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| "**KPMG**" . . . . . . . . . . . | KPMG, the Issuer's auditor for the year ended 31 December 2019 |
| "**KPMG Huazhen**". . . . . | KPMG Huazhen LLP, the Guarantor's auditor for the year ended 31 December 2019 |
| "**Licensing Court**" . . . . . | the court responsible for determination of application for granting or renewing of Money Lenders Licences |
| "**Listing Rules**" . . . . . . . | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "**Main Board**" . . . . . . . . | the main board operated by the Hong Kong Stock Exchange |
| "**mis-selling**" . . . . . . . . . | misrepresenting a product or service in order to successfully complete a sale |
| "**MLO**" . . . . . . . . . . . . . | Money Lenders Ordinance (Cap. 163) of Hong Kong |
| "**MOFCOM**" . . . . . . . . . | the Ministry of Commerce of the PRC |
| "**Money Lenders Licence**" . . . . . . . . . . | the money lenders licence issued by the Licensing Court pursuant to the Money Lenders Ordinance and Money Lenders Regulation for carrying on money lending business in Hong Kong |
| "**NDRC Circular**" . . . . . | the Notice on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號))(the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC or its local counterparts ("**NDRC**") on 14 September 2015 |
| "**NDRC**" . . . . . . . . . . . . | the National Development and Reform Commission of the PRC |
| "**Non-resident enterprise**" | an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC |
| "**participating Member States**". . . . . . . . . . . . | Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia |
| "**PBOC**" . . . . . . . . . . . . | People's Bank of China |
| "**PDPO**" . . . . . . . . . . . . | Personal Data (Privacy) Ordinance (Cap. 486) of Hong Kong |
| "**Prime Rate**" . . . . . . . . | the rate of interest that banks charge their creditworthy customers for borrowing money |
| "**Principal Paying Agent**" | Citibank, N.A., London Branch as principal paying agent |
| "**Professional Investors**". | professional investors as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "**QDII**" . . . . . . . . . . . . . | qualified domestic institutional investors |

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| "**QFII**" . . . . . . . . . . . . . | qualified foreign institutional investors |
| "**RMB**", "**CNY**" and "**Renminbi**" . . . . . . . . | the Renminbi Yuan, the official currency of the PRC |
| "**SAFE**" . . . . . . . . . . . . | the State Administration for Foreign Exchange of the PRC |
| "**SAR**" . . . . . . . . . . . . . | suspicious activity report filed by the money laundering reporting officer of the Group if there exists reasonable grounds to justify that the clients or activity of the Group are suspicious |
| "**SASAC**" . . . . . . . . . . . | State-owned Assets Supervision and Administration Commission of the PRC |
| "**Securities Act**". . . . . . . | the United States Securities Act of 1933 |
| "**securities margin financing**" . . . . . . . . . | providing a financial accommodation in order to facilitate acquisition of securities and the continued holding of those securities, but does not include, *inter alia*, the provision of financial accommodation by a corporation licensed for Type 1 regulated activity |
| "**SFA**" . . . . . . . . . . . . . | The Securities and Futures Act (Cap. 289) of Singapore |
| "**SFC**" . . . . . . . . . . . . . | the Securities and Futures Commission of Hong Kong |
| "**SFO**" . . . . . . . . . . . . . | Securities and Futures Ordinance (Cap. 571) of Hong Kong |
| "**Shanghai-Hong Kong Stock Connect**" . . . . . | the cross-boundary investment channel that connects the Shanghai Stock Exchange and the Hong Kong Stock Exchange |
| "**Shenzhen-Hong Kong Stock Connect**" . . . . . | the cross-boundary investment channel that connects the Shenzhen Stock Exchange and the Hong Kong Stock Exchange |
| "**SMS**" . . . . . . . . . . . . . | short message service |
| "**Subscription Agreement**" . . . . . . . . | the Subscription Agreement dated 2 February 2021 entered into between the Issuer, the Guarantor and the Joint Lead Managers |
| "**U.S.$** ", "**USD**" and "**U.S. dollars**" . . . . . . | United States dollars, the official currency of the United States of America |
| "**VAT**" . . . . . . . . . . . . . | Value-add Tax |

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

This Offering Circular contains a translation of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise specified, where financial information in relation to the Issuer and the Guarantor has been translated into U.S. dollars, it has been so translated, for convenience only, at the rate of RMB6.9618 to U.S.$1.00 (the noon buying rate in New York City on 31 December 2019 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York) and at the rate of HK$7.7894 to U.S.$1.00 (the noon buying rate in New York City on 31 December 2019 as set forth in the weekly H.10 statistical release of the Federal Reserve Board of the Federal Reserve Bank of New York). Further information regarding exchange rates is set forth in "*Exchange Rates*" in this Offering Circular. No representation is made that the Renminbi and Hong Kong dollar amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all, or *vice versa*.

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

Unless the context otherwise requires, references to "**2017**", "**2018**" and "**2019**" in this Offering Circular are to the years ended 31 December 2017, 2018 and 2019, respectively.

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

## FORWARD-LOOKING STATEMENTS

The Issuer and the Guarantor have made certain forward-looking statements in this Offering Circular. The statements in this Offering Circular which contain words and phrases such as "aim", "anticipate", "assume", "believe", "contemplate", "continue", "estimate", "expect", "future", "goal", "intend", "may", "objective", "plan", "predict", "positioned", "project", "risk", "seek to", "shall", "should", "will likely result", "will pursue", "plan" and words and terms of similar substance used in connection with any discussion of future operating or financial performance or the Issuer Group's or the Group's expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings "*Risk Factors*", "*Description of the Issuer Group*" and "*Description of the Group*" regarding the Issuer Group's and the Group's financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to the business of the Issuer Group and the Group discussed under "*Risk Factors*", other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to, risks associated with international global business activities; general economic and political conditions; possible disruptions to commercial activities due to nature and human induced disasters, including terrorist activities and armed conflicts and fluctuations in foreign currency exchange rates.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on the Issuer Group's and/or the Group's income or results of operations could materially differ from those that have been estimated. For example, revenue could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realised. Each of the Issuer and the Guarantor expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this Offering Circular to reflect any change in the Issuer Group's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

Investors are cautioned not to place undue reliance on the forward-looking statements, which speak only as at the date of this Offering Circular. Except as required by law, each of the Issuer Group and the Group is not under any obligation, and expressly disclaims any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

All subsequent forward-looking statements attributable to the Issuer Group or the Group or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this Offering Circular.

All forward-looking statements contained in this Offering Circular are qualified by reference to the cautionary statements set forth in this section.

These forward-looking statements speak only at the date of this Offering Circular.

# SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.*

## GROUP OVERVIEW

The Group is a full-service securities group based in mainland China with integrated service offerings comprising wealth management business, institutional service business, proprietary investment business and overseas business. The Guarantor was incorporated under the laws of the PRC on 19 May 2000 with limited liability with its principal place of business at 21st Floor, East Tower Industrial Securities Building, 36 Changliu Road, Pudong New Area, Shanghai. The Group operates its business mainly through the Guarantor, which was listed on the Shanghai Stock Exchange in 2010 (stock code 601377).

The predecessor of the Guarantor was Fujian Industrial Securities Company, which was established as the Securities Business Department by Fujian Industrial Bank in October 1991 and then decoupled from Fujian Industrial Bank by capital increase and share expansion in 1999. The controlling shareholder and actual controller of the Guarantor is Fujian Provincial Department of Finance. With over 20 years of operating history, "兴证" is a widely recognised brand in the PRC. The Group has been able to effectively establish a nationwide market presence, reinforce client confidence in its services and grow its client base, as well as to provide the Issuer Group with high-quality management resources to establish a strong presence in Hong Kong since commencement of the Issuer Group's business in 2012. Benefiting from both the brand reputation of "兴证" and other core competitive strengths, the Group has been actively seeking growth opportunities through expanding its client sources, innovating products and services to align with the diversifying needs of its clients and optimising its business structure in response to changing economic cycles and global financial markets development trends. With the pace of internationalisation of Renminbi gaining speed and increasing interactions between mainland China and foreign investors, the Group will continue to develop new clients and deliver new products and professional services that create value for new and potential clients in mainland China, Hong Kong and across the globe.

Principal business lines of the Group are:

- ***Wealth management business*****:** the Group's wealth management business includes securities and futures brokerage business and asset management business. The securities and futures brokerage business provides customers with targeted integrated financial service solutions such as securities and futures brokerage, product sales, margin trading, stock pledge repurchase, investment consulting, etc. through a combination of offline and online methods. The asset management business includes providing clients with various securities asset management services, fund asset management services and private equity investment fund management services.

- ***Institutional service business*****:** the Group's institutional service business includes research and institutional sales business and investment banking business. Research and institutional sales services include the provision of securities research and sales transaction services, brokerage transaction settlement services, asset custody and outsourcing services for various institutional clients. Investment banking business provides corporate and government clients with one-stop direct financing services such as stock financing, bond financing, merger financing, new third board and structured financing, asset securitisation, financial advisory, and regional equity market services.

- ***Proprietary investment business*:** the Group's proprietary investment business includes multiple types of proprietary investment, trading and market-making services such as stocks, bonds, derivatives, equity and alternative investments made under the principals of value investing and stable operation.

- ***Overseas business*:** the Group's overseas business includes global securities and futures brokerage, institutional sales and trading, corporate financing, fixed income, investment and financing services such as asset management and private wealth management, which is mainly conducted through the Guarantor's wholly-owned subsidiary China Industrial Securities (Hong Kong) Financial Holdings Co., Ltd. and the Issuer Group.

Core competitive strength of the Group lies in its strong service capability that fulfils the varying investment and financing needs of its clients. In addition to the offerings of the Issuer in the Hong Kong and global markets, operating subsidiaries of the Group are licensed to conduct various regulated activities under PRC laws, including securities brokerage business, securities investment consulting, financial advisory related to securities trading and securities investment activities, securities underwriting and sponsorship, securities proprietary business, securities asset management business, securities investment fund agency and intermediate introductory services for futures companies, among others. A diversified business portfolio allows the Group to create synergies between its business lines, generate cross-selling opportunities and provide integrated financial services to clients.

The fast-growing business of the Group is underpinned by its professional and seasoned workforce. Executive and non-executive directors of the Group have an average of more than 10 years of experience in the financial services industry and the senior management members of the Group have served renowned financial institutions in the PRC, Hong Kong and/or overseas. The strong and experienced management team of the Group allows it to keep abreast of the latest developments in the capital market and financial services industry, formulate sound business strategies and respond timely to changing market conditions to capture growth opportunities.

The Group began its business in 2000 and has experienced rapid growth since then. The total revenue of the Group increased from RMB6,499.4 million for the year ended 31 December 2018 to RMB14,249.5 million for the year ended 31 December 2019, representing a year-on-year increase of 119.2 per cent. Commission and fee income from the securities and futures brokerage business and asset management business and revenue from institutional service business, proprietary investment business and overseas business constitute the main sources of revenue for the Group. Revenue from the Group's business lines is summarised below.

- ***Wealth management business***

Revenue from the Group's securities and futures brokerage business within its wealth management business line amounted to RMB1,902.2 million and RMB2,022.5 million for the years ended 31 December 2018 and 2019, respectively, representing 29.3 per cent. and 14.2 per cent. of the Group's total revenue for the same periods, respectively. The amount of revenue from the Group's securities and futures brokerage business for the year ended 31 December 2017 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. Aggregate revenue from the Group's wealth management business amounted to RMB2,596.5 million for the year ended 31 December 2017, representing 29.4 per cent. of its total revenue for the same period.

Revenue from the Group's asset management business within its wealth management business line amounted to RMB1,862.3 million, RMB2,367.2 million and RMB2,180.7 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 21.1 per cent., 36.4 per cent. and 15.3 per cent. of its total revenue for the same periods, respectively.

- ***Institutional service business***

Revenue from the Group's institutional service business amounted to RMB1,765.0 million and RMB5,892.5 million for the years ended 31 December 2018 and 2019, respectively, representing 27.2 per cent. and 41.4 per cent. of its total revenue during the same periods, respectively. The amount of revenue from the Group's institutional service business for the year ended 31 December 2017 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

Revenue from the Group's investment banking business within its institutional service business line amounted to RMB1,133.6 million for the year ended 31 December 2017, representing 12.9 per cent. of its total revenue during the same period. The amount of revenue from the Group's investment banking business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

- ***Proprietary investment business***

Revenue from the Group's proprietary investment business amounted to RMB609.9 million and RMB3,906.6 million for the years ended 31 December 2018 and 2019, respectively, representing 9.4 per cent. and 27.4 per cent. of its total revenue during the same periods, respectively. The amount of revenue from the Group's proprietary investment business for the year ended 31 December 2017 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

Revenue from the Group's proprietary securities business amounted to RMB2,526.0 million for the year ended 31 December 2017, representing 28.6 per cent. of its total revenue for the same period. The amount of revenue from the Group's proprietary securities business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

- ***Overseas business***

Revenue from the Group's overseas business amounted to RMB658.2 million, RMB513.6 million and RMB430.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 7.5 per cent., 7.9 per cent. and 3.0 per cent. of its total revenue for the same periods, respectively.

The following tables set forth the revenue and other income of the Group by segment for the periods indicated:

| | **For the year ended 31 December** | | | |
|---|---|---|---|---|
| | **2018** | | **2019** | |
| | *(RMB in millions)* | % | *(RMB in millions)* | % |
| Wealth management business | | | | |
| Securities and futures brokerage | 1,902.2 | 29.3 | 2,022.5 | 14.2 |
| Asset management | 2,367.2 | 36.4 | 2,180.7 | 15.3 |
| Institutional service business | 1,765.0 | 27.2 | 5,892.5 | 41.4 |
| Proprietary investment business | 609.9 | 9.4 | 3,906.6 | 27.4 |
| Overseas business | 513.6 | 7.9 | 430.8 | 3.0 |
| Others | 1,513.7 | 23.3 | 1,010.1 | 7.1 |
| Inter-segment offset | (2,172.2) | (33.5) | (1,193.7) | (8.4) |
| **Total revenue** | **6,499.4** | **100.0** | **14,249.5** | **100.0** |

| | For the year ended 31 December 2017 | |
|---|---|---|
| | *(RMB in millions)* | % |
| Wealth management business | 2,596.5 | 29.4 |
| Proprietary securities business | 2,526.0 | 28.6 |
| Investment banking | 1,133.6 | 12.9 |
| Asset management | 1,862.3 | 21.1 |
| Overseas business | 658.2 | 7.5 |
| Others | 1,222.6 | 13.9 |
| Inter-segment offset | (1,178.8) | (13.4) |
| **Total revenue** | **8,820.4** | **100.0** |

## GROUP COMPETITIVE STRENGTHS

The Group believes that the following strengths distinguish it from its competitors:

- The Group's strong market position supports its goal of becoming a "top ten" securities firm in China

- The Group's emphasis on integrated systems has further strengthened the Group's management capabilities

- The Group's synergy advantages have supported continuous improvement of its comprehensive financial service capabilities

- The Group's investment banking business continues to make contributions to the real economy and to fighting COVID-19

- The transformation of the Group's wealth management business has achieved results and enhanced the Group's brand

- The Group's branch expansion plan has resulted in the achievement of nationwide coverage

- The Group's investment research capabilities remain a key strength which supports the effectiveness of its services

- The Group benefits from its outstanding investment management capabilities and stable investment performance

- The Group's compliance and risk control system operates effectively and actively prevents and resolves risks

- The Group benefits from a talented workforce

## GROUP BUSINESS STRATEGIES

The Group intends to focus on the following strategies:

- Further strengthen market position to support achieving goal of becoming one of the top ten financial securities companies in China

- Continue to emphasize wealth management and institutional businesses as the two primary drivers of the Group's growth

- Continue to grow the Group's overseas business by emphasizing the Issuer as the Group's main overseas platform

## GROUP RECENT DEVELOPMENTS

On 29 August 2020, the Group published its interim financial report for the six months ended 30 June 2020 (the "**Group Interim Financial Information**"). The Group Interim Financial Information is not audited or reviewed, may differ from future audited or reviewed information, is not included in and does not form part of this Offering Circular and is not incorporated, directly or indirectly, in any form or manner, into this Offering Circular. Investors should therefore not rely on the Group Interim Financial Information in making their investment decision.

For the six months ended 30 June 2020 as compared to the six months ended 30 June 2019, the Group's operating revenue and net profit increased mainly as a result of the increase of the Group's commission and fee income and also revenue from the Group's proprietary investment business. For the six months ended 30 June 2020 as compared to the six months ended 30 June 2019, the Group's operating expenses increased mainly as a result of the increase of the Group's assets impairment losses (including credit impairment losses).

## ISSUER GROUP OVERVIEW

The Issuer Group is a full-service securities group based in Hong Kong with integrated service offerings comprising brokerage, corporate finance, loans and financing, asset management and financial products and investments services. The Issuer was incorporated under the laws of the Cayman Islands on 21 July 2015 with limited liability and is registered in Hong Kong as a non-Hong Kong company with its principal place of business at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong. The Issuer Group operates its business mainly through the Issuer, which was listed on the Hong Kong Stock Exchange GEM in 2016 and transferred to the Main Board in 2019 (stock code 6058).

The Issuer was the first subsidiary of a Chinese securities enterprise listed offshore by spin-off. The controlling shareholder of the Issuer, the Guarantor, is listed on the Shanghai Stock Exchange (stock code: 601377) and is one of the leading securities firms in the PRC. With over 20 years of operating history, "兴证" is a widely recognised brand in the PRC. The Issuer Group's relationship with the Guarantor has allowed the Issuer Group to effectively establish a local market presence, reinforce client confidence in its services and grow its client base, as well as provided the Issuer Group with high-quality management resources to establish a strong presence in Hong Kong since commencement of its business in 2012. Benefiting from its history as a subsidiary of the Guarantor and capitalising on both the brand reputation associated with "兴证" and its own core competitive strengths, the Issuer Group has been actively seeking growth opportunities through expanding its client sources, innovating products and services to align with the diversifying needs of its clients and optimising its business structure in response to changing economic cycles and global financial markets development trends. With the pace of internationalisation of Renminbi gaining speed and increasing interactions between mainland China and foreign investors, the Issuer Group will continue to leverage Hong Kong's position as an international financial hub and gateway to Chinese capital to develop new clients and deliver new products and professional services that create value for new and potential clients.

Principal business lines of the Issuer Group are:

- ***Brokerage*****:** the Issuer Group engages in the trading of listed securities, futures, options, other securities, eligible A-shares of the Shanghai Stock Exchange and securities and futures in overseas markets (including the United States, Taiwan, Singapore, Australia, the United Kingdom and Germany) on behalf of its clients. The Issuer Group also offers third party insurance, pensions and other wealth management products to its clients.

- ***Loans and financing*****:** the Issuer Group offers margin financing to customers.[(1)]

- ***Corporate finance*****:** the Issuer Group provides corporate finance services, including underwriting of equity and debt securities offerings, sponsorship of listings and corporate advisory services.

- ***Asset management*****:** the Issuer Group offers collective asset management products, discretionary account management and investment advisory services tailorable to the investment styles and risk appetites of individual clients.

- ***Financial products and investments*****:** the Issuer Group engages in proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

Core competitive strength of the Issuer Group lies in its strong service capability that fulfils the varying investment and financing needs of its clients. Operating subsidiaries of the Issuer Group are licensed to conduct different regulated activities under the SFO. The Issuer Group conducts brokerage and margin financing businesses through CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, and CISI Futures, which is licensed to carry on Type 2 (dealing in futures contracts) regulated activity. Corporate finance business of the Issuer Group is conducted through CISI Capital, which is licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and qualified to act as sponsor under the SFO, while the asset management business of the Issuer Group is conducted through CISI Asset Management which is licensed to carry on Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities under the SFO. The Issuer Group offers wealth management products developed by third parties to its clients through CISI Wealth Management, which is a member of the Professional Insurance Brokers Association. A diversified business portfolio allows the Issuer Group to create synergies between its business lines, generate cross-selling opportunities and provide integrated financial services to clients.

The fast-growing business of the Issuer Group is underpinned by its professional and seasoned workforce. Executive and non-executive directors of the Issuer Group have an average of more than 19 years of experience in the financial services industry and the senior management members of the Issuer Group have served renowned financial institutions in the PRC, Hong Kong and/or overseas. The strong and experienced management team of the Issuer Group allows it to keep abreast of the latest developments in the capital market and financial services industry, formulate sound business strategies and respond timely to changing market conditions to capture growth opportunities.

The Issuer Group began its business in 2012 and has experienced rapid growth since then. The total revenue of the Issuer Group increased from HK$1,011.0 million for the year ended 31 December 2018 to HK$1,261.6 million for the year ended 31 December 2019, representing a year-on-year increase of 24.8 per cent. Commission and fee income from the brokerage business, commission and advisory fee income from the corporate finance business and interest income from the loans and financing business constitute the main sources of revenue for the Issuer Group. The commission and fee income from the Issuer Group's brokerage business amounted to HK$182.2 million, HK$212.5 million and HK$167.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 19.6 per cent., 21.0 per cent. and 13.3 per cent. of its total revenue during the same periods, respectively. Commission and advisory fee income from the Issuer Group's corporate finance business amounted to HK$123.3 million, HK$211.3 million and HK$154.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 13.3 per cent., 21.0 per cent. and 12.3 per cent. of its total revenue during the same periods, respectively. Interest income from the Issuer Group's loans and financing

*Note:*

(1) For the period covered by the financial statements disclosed in this Offering Circular the Issuer Group also offered secured and unsecured loans to customers. The Issuer Group ceased to offer such loans in February 2020.

business amounted to HK$310.5 million, HK$428.2 million and HK$479.2 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 33.5 per cent., 42.3 per cent. and 38.0 per cent. of its total revenue during the same periods, respectively.

The following table sets forth a breakdown of the revenue and other income of the Issuer Group by segment for the period indicated:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | |
| | *(HK$ in millions)* | *%* | *(HK$ in millions)* | *%* | *(HK$ in millions)* | *%* |
| **Commission and fee income from customers** | | | | | | |
| **Brokerage:** | **182.2** | **19.6** | **212.5** | **21.0** | **167.8** | **13.3** |
| – Commission and fee income from securities brokerage | 160.4 | 17.3 | 182.2 | 18.0 | 137.5 | 10.9 |
| – Commission and fee income from futures and options brokerage | 18.1 | 2.0 | 27.0 | 2.7 | 24.3 | 1.9 |
| – Commission income from insurance brokerage | 3.7 | 0.4 | 3.3 | 0.3 | 6.0 | 0.5 |
| **Corporate finance:** | **123.3** | **13.3** | **211.3** | **20.9** | **154.8** | **12.3** |
| – Commission on placing, underwriting and sub-underwriting | 52.5 | 5.7 | 175.2 | 17.4 | 116.4 | 9.2 |
| – Debt securities | 31.8 | 3.5 | 125.0 | 12.4 | 62.6 | 5.0 |
| – Equity securities | 20.7 | 2.2 | 50.2 | 5.0 | 53.8 | 4.3 |
| – Corporate advisory fee income | 1.2 | 0.1 | 3.1 | 0.3 | 0.8 | 0.1 |
| – Sponsor fee income | 7.1 | 0.8 | 8.0 | 0.8 | 7.8 | 0.6 |
| – Arrangement fee | 62.5 | 6.7 | 25.0 | 2.5 | 29.7 | 2.4 |
| **Asset Management:** | **12.9** | **1.4** | **19.2** | **1.9** | **36.1** | **2.9** |
| – Asset management fee income | 9.5 | 1.0 | 16.4 | 1.6 | 31.8 | 2.5 |
| – Investment advisory fee income | 3.4 | 0.4 | 2.8 | 0.3 | 4.2 | 0.3 |
| **Interest revenue** | | | | | | |
| **Loans and financing:** | **310.5** | **33.5** | **428.2** | **42.3** | **479.2** | **38.0** |
| – Interest income from margin financing | 304.6 | 32.8 | 422.9 | 41.8 | 477.8 | 37.9 |
| – Interest income from money lending activities | 5.9 | 0.7 | 5.2 | 0.5 | 1.4 | 0.1 |
| **Financial products and investments:** | **–** | **–** | **5.0** | **0.5** | **55.9** | **4.4** |
| – Interest income from reverse repurchase agreements | – | – | 5.0 | 0.5 | 55.9 | 4.4 |
| **Net investment income and gains or losses** | | | | | | |
| **Financial products and investments:** | **298.8** | **32.2** | **134.9** | **13.3** | **367.8** | **29.2** |
| – Interest income from financial assets at fair value through profit or loss | 127.0 | 13.7 | 461.6 | 45.7 | 372.2 | 29.5 |
| – Dividend income from financial assets at fair value through profit or loss | 8.0 | 0.9 | 12.2 | 1.2 | 8.2 | 0.6 |
| – Net realised gain/(loss) on financial assets at fair value through profit or loss | 26.3 | 2.8 | (258.7) | (25.6) | 56.3 | 4.5 |
| – Net unrealised gain/(loss) on financial assets at fair value through profit or loss | 21.0 | 2.3 | (215.6) | (21.3) | (59.2) | (4.7) |
| – Interest income from available-for-sale financial assets | 137.5 | 14.8 | – | – | – | – |
| – Net realised loss on available-for-sale financial assets | (14.1) | (1.5) | – | – | – | – |
| – Interest income from derivatives | – | – | – | – | 10.4 | 0.8 |
| – Net realised gain/(loss) on derivatives | (13.9) | (1.5) | 28.3 | 2.8 | (66.1) | (5.2) |
| – Net unrealised gain on derivatives | 3.2 | 0.3 | 6.3 | 0.6 | 26.3 | 2.1 |
| – Net realised loss on financial liabilities at fair value through profit or loss | – | – | (1.8) | (0.2) | (6.4) | (0.5) |
| – Net unrealised gain on financial liabilities at fair value through profit or loss | 3.8 | 0.4 | 102.6 | 10.1 | 26.1 | 2.1 |
| **Total revenue** | **927.7** | **100.0** | **1,011.0** | **100.0** | **1,261.6** | **100.0** |

## ISSUER GROUP COMPETITIVE STRENGTHS

The Issuer Group believes that the following strengths distinguish it from its competitors:

- The Issuer Group is a fast growing securities group with a strong capital base in Hong Kong

- The Issuer Group benefits from PRC enterprises listed in Hong Kong
- The Issuer Group benefits from its history as a subsidiary of the Guarantor and the brand reputation associated with "兴证"
- The Issuer Group provides full-service offerings tailored to the varying needs of its clients
- The Issuer Group has a professional and seasoned team with diverse backgrounds

## ISSUER GROUP BUSINESS STRATEGIES

With the increasing pace of internationalisation of Renminbi, efforts to open up China's capital market have ramped up significantly in recent years. The Issuer Group believes that the pace of Chinese enterprises "going global" will quicken and a rising number of Chinese enterprises will increase their interaction with global capital markets, driving even more Chinese capital abroad and increasing demand amongst Chinese investors for financial services in Hong Kong. In addition, it is expected that more overseas capital will be deployed into China, which will, in turn, further promote the expansion and opening up of the Chinese capital market. The role of Hong Kong as an offshore Renminbi centre and an important regional financial hub has become increasingly crucial throughout this process. As an important gateway into Hong Kong's capital markets, the Issuer Group expects that it will continue to benefit from such trends through the implementation of the following strategies.

- Optimising client base by increasing diversification of client sources and offering customised services
- Continuing to enrich brokerage and wealth management services
- Enhancing asset management, corporate finance, institutional sales and research service capabilities
- Expanding capital-based intermediary business with its strong capital base

## ISSUER GROUP RECENT DEVELOPMENTS

On 21 August 2020, the Issuer Group published its interim financial information for the six months ended 30 June 2020 and on 27 August 2020 the Issuer Group published its interim financial report for the six months ended 30 June 2020 (together, the "**Issuer Group Interim Financial Information**"). The Issuer Group prepared its Issuer Group Interim Financial Information in accordance with the applicable disclosure provisions of the Listing Rules. The Issuer Group Interim Financial Information is not audited or reviewed and it may differ from future audited or reviewed information. The Issuer Group Interim Financial Information is not included in and does not form part of this Offering Circular and is not incorporated, directly or indirectly, in any form or manner, into this Offering Circular. Investors should therefore not rely on the Issuer Group Interim Financial Information in making their investment decision.

For the six months ended 30 June 2020 as compared to the six months ended 30 June 2019, the Issuer Group's operating revenue decreased, and the Issuer Group recorded a net loss after tax for the six months ended 30 June 2020 as compared to a net profit for the six months ended 30 June 2019. The main reasons for the loss were: first, revenue from the Issuer Group's financial products and investments business decreased substantially due to market volatility and, second, global stock markets and the Hong Kong stock market experienced substantial corrections due to the COVID-19 pandemic which led the Issuer Group to make a substantial provision for impairment of margin loans.

## THE OFFERING

*The following summary contains some basic information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" shall have the same meanings in this summary. For a more complete description of the terms and conditions of the Bonds, see "Terms and Conditions of the Bonds".*

| | |
|---|---|
| **Issuer** . . . . . . . . . . . . . | China Industrial Securities International Financial Group Limited 兴证国际金融集团有限公司 |
| **Guarantor** . . . . . . . . . . . | China Industrial Securities Co., Ltd.（兴业证券股份有限公司） |
| **The Bonds** . . . . . . . . . . . | U.S.$300,000,000 aggregate principal amount of 2.00 per cent. Guaranteed Bonds due 2024. |
| **Issue Price** . . . . . . . . . . . | 100.00 per cent. |
| **Form and Denomination** . | The Bonds will be issued in registered form in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. |
| **Issue Date** . . . . . . . . . . . | 9 February 2021. |
| **Interest** . . . . . . . . . . . . . | The Bonds will bear interest on their outstanding principal amount from and including 9 February 2021 at the rate of 2.00 per cent. per annum, payable semi- annually in arrear on 9 February and 9 August in each year, commencing 9 August 2021. |
| **Maturity Date** . . . . . . . . | 9 February 2024. |
| **Guarantee** . . . . . . . . . . . | The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed, as further described in Condition 4 of the Terms and Conditions of the Bonds, and as provided in a deed of guarantee to be dated on or about 9 February 2021 (the "**Deed of Guarantee**" or the "**Guarantee**"). The Guarantor is required by the Cross-border Security Registration to register the Guarantee with SAFE within 15 working days after its execution. The Guarantee may not be enforceable until the registration of the Guarantee is completed in accordance with the provisions of the Cross-border Security Registration. See also "*Risk Factors – Risks relating to The Bonds and the Guarantee – If the Guarantor fails to complete the SAFE registration in connection with the Guarantee, there may be hurdles for cross-border payment under the Guarantee*". |

| | |
|---|---|
| **Status of the Bonds and the Guarantee** . . . . . . . | The Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and (subject as stated above) rank and will rank *pari passu*, without any preference among themselves with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Guarantor and (subject as stated above) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights. |
| **Negative Pledge** . . . . . . . | The Bonds will contain a negative pledge provision as further described in Condition 5.1 (Negative Pledge) of the Terms and Conditions of the Bonds. |
| **Events of Default** . . . . . . | Upon the occurrence of certain events as described in Condition 11 (Events of Default) of the Conditions, in respect of the Issuer and the Guarantor, the Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in the principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall (provided that in either such case, the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest. |
| **Cross-Acceleration** . . . . . | The Bonds will contain a cross-Acceleration provision in relation to the Issuer and the Guarantor as further described in Condition 11.1(c) (Cross-Acceleration) of the Conditions. |
| **Taxation** . . . . . . . . . . . . | All payments of principal, premium (if any) and interest in respect of the Bonds by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of any of the Relevant Jurisdictions (as defined in the Conditions), unless the withholding or deduction of the Taxes (as defined in the Conditions) is required by law.<br><br>Where such withholding or deduction is made by the Issuer or the Guarantor by or within the PRC at the rate of up to and including the Applicable Rate (as defined in the Conditions), the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amount received by Bondholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of the withholding or deduction. |

In the event that any such PRC deduction or withholding in excess of the Applicable Rate or any deduction or withholding by or within the Cayman Islands is required, the Issuer or, as the case may be, the Guarantor shall pay (except in certain circumstances set out in Condition 9 (Taxation)) such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.

**Final Redemption** . . . . . . Unless previously redeemed, or purchased and cancelled in the circumstances referred to in the Conditions, the Bonds will be redeemed at their principal amount on the Maturity Date.

**Redemption upon a Change of Control or No Registration Event** . At any time following the occurrence of a Change of Control or No Registration Event (as defined in the Conditions), the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date (as defined in the Conditions) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. See Condition 8.3 (Redemption for Change of Control or No Registration Event) of the Conditions.

**Redemption for Taxation Reasons** . . . . . . . . . . . The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) at their principal amount together with interest accrued to the date fixed for redemption but unpaid, in the event that as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in the Conditions), or any change in, or amendment to, the application or official interpretation of such laws or regulations the Issuer or, as the case may be, the Guarantor would be required to pay Additional Tax Amounts and such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it. See Condition 8.2 (Redemption and Purchase – Redemption for Taxation Reasons) of the Conditions.

**Further Issues** . . . . . . . . The Issuer is at liberty from time to time without the consent of the Bondholders to create and issue further notes or bonds either (i) ranking *pari passu* in all respects (or in all respects save for their issue date and the first payment of interest thereon and the NDRC Post-issue Filing and the Cross-Border Security Registration) and so that the same shall be consolidated and form a single series with the outstanding bonds or securities of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (ii) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of issue, subject to certain conditions as further described in Condition 18 (Further Issues) of the Terms and Conditions of the Bonds. See "*Terms and Conditions of the Bonds – Further Issues*".

**Trustee** . . . . . . . . . . . . . Citicorp International Limited

| | |
|---|---|
| **Transfer Agent and Registrar** . . . . . . . . . . | Citibank, N.A., London Branch |
| **Principal Paying Agent** . . | Citibank, N.A., London Branch |
| **Clearing Systems** . . . . . . | The Bonds will be represented by beneficial interests in the Global Certificate in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about the Closing Date with a common depositary for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate. |
| **Governing Law** . . . . . . . | The Trust Deed, Agency Agreement, the Guarantee and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law. |
| **Listing** . . . . . . . . . . . . . | Application will be made to the Hong Kong Stock Exchange for the listing of and permission to deal in the Bonds, by way of debt issues to Professional Investors only. |
| **Selling Restrictions** . . . . | The Bonds have not been and will not be registered under the Securities Act or under any state securities laws of the United States and, subject to certain exceptions, may not be offered or sold within the United States, the United Kingdom, the PRC, Hong Kong, Singapore, Japan and the Cayman Islands. The Bonds may be sold in other jurisdictions only in compliance with applicable laws and regulations. See "*Subscription and Sale*". |
| **ISIN** . . . . . . . . . . . . . . . | XS2270463255 |
| **Common Code** . . . . . . . . | 227046325 |
| **Legal Entity Identifier of the Issuer** . . . . . . . . . . | 549300TA9JLZ5CGW8A68. |

## SUMMARY FINANCIAL INFORMATION

*The following tables set forth the Group's and the Issuer Group's summary consolidated financial information as at and for the years indicated.*

*The summary consolidated financial information of the Group as at and for the years ended 31 December 2018 and 2019 set forth below is derived from the 2019 Annual Financial Statements of the Guarantor (which have been audited by KPMG Huazhen). The summary consolidated financial information of the Group as at and for the year ended 31 December 2017 set forth below is derived from the 2018 Annual Financial Statements of the Guarantor (which have been audited by Deloitte CPA LLP). The 2019 Annual Financial Statements of the Guarantor and the 2018 Annual Financial Statements of the Guarantor are prepared in Chinese and have been translated into English for the purposes of inclusion in this Offering Circular for reference purposes only. Should there be any inconsistency between the Chinese Financial Statements and the Financial Statements Translation, the Chinese Financial Statements shall prevail. The Chinese Financial Statements are incorporated by reference and are considered to be a part of this Offering Circular. Each document incorporated by reference is current only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the Group's affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date. The Financial Statements Translation does not itself constitute audited or reviewed financial statements, and is qualified in its entirety by, and is subject to, the financial information set out or referred to in, the Chinese Financial Statements. The Chinese Financial Statements are available at the following website: http://www.sse.com.cn. Nothing else in the Shanghai Stock Exchange's website, other than the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 (together with the auditor's reports and the notes thereto), is incorporated by reference into, or made a part of, this Offering Circular. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained therein is accurate, truthful or complete.*

*The summary consolidated financial information of the Issuer Group as at and for the year ended 31 December 2019 set forth below is derived from the 2019 Annual Financial Statements of the Issuer (which have been audited by KPMG). The summary consolidated financial information of the Issuer Group as at and for the years ended 31 December 2017 and 2018 set forth below is derived from the 2017 Annual Financial Statements of the Issuer and the 2018 Annual Financial Statements of the Issuer (which have been audited by Deloitte HK). None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers has independently verified any of the information contained therein and can give assurance that such information is accurate, truthful or complete.*

*The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Issuer and the Financial Statements Translation, which are included in the F-pages of this Offering Circular. Historical results are not necessarily indicative of results that may be achieved in any future period.*

*The financial statements of the Guarantor were prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain material respects from International Financial Reporting Standards ("**IFRS**"). The Guarantor has not prepared any reconciliation of such consolidated financial information between PRC GAAP and IFRS. For a discussion of certain differences between PRC GAAP and IFRS, see "Summary of Certain Differences between PRC GAAP and IFRS".*

*The financial statements of the Issuer have been prepared and presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), which differ in certain respects from generally accepted accounting principles in other jurisdictions. Potential investors must exercise caution when using such data to evaluate its financial condition and results of operations.*

*With effect from 1 January 2019, the Group adopted Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (revised), Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Instruments (revised), Accounting Standard for Business Enterprises No. 24 – Hedging Accounting (revised) and Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments (revised) (together, the "**New Financial Instrument Standards**"). The New Financial Instrument Standards revise the Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Instruments, Accounting Standard for Business Enterprises No. 24 – Hedging which were issued by the MOF in 2006 and Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments issued by the MOF in 2014. The New Financial Instrument Standards classify financial assets into three basic categories: (1) financial assets measured at amortised cost; (2) financial assets measured at fair value through other comprehensive income ("**FVOCI**"), and (3) financial assets as fair value through profit or loss ("**FVTPL**").*

*The classification of financial assets under the New Financial Instrument Standards is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The New Financial Instrument Standards cancel the previous categories of held to maturity investments, loans and receivables and available for sale financial assets under previous financial instruments standards. Under the New Financial Instrument Standards, derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The New Financial Instrument Standards replace the "incurred loss" model in previous financial instruments standards with the expected credit loss ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in previous financial instruments standards. Retrospective adjustments were made to classification and measurement (including impairment) of financial instruments not derecognised on the date of effectiveness of the standards (i.e. 1 January 2019) according to transition requirements of the New Financial Instrument Standards. The Group has not adjusted its financial statements and recognises the difference between the original carrying amount of financial instruments and the new carrying amount on the date of effectiveness of the standards as retained earnings or other comprehensive income at the beginning 2019. The Group applies the new ECL model to the following items: financial assets measured at amortised cost and financial investments at FVOCI. The new ECL model does not apply to investments in equity instruments.*

*With effect from 1 January 2018, the Issuer adopted HKFRS 9 and HKFRS 15 pursuant to which the Issuer Group is required to reclassify and adjust certain of its financial line items in its financial statements. As the Issuer Group has applied the transitional provisions set out in HKFRS 9 and the modified retrospective approach set out in HKFRS 15, each without requiring any restatement of the corresponding figures of the prior period before 1 January 2018, the Issuer Group's consolidated financial information as at and for the year ended 31 December 2017 may not be directly comparable against the Issuer Group's consolidated financial information after 1 January 2018, including the Issuer Group's consolidated financial information as at and for the years ended 31 December 2018 and 2019. Please refer to Note 2 of the Issuer Group's audited consolidated financial statements as at and for the year ended 31 December 2018 for a discussion on the impact of the adoption of HKFRS 9 and HKFRS 15.*

*With effect from 1 January 2019, the Issuer adopted HKFRS 16 pursuant to which the Issuer Group is required to reclassify and adjust certain of its financial line items in its financial statements. As the Issuer Group has applied the modified retrospective approach set out in HKFRS 16, without requiring any restatement of the corresponding figures of the prior period before 1 January 2019, the Issuer Group's consolidated financial information as at and for the year ended 31 December 2017 and 2018 may not be directly comparable against the Issuer Group's consolidated financial information after 1 January 2019, including the Issuer Group's consolidated financial information as at and for the years ended 31 December 2019. Please refer to Note 3 of the Issuer Group's audited consolidated financial statements as at and for the year ended 31 December 2019 for a discussion on the impact of the adoption of HKFRS 16.*

## THE GROUP

### Summary Consolidated Balance Sheet Data of the Group

| | As at 31 December | | | |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | |
| | (RMB in '000) | (RMB in '000) | (RMB in '000) | (USD in '000) |
| **Assets:** | | | | |
| Cash at bank and on hand | 22,840,687 | 27,313,400 | 47,637,137 | 6,842,647 |
| Clearing settlement funds | 4,506,562 | 6,027,322 | 6,640,493 | 953,847 |
| Margin accounts | 18,098,113 | 17,492,122 | 20,735,063 | 2,978,405 |
| Derivative financial assets | 5,077 | 4,739 | 15,380 | 2,209 |
| Refundable deposits | 3,418,480 | 3,016,808 | 4,174,675 | 599,655 |
| Accounts receivable | 1,423,004 | 2,258,413 | 2,412,086 | 346,474 |
| Financial assets held under resale agreements | 33,161,715 | 21,135,207 | 8,627,869 | 1,239,316 |
| Financial assets held for trading | 41,651,815 | 40,474,266 | – | – |
| Financial assets at fair value through profit or loss | – | – | 48,549,780 | 6,973,740 |
| Available-for-sale financial assets | 24,149,729 | 31,142,421 | – | – |
| Debt securities at fair value through other comprehensive income | – | – | 22,996,386 | 3,303,224 |
| Equity securities not held for trading | – | – | 2,495,987 | 358,526 |
| Long-term equity investments | 268,216 | 1,711,929 | 1,773,261 | 254,713 |
| Investment properties | 251,716 | 244,058 | 151,881 | 21,816 |
| Fixed assets | 516,346 | 533,097 | 606,698 | 87,147 |
| Construction in progress | – | 732 | – | – |
| Intangible assets | 92,881 | 122,136 | 200,172 | 28,753 |
| Goodwill | 12,264 | 12,264 | 12,264 | 1,761 |
| Deferred tax assets | 742,574 | 1,299,855 | 1,036,595 | 148,898 |
| Other assets | 1,916,223 | 2,349,047 | 2,509,226 | 360,428 |
| **Total assets** | **153,055,401** | **155,137,816** | **170,574,955** | **24,501,559** |
| **Liabilities:** | | | | |
| Short-term loans | 5,582,599 | 6,237,586 | 5,883,211 | 845,070 |
| Short-term financing payables | 12,538,528 | 642,692 | 6,365,189 | 914,302 |
| Placements from banks and other financial institutions | 1,000,000 | 1,000,000 | 505,444 | 72,602 |
| Financial liabilities at fair value through profit or loss | – | – | 3,993,399 | 573,616 |
| Financial liabilities held for trading | 1,531,288 | 1,414,670 | – | – |
| Derivative financial liabilities | 23,931 | 10,850 | 18,023 | 2,589 |
| Financial assets sold under repurchase agreements | 17,772,336 | 24,888,048 | 25,756,433 | 3,699,680 |
| Accounts payable to brokerage and margin clients | 23,614,659 | 26,393,765 | 34,604,898 | 4,970,683 |
| Employee benefits payable | 3,471,734 | 3,223,861 | 4,343,811 | 623,949 |
| Taxes payable | 723,423 | 597,651 | 903,661 | 129,803 |
| Accounts payables | 1,201,771 | 963,705 | 2,133,792 | 306,500 |
| Provisions | 12,481 | 4,462 | 3,400 | 488 |
| Long-term loans | – | 2,961,556 | 2,999,187 | 430,806 |
| Bonds payable | 46,530,597 | 48,501,477 | 45,375,194 | 6,517,739 |
| Deferred tax liabilities | 11,910 | 27,878 | 10,806 | 1,552 |
| Other liabilities | 3,161,853 | 2,961,784 | 634,820 | 91,186 |
| **Total liabilities** | **117,177,109** | **119,829,986** | **133,531,268** | **19,180,567** |
| **Shareholders' equity:** | | | | |
| Share capital | 6,696,672 | 6,696,672 | 6,696,672 | 961,917 |
| Capital reserve | 14,370,249 | 14,372,689 | 14,374,588 | 2,064,780 |
| Other comprehensive income | 186,937 | 130,210 | 498,725 | 71,637 |
| Surplus reserve | 1,455,602 | 1,559,995 | 1,716,991 | 246,630 |
| General risk reserve | 2,692,438 | 2,901,224 | 4,166,682 | 598,506 |
| Retained earnings | 8,026,990 | 6,844,659 | 6,978,613 | 1,002,415 |
| Total equity attributable to shareholders of the Company | 33,428,888 | 32,505,448 | 34,432,270 | 4,945,886 |
| Non-controlling interests | 2,449,405 | 2,802,382 | 2,611,417 | 375,107 |
| **Total** | **35,878,292** | **35,307,830** | **37,043,687** | **5,320,993** |
| **Total liabilities and shareholders' equity** | **153,055,401** | **155,137,816** | **170,574,955** | **24,501,559** |

## Summary Consolidated Income Statement Data of the Group

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | |
| | (RMB in '000) | (RMB in '000) | (RMB in '000) | (USD in '000) |
| **Operating income** | **8,820,389** | **6,499,373** | **14,249,536** | **2,046,818** |
| Net interest income/(expense) | 418,862 | (333,745) | 750,523 | 107,806 |
| Net fee and commission income | 4,542,100 | 4,322,309 | 4,393,815 | 631,132 |
| Investment gains | 3,590,355 | 2,860,081 | 2,600,765 | 373,577 |
| Other revenue | 18,563 | 201,740 | 230,365 | 33,090 |
| Gains/(losses) from changes in fair value | 162,444 | (1,071,299) | 1,556,530 | 223,582 |
| Exchange (losses)/gains | 68,617 | 6,005 | (25,834) | (3,711) |
| Other business income | 20,721 | 513,839 | 4,743,754 | 681,398 |
| (Losses)/gains from of property and equipment | (1,274) | 442 | (382) | (55) |
| **Operating expenses** | **(5,670,303)** | **(5,833,284)** | **(11,588,893)** | **(1,664,640)** |
| Taxes and surcharges | (67,345) | (61,871) | (59,575) | (8,557) |
| General and administrative expenses | (5,249,325) | (4,568,394) | (6,029,349) | (866,062) |
| Assets impairment losses | (335,632) | (689,713) | – | – |
| Credit impairment loss | – | – | (748,950) | (107,580) |
| Reversal of impairment losses on other assets | – | – | 2,017 | 290 |
| Other business costs | (18,001) | (513,305) | (4,753,035) | (682,731) |
| **Operating profit** | **3,150,086** | **666,090** | **2,660,643** | **382,177** |
| Add: Non-operating income | 194,323 | 9,041 | 2,502 | 359 |
| Less: Non-operating expenses | (56,042) | (21,862) | (33,601) | (4,826) |
| **Profit before income tax** | **3,288,367** | **653,269** | **2,629,543** | **377,710** |
| Less: Income tax expense | (653,324) | (77,875) | (714,251) | (102,596) |
| **Net profit for the year** | **2,635,043** | **575,394** | **1,915,292** | **275,114** |
| Shareholders of the Company | 2,284,896 | 135,348 | 1,762,537 | 253,172 |
| Non-controlling interests | 350,147 | 440,046 | 152,755 | 21,942 |
| **Other comprehensive income, net of tax** | (96,433) | (24,088) | 396,017 | 56,884 |
| Other comprehensive income (net of tax) attributable to shareholders of the Company | 1,465 | (56,727) | 353,425 | 50,766 |
| Items that will not be reclassified to profit or loss | – | – | 88,908 | 12,771 |
| Items that may be subsequently reclassified to profit or loss | 1,465 | (56,727) | 264,517 | 37,995 |
| Other comprehensive income (net of tax) attributable to non-controlling interests | (97,899) | 32,639 | 42,592 | 6,118 |
| **Total comprehensive income for the year** | 2,538,609 | 551,306 | 2,311,310 | 331,999 |
| Attributable to shareholders of the Company | 2,286,361 | 78,621 | 2,115,963 | 303,939 |
| Attributable to non-controlling interests | 252,248 | 472,685 | 195,347 | 28,060 |

## Summary Cash Flow Statement Data of the Group

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2017 | 2018 | 2019 | |
| | (RMB in '000) | (RMB in '000) | (RMB in '000) | (USD in '000) |
| Net cash flows from operating activities | (21,545,471) | 17,607,036 | 18,343,749 | 2,634,915 |
| Net cash flows from investing activities | (1,066,504) | (1,278,864) | 4,369,657 | 627,662 |
| Net cash flows from financing activities | 13,482,594 | (10,836,180) | (2,064,238) | (296,509) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (188,765) | 105,202 | (25,834) | (3,711) |
| **Net increase/(decrease) in cash and cash equivalents** | **(9,318,145)** | **5,597,194** | **20,623,332** | **2,962,356** |
| Cash and cash equivalents at beginning of the year | 36,006,957 | 26,688,812 | 32,286,006 | 4,637,595 |
| **Cash and cash equivalents at end of the year** | **26,688,812** | **32,286,006** | **52,909,338** | **7,599,951** |

## THE ISSUER GROUP

### Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Issuer Group

| | For the year ended 31 December | | |
|---|---|---|---|
| | **2017** | **2018** | **2019** |
| | **(HK$ in '000)** | **(HK$ in '000)** | **(HK$ in '000)** |
| Commission and fee income from customers | 318,439 | 443,053 | 358,649 |
| Interest revenue | 310,522 | 433,137 | 535,097 |
| Net investment income and gains or losses | 298,763 | 134,856 | 367,818 |
| Total revenue | 927,724 | 1,011,046 | 1,261,564 |
| Other income | 23,630 | 53,584 | 131,340 |
| Share of result of a joint venture | – | (499) | (7,189) |
| Finance costs | (166,818) | (386,951) | (569,952) |
| Commission and fee expenses | (101,172) | (111,606) | (72,847) |
| Staff costs | (163,561) | (187,041) | (232,101) |
| Other operating expenses | (130,200) | (182,362) | (175,164) |
| Impairment losses on financial assets | (290,395) | (6,105) | (874,301) |
| Other gains or losses | 78,876 | 10,484 | 1,027 |
| (Loss)/profit before taxation | 178,084 | 200,550 | (537,623) |
| Taxation | (25,253) | (56,750) | 75,764 |
| **(Loss)/profit for the year** | **152,832** | **143,800** | **(461,859)** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Change in fair value of available-for-sale financial assets | 16,043 | – | – |
| Disposal of available-for-sale financial assets | 14,066 | – | – |
| **Other comprehensive income for the year** | **30,109** | **–** | **–** |
| **Total comprehensive income for the year attributable to owners of the Company** | **182,941** | **143,801** | **(461,859)** |
| **Earnings per share** | | | |
| Basic (expressed in HK$) | 0.0382 | 0.0360 | (0.1155) |

## Summary Consolidated Statement of Financial Position of the Issuer Group

| | As at 31 December | | |
|---|---|---|---|
| | 2017 | 2018 | 2019 |
| | (HK$ in '000) | (HK$ in '000) | (HK$ in '000) |
| **Current assets** | | | |
| Accounts receivable | 5,007,802 | 6,907,207 | 5,543,115 |
| Loans receivable | 109,900 | 71,444 | – |
| Reverse repurchase agreements | – | 334,317 | 856,955 |
| Available-for-sale financial assets | 1,872,334 | – | – |
| Financial assets at fair value through profit or loss | 5,106,108 | 8,734,109 | 9,077,930 |
| Statutory deposits | 15,978 | 11,860 | 14,133 |
| Deposits, other receivables, prepayments and other assets | 302,695 | 394,214 | 1,171,700 |
| Tax receivable | 5,944 | 43 | 65 |
| Bank balances – trust accounts | 3,389,992 | 5,228,829 | 1,850,331 |
| Bank balances – general accounts and cash | 1,181,371 | 1,517,227 | 5,359,950 |
| **Total current assets** | **16,992,124** | **23,199,250** | **23,874,179** |
| **Non-current assets** | | | |
| Property and equipment | 20,584 | 26,669 | 29,522 |
| Intangible assets | 1,617 | 2,823 | 6,898 |
| Interest in a joint venture | – | 39,534 | 32,345 |
| Available-for-sale financial assets | 11,423 | – | – |
| Financial assets at fair value through profit or loss | – | 46,988 | 48,005 |
| Reverse repurchase agreements | – | – | 169,074 |
| Loans receivable | 3,000 | – | – |
| Statutory deposits | 13,362 | 11,132 | 12,094 |
| Deferred tax assets | – | 3,896 | 84,368 |
| Deposits, other receivables, prepayments and other assets | 11,666 | 13,547 | 48,187 |
| **Total non-current assets** | **61,652** | **144,589** | **430,493** |
| **Current liabilities** | | | |
| Accounts payable | 4,203,672 | 5,991,195 | 3,411,502 |
| Accruals and other payables | 175,425 | 181,423 | 179,145 |
| Amount due to a related party | 2,957 | 3,175 | 5,744 |
| Contract liabilities | – | 126 | 179 |
| Other liabilities | 278,866 | 399,730 | 546,215 |
| Tax payable | 40,347 | 86,791 | 66,906 |
| Financial liabilities at fair value through profit or loss | 161,958 | 288,701 | 39,401 |
| Repurchase agreements | 1,094,856 | 1,542,081 | 3,101,099 |
| Bank borrowings | 5,404,593 | 5,586,798 | 6,371,479 |
| Other borrowings | 1,203,876 | 1,485,298 | 196,217 |
| Notes | 62,550 | 62,851 | 31,302 |
| Bonds | – | – | 2,173,672 |
| Lease liabilities | – | – | 13,404 |
| **Total current liabilities** | **12,629,100** | **15,628,169** | **16,136,265** |
| **Net current assets** | **4,363,023** | **7,571,084** | **7,737,911** |
| **Non-current liabilities** | | | |
| Accruals and other payables | 3,234 | 786 | – |
| Financial liabilities at fair value through profit or loss | 23,283 | – | 639,840 |
| Repurchase agreements | – | – | 340,765 |
| Bank borrowings | – | 3,322,864 | 3,348,129 |
| Deferred tax liabilities | 892 | 950 | 29 |
| **Total non-current liabilities** | **27,409** | **3,324,600** | **4,328,763** |
| **Net assets** | **4,397,266** | **4,391,073** | **3,839,642** |
| **Capital and reserves** | | | |
| Share capital | 400,000 | 400,000 | 400,000 |
| Share premium | 3,379,895 | 3,379,895 | 3,379,895 |
| Retained earnings | 171,346 | 157,158 | (394,273) |
| Investments revaluation reserve | (7,995) | – | – |
| Other reserve | 11,578 | 11,578 | 11,578 |
| Capital reserve | 442,442 | 442,442 | 442,442 |
| **Equity attributable to owners of the Company** | **4,397,266** | **4,391,074** | **3,839,642** |

# RISK FACTORS

*Any investment in the Bonds is subject to a number of risks. In addition to other information in this Offering Circular, investors should carefully consider the following risk factors, together with all other information contained in this Offering Circular (including the financial statements and the Bonds thereto), before purchasing the Bonds. The risks and uncertainties described below may not be the only ones that the Issuer Group and/or the Group faces. Additional risks and uncertainties that the Issuer Group and the Group is not aware of or that the Issuer Group and the Group currently believes are immaterial may also adversely affect its business, financial condition or results of operations. If any of the possible events described below occur, the Issuer Group's and/or the Group's business, financial condition or results of operations could be materially and adversely affected, the trading price of the Bonds could decline and investors may lose all or part of their investment.*

*This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Issuer Group's and/or the Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.*

## RISKS RELATING TO THE MARKET IN WHICH THE GROUP OPERATES

### Unfavourable or uncertain economic and market conditions could undermine investors' confidence which could materially and adversely affect the business, results of operations and prospects of the Group

The Group's business is highly dependent on securities trading, margin financing and corporate finance activities in the PRC and Hong Kong, which in turn are dependent on global and local market conditions. Adverse changes in general economic or financial conditions increase the volatility of the securities market, thereby weakening investors' confidence in and reducing securities trading, margin financing and corporate finance activities, which, in turn, would materially and adversely affect the commission and fee income from the securities and futures brokerage business of the Group and the brokerage business of the Issuer Group, interest income from the loans and financing business of the Issuer Group and underwriting commissions, financial advisory fees and sponsor fees from the investment banking business of the Group and the corporate finance business of the Issuer Group. In particular, against the backdrop of the PBOC's easing monetary policy and lowering of entity financing costs, the bond market yield rate is expected to further decrease and the issuance size in the primary market is expected to maintain a mild increase. Given the constant exposure to credit risk, there is an increased risk of defaults by highly leveraged enterprises and private enterprises. These conditions tend to reduce the value of the Group's clients' portfolios, decrease investor confidence and reduce investing activities, making it more difficult for the Group to retain existing clients and attract new clients. These conditions in turn may adversely affect the Group's brokerage revenue. The Group's proprietary investing business may also be adversely affected by the reduction in the value of its trading and investment positions, which in turn would adversely affect the Group's results of operations and financial condition and access to liquidity.

The Group may also experience decreases in the asset management fees earned from its asset management business during periods of adverse economic and market conditions due to the reduced value of the Group's asset management portfolio, the reduced opportunity to realise investment value from the investments and increased client redemptions. Unfavourable market conditions and market volatility could also lead to an increase in the risk of default in the margin financing and loans that the Issuer Group has provided to its clients, material reductions in the value of the collateral provided and consequently adversely impact the overall financial performance of the Issuer Group.

The PRC, Hong Kong and overseas securities markets are impacted by changes in the economic cycle of China and Hong Kong, volatility in financial markets and international events including the ongoing COVID-19 pandemic, the decline in oil resources driven by a Russia-OPEC price war, the withdrawal of the United Kingdom from the European Union and the escalation of bilateral U.S.-China tariffs. In particular, the combined effect of the COVID-19 pandemic and decreasing oil prices had caused significant volatility in global stock markets. As the Group's business is subject to the performance of the PRC securities market, the Hong Kong securities market and global market conditions, there is no assurance that the future growth of the Group will reflect its historical growth or that the Group will be able to maintain the same level of growth under uncertain or unstable economic conditions.

**The business operations of the Group are concentrated in the PRC and Hong Kong and any material deterioration in the public health, economic, political and regulatory environment in the PRC and Hong Kong could materially and adversely affect the business and prospects of the Group**

Substantially all of the Group's business operations are carried out in the PRC and Hong Kong. Therefore, the Group's business, results of operations and prospects are highly susceptible to any development or change in government policies, as well as economic, social, political and legal developments in the PRC and Hong Kong. For the risks associated with any adverse change or uncertainty in local economic and market conditions affecting the finance sector in the PRC and Hong Kong, see "*Risks Relating to the Market in which the Group Operates – Unfavourable or uncertain economic and market conditions could undermine investors' confidence which could materially and adversely affect the Group's business, results of operations and prospects*" above.

The PRC economy has experienced rapid growth in the past 40 years. However, there has been a slowdown in the growth of the PRC's gross domestic product ("**GDP**") since the second half of 2013 and this has raised market concerns that the historic rapid growth of the economy of the PRC may not be sustainable. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP in 2019 slowed down to 6.1 per cent., the lowest growth rate since 1990, on a year-on-year basis compared to 6.6 per cent. in 2018. According to an announcement by the National Statistics Bureau of the PRC on 21 October 2020, China's GDP for the third quarter of 2020 grew by 4.9 per cent. compared to the same period in 2019. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. If the PRC's economy experiences a continued slowdown in growth or a downturn in the future, the Group's PRC business and its ability to implement any growth strategies involving the PRC could be materially and adversely affected.

Further, events which adversely impact investors' confidence and risk appetite, such as the COVID-19 pandemic, civil disturbances and/or general deterioration of the local economy, may lead to a reduction in investment or trading activities and in turn the Group's business performance. Although Hong Kong has enjoyed a high degree of legislative and judicial autonomy since it became a Special Administrative Region of the PRC on 1 July 1997, actual or perceived increases in the exercise of PRC sovereignty over Hong Kong may contribute to the perception that such autonomy is being decreased. If Hong Kong's financial markets are disrupted by any such actual or perceived decrease in Hong Kong's autonomy, Hong Kong's reputation and standing as a safe and reliable commercial hub may decline, which would negatively affect Hong Kong's economy. Any adverse changes in local economic, social and political conditions may lead to a prolonged period of sluggish market activity which would in turn have an adverse impact on the business and operating performance of the Group.

**If the Group is unable to compete effectively against competitors, its business, financial condition, results of operations and prospects may be materially and adversely affected**

The financial services industries in the PRC and Hong Kong have a large number of participants which makes the industries highly competitive. The Group competes against competitors which may have greater brand recognition, stronger human and financial resources, a wider range of services and longer operating histories than the Group. Apart from large multinational financial institutions, the Group also face competition from local medium and small-sized financial services firms which offer a similar range of services. There is no assurance that the Group will be able to maintain its competitive strengths by responding rapidly to the changing business environment or to capture new market opportunities. Any intensified competition may result in further downward pressure on brokerage commission rate and fees charged for the services provided by the Group, which in turn may erode its market share and have material and adverse impact on its profitability and results of operations.

**The PRC and Hong Kong financial industries are highly regulated**

As a participant in the financial services industry, the Group is subject to extensive regulation and faces the risk of significant intervention by regulatory authorities in China and Hong Kong. The regulatory authorities limit the types of products and services the Group may offer by imposing capital requirements, and restrict the Group's business activities by specifying the types of securities in which the Group may invest.

The business and operations of the Group are subject to a number of PRC and Hong Kong laws and regulations relating to the securities and financial services industry. Details of some of the more important applicable laws and regulations in the PRC may be found in the sections titled "*PRC Regulations – Major Regulatory Authorities and Self-Regulatory Organisations*" and "*PRC Regulations – Industry Entry Requirements*". In Hong Kong, these laws and regulations include the SFO, the subsidiary legislations of the SFO, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (the "**C(WUMP)O**"), the Codes on Takeovers and Mergers and Share-Buy-Backs, the Listing Rules, the Stock Exchange Trading Rules, the MLO and other codes and guidelines published by relevant regulators from time to time. These laws and regulations set out the licensing requirements, regulate the operational activities and standards of the Group, impose requirements to maintain minimum liquid capital and such other filing, record keeping and reporting obligations relevant to the business operations of the Group. There might be changes in the rules and regulations and regulatory initiatives from time to time in response to the changing regulatory and market environments. Any such changes or initiatives might result in an increase in the Group's cost of compliance, increase its liquid capital requirements or restrict its business activities or future expansion. If the Group fails to comply with the applicable rules and regulations, the Group may be subject to fines, or even suspension or revocation of some or all its licences for carrying out its business activities.

Relevant regulatory authorities conduct inspections, examinations and inquiries on a regular basis and require certain third party reviews (such as auditor assurance engagements). For example, in the PRC the China Securities Regulatory Commission (中國證券監督管理委員會) (the "**CSRC**") periodically evaluates and assigns a regulatory rating to each securities firm, including members of the Group, based on each firm's risk management capabilities, competitiveness and compliance with regulatory requirements. In Hong Kong, the Issuer Group is subject to regulatory inspections from time to time and it is required to engage an external auditor annually to conduct an assurance engagement covering compliance with SFC trading rules, including record keeping. If the results of the inspections or independent reviews reveal serious misconduct, the Securities and Futures Commission (the "**SFC**") may conduct further investigations and take disciplinary actions, including revocation or suspension of licences, public or private reprimand or imposition of pecuniary penalties against the Issuer Group, its responsible officers or licensed representatives. The relevant regulatory authorities in the PRC and Hong Kong also investigate and penalise violations of the relevant laws and regulations. For example, in November 2020 the Fujian Province Securities Regulation Bureau issued a warning letter to an employee of the Group for unethical conduct during the process of recommending a company for listing on a stock exchange. Disciplinary actions taken against the Group, and/or the Group's directors, responsible officers or licensed representatives, relevant staff or management involved could have an adverse impact on the business, reputation and results of operations of the Group.

**The Group is subject to capital requirements that may restrict its business activities**

CSRC requires investment banks in China to maintain certain minimum net capital ratios and net capital requirements. For example, investment banks in China must maintain a minimum net capital to net assets ratio of 20 per cent., a net capital to risk capital reserves ratio of 100 per cent., a core net capital to total on- and off-balance sheet assets ratio of 8 per cent., a net capital to total adjusted liabilities ratio of 8 per cent., and a net assets to total adjusted liabilities ratio of 10 per cent. If the Group fails to promptly adjust its asset composition to meet the relevant capital requirements, the Group may be restricted from operating its businesses and the Group's business, financial condition and results of operations may be adversely affected.

## RISKS ASSOCIATED WITH THE BUSINESS OPERATIONS OF THE GROUP

### The Group has historically experienced negative operating cash flows and any decrease in the Group's liquidity could materially and adversely affect its liquidity and financial condition

The Group recorded net cash used in operating activities of RMB21,545.5 million for the year ended 31 December 2017 and net cash generated from operating activities of RMB17,607.0 million and RMB18,343.7 million for the year ended 31 December 2018 and 2019, respectively. The negative operating cash flow was mainly due to the expansion of certain capital-intensive aspects of the Group's business, in particular its investments in financial assets, repurchases of stock pledges and margin trading.

The Issuer Group recorded net cash used in operating activities of HK$3,463.1 million and HK$3,058.1 million for the years ended 31 December 2017 and 2018, respectively, and net cash generated from operating activities of HK$2,699.8 million for the year ended 31 December 2019. The negative operating cash flow was mainly due to the expansion of the Issuer Group's business, particularly its margin financing business, which is capital intensive and involves substantial operating cash outflows.

As the Group's margin financing business grows, the Group cannot assure investors that it will be able to generate positive cash flows from operating activities in the future. Negative operating cash flows may materially and adversely affect the Group's liquidity and financial condition, and the Group may not have sufficient cash from other sources to fund its operations. If the Group resorts to other financing activities to generate additional cash, the Group will incur financing costs and the Group may not be able to obtain the financing on terms acceptable to it, or at all.

### The Issuer Group has incurred losses for certain business segments for the years ended 31 December 2017, 2018 and 2019 and may suffer further loss for certain business segments

The Issuer Group has incurred losses for certain business segments for the years ended 31 December 2017, 2018 and 2019. For example, for the year ended 31 December 2017, the Issuer Group's loans and financing segment experienced losses due to impairment allowances made during the year. For the year ended 31 December 2018, the Issuer Group's financial products and investments segment experienced losses due to market fluctuation of financial products prices. For the year ended 31 December 2019, the Issuer Group's loans and financing segment experienced losses due to expected credit loss made during the year. For the six months ended 30 June 2020, the Issuer Group's loans and financing segment experienced losses due to the Issuer Group optimising its customer structure and scaling down margin financing, resulting in a decline in the average size of secured margin loans and the Issuer Group's financial products and investments segment experienced losses due to financial market volatility. The Issuer Group may not be able to achieve profitability from the Issuer Group's business in the future or at the same level as the Issuer Group did in the past. If the Issuer Group fails to manage the profitability of the Issuer Group's business segments, the Issuer Group's overall profitability and results of operations may be materially and adversely affected.

### The level of indebtedness of the Group and the Issuer Group may materially and adversely affect their business and limit their growth

As of 31 December 2017, 2018 and 2019, the total indebtedness (comprising short-term loans, short-term financing payables, placements from banks and other financial institutions, financial liabilities at fair value through profit or loss, financial assets sold under repurchase agreements, long-term loans and bonds payable) of the Group amounted to RMB84,955.3 million, RMB85,646.0 million and

RMB90,878.1 million, respectively. As of 31 December 2017, 2018 and 2019, the total indebtedness (comprising bank borrowings, other borrowings, bonds and notes) of the Issuer Group amounted to HK$6,671.0 million, HK$10,457.8 million and HK$12,120.8 million, respectively, and its available banking facilities amounted to HK$9,428.2 million, HK$15,017.2 million and HK$13,160.0 million as at 31 December 2017, 2018 and 2019, respectively. The Group's financial condition, liquidity and business operations could be adversely affected to the extent it is unable to repay its debts in a timely manner. Even if the Group is able to meet its debt service obligations, the level of indebtedness (on a consolidated basis) could adversely affect the Group in a number of ways, including the following:

- limiting the Group's ability to obtain any future financing needed for working capital, strategic investment, debt service requirements or other purposes;
- limiting the Group's flexibility in planning for or reacting to changes in its business;
- placing the Group at a competitive disadvantage with competitors that have lower levels of debt;
- increasing the Group's financing costs;
- making the Group more vulnerable to a downturn in its business or the economy generally;
- subjecting the Group to the risk of being forced to refinance its debts at higher interest rates; or
- requiring the Group to use a substantial portion of its cash to pay principal and interest on the Group's debt instead of for other purposes such as working capital and other capital requirements.

**The Group's historical financial results may not be indicative of its future performance**

The Group began its business in 2000 and has recorded significant growth since then. The Group's total revenue decreased from RMB8,820.4 million for the year ended 31 December 2017 to RMB6,499.4 million for the year ended 31 December 2018, representing a year-on-year decrease of 26.3 per cent., and from RMB6,499.4 million for the year ended 31 December 2018 to RMB14,249.5 million for the year ended 31 December 2019, representing a year-on-year increase of 119.2 per cent. The Issuer Group began its business in 2012 and has recorded significant growth since then. The Issuer Group's total revenue increased from HK$927.7 million for the year ended 31 December 2017 to HK$1,011.0 million for the year ended 31 December 2018, representing a year-on-year increase of 9.0 per cent., and from HK$1,011.0 million for the year ended 31 December 2018 to HK$1,261.6 million for the year ended 31 December 2019, representing a year-on-year increase of 24.8 per cent. However, the Group cannot assure potential investors in the Bonds that the Group will be able to continue to successfully grow its business or generate the same level of profit or revenue as before or as the Group expects.

**The Group's commission and fee income from its securities and futures brokerage business and the Issuer Group's brokerage business could be adversely affected by a decrease in trading volume**

A significant portion of the Group's total revenue is generated from its brokerage commission and fee income under its securities and futures brokerage business and the Issuer Group's brokerage business. For the years ended 31 December 2018 and 2019, commission and fee income from the Group's securities and futures brokerage business amounted to RMB1,902.2 million and RMB2,022.5 million, respectively, representing 29.3 per cent. and 14.2 per cent. of its total revenue for the same periods, respectively. The amount of commission and fee income from the Group's securities and futures brokerage business is not available for the year ended 31 December 2017 because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. For the year ended 31 December 2017, commission and fee income from the Group's wealth management business amounted to RMB2,596.5 million, representing 29.4 per cent. of its total revenue for the same period. The amount of commission and fee income from the Group's wealth management business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. For the years ended 31

December 2017, 2018 and 2019, commission and fee income from the Issuer Group's brokerage business amounted to HK$182.2 million, HK$212.5 million and HK$167.8 million, respectively, representing 19.6 per cent., 21.0 per cent. and 13.3 per cent., respectively of its total revenue for the same periods. While it is the Issuer Group's strategy to continue to expand its business lines and diversify its product and service offerings, brokerage business is expected to continue to be one of the main sources of revenue of the Issuer Group. Commission and fee income from the Group's securities and futures brokerage business and the Issuer Group's brokerage business depends, to a large extent, on the trading volume executed through the trading system of the Group. Similar to other brokerages and financial services firms, the trading volume of investors in the stock markets as a whole in the past have been, and in the future may continue to be, materially affected by a number of factors, many of which are beyond the Group's control, including one or a combination of the following:

- the effects of market conditions in China, Hong Kong and overseas, particularly in the securities, commodities, futures, fixed-income, equity and credit markets;
- general political conditions in China, Hong Kong and overseas, such as macroeconomic and monetary policies, legislation and regulations affecting the financial industry and securities market;
- changes in clients' hedging or speculative trading activities;
- fluctuations in interest rates and commodity prices;
- changes in investors' sentiment, perception and confidence in the financial markets; and
- inflation, natural disasters, public health concerns related to infectious disease epidemics, riots and acts of war or terrorism.

Reductions in the trading volume of the Group's clients using the trading system of the Group would result in reduced brokerage commissions and fees income which could materially and adversely affect its financial condition and results of operations.

**The Issuer Group's brokerage business could be materially and adversely affected by client defaults or deterioration in the credit quality of its clients**

As stipulated by the Hong Kong Securities Clearing Company Limited (the "**HKSCC**"), brokerage clients shall settle their securities transactions within two trading days from the relevant transaction day ("**T+2**"). However, in the case that any of the Issuer Group's clients are unable to settle the transaction within T+2, the Issuer Group will be required to settle on behalf of such clients using its own resources. The Issuer Group needs to maintain sufficient resources for the abovementioned settlements and is exposed to potential default in payment by its clients. For futures brokerage, the Hong Kong Futures Exchange Limited (the "**Futures Exchange**") sets out the minimum margin deposit required for trading of each futures contract and the Issuer Group's clients are required to maintain at all times the minimum margin deposit which may vary from time to time as determined by the Futures Exchange and the Issuer Group's policy. When a client is unable to meet a margin call, the Issuer Group will close out the position of the relevant futures contract. Should any outstanding balance in the client's account remain unpaid following the closing of the position of the futures contract or realisation of the collateral which requires further recovery efforts, the Issuer Group will suffer a loss.

Although the Issuer Group regularly evaluates its credit exposure to specific clients, default risks could arise from unexpected events or circumstances. There is no assurance that the Issuer Group's clients will not default on their obligations owed to the Issuer Group as a result of bankruptcy, lack of liquidity or other reasons. With respect to clients referred to the Issuer Group by account executives, even though the Issuer Group's responsible account executives have agreed to indemnify the Issuer Group against unsettled trade or margin loan balances due from the relevant clients pursuant to the agreements signed with them, there is also no assurance that the relevant account executives will have sufficient financial resources to compensate the Issuer Group for any loss in case the relevant clients default in their obligations. The Issuer Group may also fail to receive all information regarding the financial position of its clients which may impair its ability to effectively detect any prospective client default in the performance of their respective obligations. In the event that the Issuer Group's clients fail to meet any material payment obligations for securities transacted through the Issuer Group, the Issuer Group's financial condition and results of operations may be materially and adversely affected.

**The Issuer Group's margin financing business could be materially and adversely affected by a decline in market value of a client's collateral or a client's default in repayment**

The Issuer Group provides margin financing to clients to finance their purchase of securities and, prior to 12 February 2020, provided advances through money lending to clients to address their financing needs. For the years ended 31 December 2017, 2018 and 2019, the Issuer Group's total loan balance for margin financing (including the provision of impairment allowance) was HK$4,402.0 million, HK$5,902.1 million and HK$3,842.8 million, respectively. Margin financing provided to the Issuer Group's clients are required to be backed by sufficient collateral and, on a case-by-case basis, further security. The Issuer Group maintains a list of approved securities quoted on the Hong Kong Stock Exchange which are eligible to be used as collateral. The Issuer Group may also accept securities traded on foreign exchanges or bonds on a case-by-case basis after review by the management of the Issuer. If the ratio of a relevant client's outstanding margin loan to the value of the collateral provided by the relevant client reaches or exceeds the permitted ratio, the Issuer Group will issue a margin call to the relevant client. The Issuer Group will also issue a margin call when the value of the collateral provided by a particular client is considered to be insufficient to cover its exposure with respect to the loan granted to that client. In response to a margin call, clients are required to increase the collateral ratio or amount to an acceptable level by depositing additional funds, selling securities, pledging additional securities or providing further security (as the case may be).

While the Issuer Group has internal policies and procedures designed to minimise the risk associated with its margin financing business, as the scale of this business continues to grow the Issuer Group will be exposed to higher credit risk and hence larger potential losses should it fail to identify and manage the risk effectively. There is no assurance that the Issuer Group will be able to identify potential client defaults in a timely manner or that its policies and procedures designed to minimise such risk will be effective. If a client is unable to fulfil margin calls or meet his/her or its payment obligations in a timely manner, the Issuer Group may choose to enforce its right to liquidate the securities held by it as collateral or take debt collection action in accordance with its agreement signed with such client and realise the collateral, where necessary. In the event that at the time when the Issuer Group enforces its rights to liquidate or realise the collateral, the market price of the collateral decreases significantly or becomes illiquid for whatever reason in a short period of time such that the value of the collateral falls below the value of the loan advanced to the client, the Issuer Group may be exposed to significant losses. The Issuer Group's ability to sell assets to minimise its loss may be further impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity stress or other market crisis.

Further, as the Issuer Group mainly accepts and holds listed securities provided by its clients as collateral in its loans and financing business, the Issuer Group is exposed to concentration risk and market risk which may arise from holding particular assets or asset classes in such business segment. Any significant decline in the market value of such assets may adversely affect its financial condition and results of operations.

**The Issuer Group's interest income and expenses may be adversely affected by fluctuations in interest rates**

The Issuer Group generates interest income from its loans and financing business.[1] The interest rates charged by the Issuer Group are determined with reference to, among others, the prevailing market rate (i.e. the Hong Kong dollar prime rate). Interest income is directly linked to the prevailing market interest rates, and during periods of rising interest rates the Issuer Group's interest income from clients under its loans and financing segment would increase. However, there is no assurance that the prime rate will not change dramatically for reasons beyond the Issuer Group's control and as a result the Issuer Group's interest income may fluctuate from time to time. On the other hand, the Issuer Group may source external borrowing to finance its loans and financing business. The Issuer Group makes profit from the interest spread between interest revenue from its loans and financing business and its interest expenses from its borrowings. If the source of funding is changed or if interest rates increase significantly, the Issuer Group's interest expenses may increase and its return on interest income may decrease, as a result of which its business and results of operations may be adversely affected.

**The Group's proprietary investment business and the Issuer Group's financial products and investments business may incur losses or fail to realise their anticipated returns as a result of unfavourable market conditions or any inaccurate predictions of the performance of their target investments.**

For the years ended 31 December 2018 and 2019, revenue from the Group's proprietary investment business amounted to RMB609.9 million and RMB3,906.6 million, respectively, representing 9.4 per cent. and 27.4 per cent. of its total revenue during the same periods, respectively. The amount of revenue from the Group's proprietary investment business is not available for the year ended 31 December 2017 because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. For the year ended 31 December 2017, revenue from the Group's proprietary securities business amounted to RMB2,526.0 million, representing 28.6 per cent. of its total revenue for the same period. The amount of revenue from the Group's proprietary securities business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. For the years ended 31 December 2017, 2018 and 2019, the Issuer Group engaged in the trading of debt and equity securities through proprietary funding for its own account and recorded a net gain on financial instruments at fair value through profit or loss (including interest income and dividend income) of HK$298.8 million, HK$139.8 million and HK$423.7 million, respectively. The Issuer Group has been actively seeking appropriate investment opportunities and it acquired and held debt securities with total market value of HK$8,339.3 million as at 31 December 2019, which the Issuer Group expects will contribute to its revenue under its financial products and investments business segment for the year ending 31 December 2020.

The Group's financial products and investments activities are subject to market volatility. The profitability of these investments generally correlates with the performance of the China, Hong Kong and overseas securities markets. It cannot be assured that the profitability of its financial products and investments business will be profitable in the future. Further, the values of its financial assets are marked to market. Unrealised losses will be recognised if the carrying value of the financial assets is lower than their market value, which will have a negative impact on its results of operations. If the Group recognises such unrealised losses, its results of operations could be materially and adversely affected.

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*Note:*

(1) The Issuer Group ceased making new loans under its loans and financing business in February 2020.

The performance of the Group's financial products and investments activities primarily depends on its investment decisions and judgment, which are subject to management discretion and assumptions. For investments in financial products, if the Group fails to evaluate investment products properly or its forecasts of the market do not conform to actual changes in market conditions, its proprietary trading may not achieve the investment returns it anticipated or may even suffer material losses. Such material losses could materially and adversely affect the Group's business, financial condition and results of operations.

**The Group's institutional service business and the Issuer Group's corporate finance business is subject to various risks associated with underwriting of securities, listing sponsorship and financial advisory services**

The Group provides corporate finance services, including fund raising services (such as equity and debt securities underwriting), listing sponsorship and financial advisory services. Revenue from the Group's institutional service business amounted to RMB1,765.0 million and RMB5,892.5 million for the years ended 31 December 2018 and 2019, respectively, representing 27.2 per cent. and 41.4 per cent. of its total revenue during the same periods, respectively. The amount of revenue from the Group's institutional service business is not available for the year ended 31 December 2017 because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. Revenue from the Group's investment banking business amounted to RMB1,133.6 million for the year ended 31 December 2017, representing 12.9 per cent. of its total revenue during the same period. The amount of revenue from the Group's investment banking business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. Commission and advisory fee income from the Issuer Group's corporate finance business amounted to HK$123.3 million, HK$211.3 million and HK$154.8 million, respectively, for the years ended 31 December 2017, 2018 and 2019. Revenue derived from its corporate finance business accounted for 13.3 per cent., 21.0 per cent. and 12.3 per cent. of the Issuer Group's total revenue for the years ended 31 December 2017, 2018 and 2019, respectively. Fund raising activities such as secondary offerings or IPO are generally subject to market conditions, compliance reviews and approvals by the regulators such as the Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange, the CSRC and the SFC, which are factors beyond the Group's control and such factors may substantially affect or even result in the delay or cancellation of the transactions in which the Group is engaged as an underwriter, placing agent, financial advisor or sponsor. If a project in which the Group is engaged as an underwriter, placing agent, financial advisor or sponsor is not completed as scheduled or at all for any reason, the Group may not receive payment for its services in a timely manner, or at all, which may materially and adversely affect its results of operations and financial condition. In addition, if the Group fails to sell the securities it has underwritten, it would suffer reputational damage, incur expenditure, expose itself to market risk and reduce the capital available to it as a result of purchasing and holding the underwritten securities, thereby materially and adversely affecting the Group's results of operations and financial condition. Further, the Group's commission income on fund raising is directly related to the number of underwriting and placing transactions in which the Group is involved and/or the size of the funds its clients intend to raise. Such factors are susceptible to market conditions which are beyond the Group's control.

Since 2012, reforms in the sponsor regime implemented by the SFC and the Hong Kong Stock Exchange in relation to standards of due diligence and disclosure requirements for IPOs and stock listings have significantly increased the legal liabilities of investment banks and securities firms who sponsor IPOs and stock listings in Hong Kong. If the Issuer Group fails to comply with the applicable regulations and guidelines, it may be subject to sanctions, fines, penalties or other disciplinary actions, such as suspension or revocation of important licences. Where penalties are substantial or protracted litigation is involved, the Issuer Group's reputation may be damaged, and its business, financial condition, results of operations and prospects may be materially and adversely affected.

The performance of Group's institutional service business and the Issuer Group's listing sponsorship and financial advisory business under its corporate finance segment depends, to a large extent, on its ability to leverage its business network and relationships to source clients and general market conditions. Since the Group's sponsor fee and financial advisory fee are negotiated on a project-by-project basis, fees generated therefrom may fluctuate from time to time. There is no assurance that clients which previously sought advice from the Group will continue to retain it for future businesses. There is also no assurance that the level of business or amount of fees agreed will be comparable to the transactions effected in the past. If the Group is not able to win new sizable mandates, or if market conditions become unfavourable, its business and results of operations may be materially and adversely affected.

**The Group's asset management fees could decline if the investments it manages perform poorly, or its clients withdraw assets it manages or if it loses clients**

The Group receives annual management fees primarily based on the asset size under its management and performance fees based on the returns on its investment products. Investment performance affects the Group's amount of assets under management ("**AUM**") and is one of the most important factors in retaining its clients and competing for new asset management business. Limited investment opportunities and hedging strategies in China and Hong Kong, as well as market volatility, could negatively affect the Group's ability to provide stable returns for its clients, cause the Group to lose clients and require it to make provisions for the decrease in the value of its investments. Poor investment returns for the Group's clients in its investment management business, due to either general economic and market conditions or underperformance relative to its competitors by the assets or funds that the Group manages or investment products that the Group designs or sells, could adversely affect its ability to retain existing assets and to attract new clients or additional assets from existing clients. Unsatisfactory investment performance could adversely affect its revenue and growth:

- existing clients might withdraw funds from the Group's asset management business in favour of better performing products provided by its competitors, which would result in lower asset management income for it;
- clients may request that the Group lower its fees for asset management services, particularly in an intensely competitive industry; and
- its performance fees, which are based on a percentage of investment returns, would decline.

In addition, increasing competition from other securities firms, banks, insurance companies, fund managers and other competitors could prevent the Group from maintaining or increasing its AUM. The Group is in the process of developing and growing its asset management business. If it fails to increase its AUM, the Group may not be able to take advantage of potential benefits, such as economies of scale and investment strategies with larger capital requirements. This lack of scale could adversely affect the Group's ability to compete and its results of operations and financial condition.

The financial products that the Group distributes could be risky and/or complex investments and any deficiencies in identifying, appreciating or disclosing such risks could negatively affect its reputation, client relationships and prospects.

The Issuer Group distributes insurance and investment products developed by third parties. These products often have complex structures and involve various risks, including credit risks, market risks, liquidity risks and counter-party risks. The Issuer Group is required to make appropriate risk disclosure to its potential clients to ensure that financial products to be sold to them match their financial sophistication and risk-return profile. There is no assurance that the Issuer Group's risk management policies and procedures would be effective in mitigating the risk exposure of its clients in all market environments or against all kinds of risks. In the event that the Issuer Group fails to identify and fully recognise such risks or it fails to disclose such risks to its clients or it sells unsuitable products to its clients and its clients suffer financial loss as a result, the Issuer Group may be subject to litigation and/or regulatory actions, and its business, reputation, client relationships and prospects may be materially and adversely affected.

**The Issuer Group is subject to various risks associated with its expansion plans**

As set out in more detail in "*Description of the Issuer Group – Business strategies*", the Issuer Group intends to implement various strategies such as optimising its client base, continuing to enrich its services, enhancing its service capability, and expanding its capital-based intermediary businesses. Such plan is formulated based on current intentions and assumptions and the future execution may be subject to capital investment and human resources constraints. In addition, as the Issuer Group's business and client base continue to expand, its trading volume, the frequency and complexity of the transactions handled by the Issuer Group and its clients' expectation from its services will also increase. To support its business expansion, the Issuer Group must continually enhance and upgrade its trading and information systems, recruit qualified staff and increase staff training. System enhancements and updates, as well as related trainings, entail significant costs and expose the Issuer Group to the risks associated with implementing and integrating new systems. Any limitation on the Issuer Group's trading system and its inability to expand its execution capacity to accommodate its growth could limit the business expansion of the Issuer Group, thereby adversely affecting its business, results of operations and prospects.

Furthermore, the future development plan of the Issuer Group may be hindered by factors beyond its control, such as general market conditions, the performance of the securities market and the social (including public health), economic and political environment in Hong Kong, China and overseas. Please see "*Risk Factors – Risks Relating to the Market in which the Group Operates – The business operations of the Group are concentrated in the PRC and Hong Kong and any material deterioration in the public health, economic, political and regulatory environment in the PRC and Hong Kong could materially and adversely affect the business and prospects of the Group.*" Therefore, there is no assurance that the expansion plans of the Issuer Group will materialise in accordance with desired timetables, or at all, or will generate the intended benefits to the Issuer Group as initially anticipated.

**The Group may fail to realise any profits from its investments in relatively high-risk, illiquid securities for a considerable period of time or lose some or all of the capital invested**

The Group's private equity funds hold investments in securities that are not publicly traded. The ability of the Group's private equity funds to dispose of investments is heavily dependent on the equity capital markets. For example, the Group's ability to realise any value from its investment in a portfolio company depends on the portfolio company's success at executing an IPO, which provides an exit opportunity for the Group's investment. From October 2012 to January 2014 and for a short period in the second half of 2015, the CSRC suspended its approval of all A-share IPO applications in the PRC. The CSRC previously engaged in a similar suspension of IPO approvals between 2008 and 2009. The Group cannot be sure that there will not be future suspension of IPOs due to regulatory reasons. Also, the result and timing of reviews and approvals of A-share IPO applications by the relevant regulatory authorities are beyond the Group's control. Even if the securities held by the Group's private equity funds are publicly traded, large holdings of securities can often be disposed of only over a substantial lock-up period, exposing our investment returns to market risks during the intended disposition period. As a result of these factors, under certain conditions, the Group's private equity funds may be forced to either sell securities at undesirable prices or defer sales, potentially for a considerable period of time. The Group has made and expects to continue to make significant capital investments in its current and future private equity funds. Contributing capital to these funds is risky, and the Group may lose some or all of the principal amount of its investments.

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

As the markets in which the Group operates continue to evolve, the Group continues to respond by expanding its business, innovating new products or services and adjusting its strategies accordingly. New business initiatives often result in new products and services or transactions with individuals or entities that are not its traditional clients or counterparties. These business activities expose the Group to new risks, including the following:

- the Group's competitors may have substantially greater experience and resources in relation to the business activities that the Group wishes to commence, and the Group may not be able to attract customers to its services from competitors with existing relationships with those customers;

- the new products and services may not be accepted by the Group's customers or meet its expectations for profitability, and may require greater marketing and compliance costs than the Group's traditional services;

- the new products and services may give rise to potential disputes or claims from customers;

- the Group may face greater risk of potential compliance issues such as mis-selling when dealing with less sophisticated counterparties and investors;

- the Group may need to hire additional qualified personnel who may not be available;

- the Group may not effectively enhance its risk management capabilities and information technology systems to support a broader range of products and services; and

- greater regulatory scrutiny and increased credit and operational and market risks.

**There is no assurance that the Group will be able to obtain sufficient capital to fund its business operations and growth in the future, or on acceptable terms**

Maintaining adequate liquidity is essential to the Group's business. For the year ended 31 December 2017, the Group recorded negative cash flow in operating activities of RMB21,545.5 million. For the years ended 31 December 2017 and 2018, the Issuer Group recorded negative cash flow in operating activities of HK$3,463.1 million and HK$3,058.1 million, respectively. Please see "*Risk Factors – Risks Associated with the Business Operations of the Group – The Group has historically experienced negative operating cash flows and any decrease in the Group's liquidity could materially and adversely affect its liquidity and financial condition.*" The Group relies on bank and other external borrowings to fund a significant portion of its working capital requirements, particularly its loans and financing business which has high capital requirements. There is no assurance that the Group will be able to obtain adequate financing on acceptable terms, or at all, or to generate sufficient working capital to fund its future operations. The Group's ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the industry in which the Group is operating its business;

- conditions in the capital and financial markets in which the Group may seek to raise funds;

- the Group's future cash flows, financial condition and results of operations; and

- social (including public health), economic, political and other conditions in China, Hong Kong and the rest of the world.

The Group may be required to scale back its planned capital expenditures, which may adversely affect the ability to achieve economies of scale and implement its planned growth strategy. If the Group raises additional funding, its interest and debt repayment obligations will increase. The terms of any future debt facilities may also impose restrictive covenants that may restrict the Group's business and operations or result in dilution of shareholding of shareholders in the case of equity financing. The Group's inability to raise additional funds in a timely manner and on terms favourable to it, or at all, may have a material adverse effect on its condition, results of operations and prospects.

**The Group's results of operations may be adversely affected if it loses a large number of existing clients or fails to expand its client base**

Most of the Group's largest clients are based in China and are individual clients. The level and extent of their business relationship with the Group are affected by factors such as their financial condition, market perceptions and risk appetite which are in turn subject to the general economic conditions in China and their respective business performance, which are beyond the Group's control.

Whilst the Group will continue to diversify its client base, the Group expects that the results will continue to depend on (a) the Group's ability to continue to secure business from its existing clients and attract new clients; (b) the financial condition of the Group's clients; and (c) factors that affect the China and Hong Kong economy in general. There is no assurance that the Group will be able to diversify its client base or attract new clients or maintain or improve its relationships with its existing clients, who do not have long term commitments with the Group, and as such any of them may terminate their respective relationships with the Group. There is also no assurance that the Group will be able to generate the same or higher level of business and income from its clients as before. Any significant decrease in the level of business with the Group's major clients or loss of a large number of existing clients and its inability to diversify or expand its client base could have an adverse impact on the Group's business, results of operations and prospects.

**The business of the Group depends on the continuing efforts of its executive directors, key senior management and personnel**

The Group's business depends on the continued services of its executive directors, key senior management and employees. The executive directors of the Group, together with the support of its senior management team, are principally responsible for strategic planning as well as managing the Group's business development and daily operations. In particular, the skills and expertise contributed by the Group's key executives have played a crucial role in building the success and reputation of the Group to date. Therefore, the Group's success is, to a significant extent, attributable to the strategies and visions of its executive directors as well as its senior management team.

The Group's ability to compete in the existing market and expand into new markets or develop new business lines also depends on the Group's ability to retain competent personnel, especially the account executives whose established client networks and rich industry know-how have allowed the Group to effectively expand its client base to date. Given that the competition for competent personnel in the industry is intense, the Group may not be able to attract or retain the services of key personnel for its business in the future. If the Group loses any key senior management or key personnel, there is no assurance that the Group will be able to find suitable replacements in a timely manner, or at all. These personnel may join the Group's competitors which may further intensify market competition. As a result, the Group's operations, prospects and profitability could be materially and adversely affected. In addition, as the Group continues to expand, the Group may need to incur additional costs to recruit, train and retain these key personnel to support its business expansion and future plans, which will further increase the Group's staff cost. For example, the Group recruits from time to time competent investment personnel for managing, monitoring and operating its financial products and investments business, which is expected to expand with its business growth. The Group's inability to recruit or retain competent investment personnel would limit the capacity of the Group's investment team, affect the commercial soundness of the Group's investment decisions and reduce the effectiveness of the Group's risk identification and control, thereby adversely affecting the performance of the financial products and investments segment of the Group.

Under the licensing requirements of the SFO, the Issuer Group must at all times maintain at least two responsible officers for each regulated activity. The Issuer Group may be exposed to operational disruptions should a large number of responsible officers of the Issuer Group resign or become sick to the point of not being able to carry out their duties. This may result in temporary suspension of the Issuer Group's licence or operations or the imposition of additional licensing conditions. The occurrence of such event will materially and adversely affect the Issuer Group's business and results of operations.

**The Group's operations will be materially and adversely affected if it fails to obtain or maintain or renew licences and permits necessary for its business operations**

The Group's business and continuing operations depend upon obtaining and maintaining the necessary approvals, licenses and permits obtained from regulatory authorities, such as the CSRC and the SFC. In particular, the Issuer Group is licensed under the SFO to engage in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. The Group is required to comply with the relevant regulatory requirements and licensing conditions prescribed by regulatory authorities, such as "fit and proper" requirements with respect to its responsible officers and licensed representatives, financial resources requirements, risk management, corporate governance, professional staff, corporate structure and compliance operations. The Group's compliance obligations will be subject to scrutiny in particular when it applies for approvals, licenses or permits for conducting new businesses or offering new products. If the Group fails to continuously comply with such requirements, the Group may encounter the risks of being sanctioned by the regulatory authority, imposition of additional licensing conditions, or in the extreme case, disqualified for its existing business or rejected for renewal of its qualifications upon expiry by the regulatory authorities.

In respect of any new business or new product that the Group contemplates to develop, there is no assurance that it will be able to obtain the relevant approvals, licenses or permits before it launches such new business or product, as the Group may not possess the required qualification or resources to comply with the relevant regulations. As a result, the Group may fail to develop new business as planned or it may fall behind its competitors in such business or lose its existing clients.

**The Group may be exposed to substantial liability as a result of significant legal proceedings or claims against it**

The Group faces significant legal risks in its business. These risks include potential liabilities under securities or other laws for materially false or misleading statements made in connection with securities or other transactions, potential liabilities for the advice provided to clients in corporate transactions and possible disputes over the terms and conditions of trading arrangements. The Group may also be subject to claims for alleged negligent conduct, breach of fiduciary duty or breach of contract. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Actions brought against the Group may result in settlements, injunctions, fines, penalties or other results adverse to the Group that could harm its reputation. For example, in September 2020 the Shanghai Securities Regulation Bureau issued a warning letter to a branch office of the Group for insufficient supervision of an employee who sold unauthorised financial products to investors. Even if the Group is successful in defending itself against these actions, the costs of such defence may be significant to the Group. In market downturns, the number of legal claims and amount of damages sought in litigations and regulatory proceedings may increase. A significant judgment, arbitration award or regulatory action against the Group, or a disruption in its operations arising from adverse adjudications in proceedings against the Group's directors, senior management or key personnel would materially and adversely affect its business, financial condition, results of operations and reputation.

**The Group may fail to detect illegal or improper activities including fraud and money laundering**

The Group is subject to the risk of fraud, illegal acts or misconduct committed by the Group's directors, employees, account executives, agents, clients or other third parties. Internal misconduct may include entering into unauthorised transactions, improperly using or divulging inside information, recommending transactions not suitable for the Group's clients, engaging in fraudulent activities, or engaging in improper or illegal activities or excessive trading to the detriment of the Group or its clients. There is no assurance that the Group's directors, employees, account executives, agents, clients or other third parties would not commit fraud or engage in other misconduct in the future, and such incidents may result in litigation or regulatory sanctions against the Group and cause the Group to suffer financial loss and reputational harm. The Group may also need to incur costs to commence and participate in legal proceedings against such perpetrators of misconduct to recover its losses.

The Group is required to comply with applicable anti-money laundering laws and regulations in the jurisdictions where it operates. In Hong Kong, for example, the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and "Guideline on Anti-Money Laundering and Counter-Terrorist Financing" issued by the SFC with effect from July 2012 set out laws and guidelines for the Issuer Group to follow. These laws and regulations require the Group, among other things, to carry out client due diligence and to report suspicious transactions to the applicable regulatory authorities. Whilst the Group has policies and procedures aiming at detecting and preventing the use of its operations for money laundering activities and other illegal or improper activities, it is not always possible to detect fraud or other misconduct by directors, employees, account executives, agents, clients or other third parties. The Group's internal control procedures designed to monitor the Group's regulatory compliance may not be able to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. To the extent that the Group is unable to identify such misconduct or improper activities in a timely manner, or at all, any regulatory sanction or enforcement action against it could adversely affect its business, results of operations and reputation.

**The Group may suffer significant losses arising from errors in processing trading transactions, system failures or cyber-attacks**

The Group's wealth management business and the Issuer Group's brokerage business are dependent on the Group's ability to process and monitor a larger number of transactions, which involves complicated operational procedures and requires stable performance of its trading system. There is no assurance that the Group will not experience trading errors such as errors in processing client's instructions (incorrect securities name, quantity of the transaction or incorrect buy/sell order, etc.) or incorrect input of client's instructions or client's account number. Any error in processing transactions may adversely affect the markets, the Group's clients and counterparties and its business.

The capacity of the Group's systems to accommodate an increasing volume of transactions could also limit its business expansion opportunities. The Group must continually upgrade its systems to support its operations and growth and to respond to changes in regulations and markets, which could be costly. The Group must also make significant investments in its system and staff training to ensure that transactions do not violate applicable laws and regulations.

The Group's operations depend on the secured processing, storage and transmission of confidential and other information in its computer systems and networks and the Group is vulnerable to unauthorised access such as cyber-attacks, computer viruses or other malicious programs and other events that could lead to a security breach. There is no assurance that the Group's information technology infrastructure will be adequate to prevent all types of unauthorised access such as cyber-attacks, computer viruses or other malicious programs and other events that could disrupt its information technology and operating systems. The occurrence of one or more such events could jeopardise the confidentiality of information processed, stored in and transmitted through the Group's computer systems and networks or otherwise disrupt its operations, which could result in reputational damage, litigation and financial loss.

The Group's trading, financial, accounting, data processing or other operating systems and facilities may also fail to operate properly or become disabled as a result of events which are wholly or partially beyond its control, such as human error, natural disasters, power failures, computer viruses, cyber-attacks, spam attacks, unauthorised access and data loss or leakage. The Group also faces the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries that the Group uses to facilitate securities transactions. Any operational failure or termination of the financial intermediaries that the Group uses could adversely affect its ability to execute transactions, service its clients and manage its exposure to risk. Moreover, as the Group's interconnectivity with clients grows, it also faces increasing risks related to operational failures and the security of clients' systems.

**The Group's business may suffer from potential reputational damage associated with any adverse publicity**

Any adverse publicity regarding the performance of the Group or any investigations or regulatory enforcement actions taken against the Group or any of its members could affect the reputation of the Group and harm its business. For example, in 2016 the CSRC fined the Guarantor and confiscated a portion of its sponsorship and underwriting business income following an investigation by the CSRC into a breach of the Guarantor's obligations as a sponsor of a company that listed in the PRC.

**The Fujian Provincial Department of Finance has substantial control over the Group and its interests may not be aligned with the interests of the Guarantor's other shareholders**

The Fujian Provincial Department of Finance is the Guarantor's largest shareholder and may be able to exert significant influence over the business of the Group, including over the election of directors, the amount and timing of dividends and other distributions, mergers or acquisitions with other entities and other business strategies and policies. The interests of the Guarantor's largest shareholder may not be consistent with the interests of the Guarantor's other shareholders or Bondholders. To the extent the interests of the Guarantor's largest shareholder conflict with the interests of other shareholders or Bondholders, the interests of other shareholders or Bondholders may be disadvantaged or harmed.

**The Guarantor has substantial control over the Issuer Group and its interests may not be aligned with the interests of the Issuer's other shareholders**

The Guarantor is the Issuer's ultimate controlling shareholder. The Issuer's controlling shareholder may be able to exert significant influence over the business of the Issuer and the Issuer Group, including over the election of directors, the amount and timing of dividends and other distributions, mergers or acquisitions with other entities and other business strategies and policies. The interests of the Issuer's controlling shareholder may not be consistent with the interests of the Issuer's other shareholders or Bondholders. To the extent the interests of the Issuer's controlling shareholder conflict with the interests of other shareholders or Bondholders, the interests of other shareholders or Bondholders may be disadvantaged or harmed.

**Any change in tax laws and regulations may adversely affect the Group's results of operations**

The Group carries out its business operations primarily in the PRC and Hong Kong and hence is subject to the tax laws and regulations of the PRC and Hong Kong. There is no assurance that the prevailing tax laws and regulations applicable to the Group or the Group's business activities will not be revised or amended in the future. Any revision in or amendment to such tax laws and regulations may have an adverse impact on the Group's results of operation.

**Misuse of, or any failure to properly control, customers' personal or financial information could prove harmful to the Group**

The Group acquires a large amount of personal and financial information relating to its customers. In addition, certain third-party vendors provide services to the Group using personal and financial information of the Group's customers that the Group provides to them. In particular, as the Group relies on third-party encryption and authentication technology to transmit confidential information over public networks, the security of such confidential information may become jeopardised. In the PRC, the Group is subject to the Measures for the Information Technology Management of Securities and Funds Operators (證券基金經營機構資訊技術管理辦法), promulgated by the CSRC on 19 December 2018, which requires that entities within the scope of the regulation improve network isolation, user authentication, access control, data encryption, data backup, data destruction, log records, virus prevention, illegal intrusion detection and other security guarantee measures, protect operation data and customer information security, and prevent information leakage and damage. In Hong Kong, the Issuer Group is subject to the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) which regulates "data users" such as finance companies that use databases of personal information for their businesses and protects the privacy of individuals in relation to personal data, therefore, any improper use or disclosure of, or any failure to protect or properly control, such information could result in violations of the Personal Data (Privacy) Ordinance and other applicable laws, harming the Issuer Group's reputation and business. The Group takes precautionary measures, including internal compliance procedures, to prevent and detect misuse or unauthorised or accidental disclosure of customers' personal information, but these measures may not be effective in all cases, particularly in respect of third-party vendors.

**The Group's businesses and prospects may be materially and adversely affected if the Group fails to maintain risk management and internal control systems or these systems are proven to be ineffective or inadequate**

The Group has established risk management and internal control systems and procedures. Certain areas within the Group's risk management and internal control systems require constant monitoring, maintenance and continuous improvements by the Group's senior management and staff. The Group's businesses and prospects may be materially and adversely affected if the Group's efforts to maintain these systems are ineffective or inadequate.

Deficiencies in the Group's risk management and internal control systems and procedures may adversely affect the Group's ability to record, process, summarise and report financial and other data in an accurate and timely manner, as well as adversely impact the Group's ability to identify any reporting errors and non-compliance with rules and regulations.

The Group's internal control system may contain inherent limitations caused by misjudgement. As a result, there can be no assurance that the Group's risk management and internal control systems are adequate or effective notwithstanding its efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and disciplinary actions or even prosecution being initiated against the Group or its employees and disruption to its risk management system. In such cases, there may be a material and adverse effect on the Group's business, financial condition, results of operations and prospects.

**Any failure by the Group to appropriately identify and address conflicts of interest could materially and adversely affect its business**

As the Group expands the scope of its business and its client base, it is critical for the Group to be able to address potential conflicts of interest, including situations where two or more interests within the Group's business legitimately exist but are in competition or conflict. The Group may encounter conflicts of interest arising among (i) its various business units, (ii) its clients and itself, (iii) its various clients, (iv) its employees or account executives and itself or (v) its clients and its employees or account executives. Appropriately identifying and dealing with potential conflicts of interest is difficult. Any failure to manage conflicts of interest could harm the Group's reputation and erode client confidence in the Group. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory measures. Any of the foregoing could adversely affect the Group's business, financial condition and results of operations.

In light of the complexity and difficulty in appropriately identifying and dealing with potential conflicts of interest, the Group's internal control procedures that are designed to identify and address conflicts of interest may not be sufficient. Any failure by the Group to manage conflicts of interest could harm the Group's reputation and erode client confidence in the Group. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. The occurrence of any of the foregoing events could materially and adversely affect the Group's business, results of operations and reputation.

**Limitations on access to liquidity and capital resources could adversely affect the Group's ability to implement its expansion plans**

A number of the Issuer Group's activities are subject to various statutory liquidity requirements as prescribed by the SFC in accordance with the SFO.

The Group derives the funds that it requires for its business principally from cash flow from operations and borrowings from banks and other lenders and from accessing the capital markets. The Group's ability to access debt funding sources on acceptable commercial terms over the longer-term is dependent on a variety of factors, including a number of factors outside of its control, such as general market conditions and confidence in the global banking system. Although in recent years interest rates have been at historical lows because of the quantitative easing programs implemented after the 2009 financial crisis and more recently in response to the COVID-19 pandemic, financial institutions are generally more cautious in lending funds to companies and lower interest rates are not always passed on to corporate borrowers such as the Group. While the Group has not experienced any material difficulty in procuring funds, there can be no assurance that the Group's existing major lenders will not change their lending policies, increase the Group's funding costs or adopt a more cautious credit stance as a result of the overall economic climate, or any other factors that may limit the Group's ability to obtain credit on favourable terms or at all and its options for obtaining liquidity. If the Group's available funding is limited or it is forced to fund its operations at a higher cost, these conditions may require the Group to curtail its business activities and increase its cost of funding, both of which could reduce the profitability of the Group.

**The Group may incur losses as a result of unforeseen or catastrophic events, including the current COVID-19 pandemic, terrorist attacks or natural disasters**

The Group, its suppliers and customers may experience temporary suspension of the Group's operations as a result of severe communicable diseases, such as avian influenza (bird flu), H7N9 flu, MERS, the Zika Virus and other epidemics, such as the ongoing 2019-novel coronavirus COVID-19 pandemic, which may have an adverse effect on the Group's business, financial condition and results of operations. The occurrence of such diseases, unforeseen violence resulting from protests, strikes or demonstrations or any other unforeseen or catastrophic events, including the emergence of a pandemic or other widespread health emergency (or concerns over the possibility of such an emergency), terrorist attacks or natural disasters, could create economic and financial disruptions or lead to operational difficulties (including travel limitations) that could impair the Group's ability to manage its businesses and expose the Group's business activities to significant losses.

Currently, an outbreak of COVID-19 has occurred in different regions of the world, including the PRC and Hong Kong. As at the date of this Offering Circular, the epidemic has escalated into a major public health crisis on a global scale and been declared a pandemic by the World Health Organisation. Several cities in China have been under a lockdown with restrictions on travel and movement of people as well as prolonged closures of workplaces in an effort to curb the spread of COVID-19, and the pandemic also caused a delay in the resumption of business in the PRC after the Chinese New Year holiday. Public-health authorities around the world are also intensifying containment efforts, leading to a severe drop in business activity and curtailing global trade. The pandemic may create further negative economic impact in the global and PRC economies and result in increased volatility in global markets, which will in turn affect Hong Kong as well as the Group's customers. Any such adverse changes in the global economy, the PRC national and regional economies, the Hong Kong economy, the international financial markets and especially Hong Kong's financial market, may materially and adversely affect the Group's business, financial condition and results of operations.

## RISKS RELATING TO CHINA

### China's economic, political and social conditions, as well as regulatory policies, significantly affect financial markets in China, as well as the Group's liquidity, access to capital and ability to operate the its business

A substantial portion of the Group's assets are located in China, and the Group derives a substantial majority of its revenue from operations in China. Accordingly, the Group's results of operations, financial condition and prospects are subject to economic, political and legal developments in China. China's economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While China's economy has experienced significant growth in the past 40 years, growth has been uneven across different regions and economic sectors, and there is no assurance that such growth can be sustained. China's government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may negatively affect the Group. For example, the Group's financial condition and results of operations may be adversely affected by government control over currency exchange or changes in tax regulations applicable to the Group. If the business environment in China deteriorates, the Group's business in China may also be materially and adversely affected.

### Uncertainties with respect to China's legal system could materially and adversely affect the Group.

PRC laws and regulations govern the Group's operations in China. The Guarantor and many of its operating subsidiaries are organised under PRC laws. China's legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, China has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade.

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

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

### The PRC government's control of foreign currency conversion may limit the Group's foreign exchange transactions

The PRC government limits the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Group receives most of its revenue in the PRC in RMB and may need to convert RMB to foreign currency in order to meet its foreign currency obligations, including payments on the Bonds. The PRC's foreign exchange regulations allow payments of current account items, including profit distributions, interest payments and expenditures from trade, to be made in foreign currencies without prior approval, subject to certain procedural requirements. However, capital account transactions remain subject to foreign exchange controls, including repayment of indebtedness denominated in foreign currencies, such as the Bonds. Foreign exchange controls with respect to capital accounts could also affect the Group's ability to obtain foreign exchange through debt or equity finance. In the future, the Group cannot be certain that the PRC government will not also restrict access to foreign currencies for current account transactions. Shortages in the availability of foreign currency may limit the Group's ability to satisfy its foreign currency-denominated obligations, if any. In the past, there have been shortages of U.S. dollars or other foreign currency available for conversion of RMB in the PRC, and it is possible that such shortages may occur again, or that restrictions on conversion could be implemented. If the foreign exchange control system prevents the Group from obtaining sufficient foreign currency to satisfy its currency demands, the Group may not be able to make payments in foreign currencies, which could adversely affect its ability to make payments on the Bonds through the Issuer.

**It may be difficult to enforce any judgements obtained from non-PRC courts against the Guarantor or its directors, supervisors or senior executive officers residing in China**

Most of the Guarantor's directors, supervisors and executive officers reside in China. In addition, most of the Guarantor's assets and those of its directors, supervisors and executive officers are located in China. China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. As a result, it may be difficult for investors to serve process on the Guarantor or those persons in China, or to enforce against the Guarantor or them in China any judgements obtained from non-PRC courts.

**Fluctuations in the value of the RMB could materially affect the Group's financial condition and results of operations**

The Group collects a majority of its revenue generated in the PRC in RMB, some of which may need to be converted into U.S. dollars to make payment under the Bonds. The value of the RMB fluctuates and is subject to changes in China's political and economic conditions. Since 21 July 2005, the RMB has no longer been pegged solely to the U.S. dollar. Currently, the PRC government has implemented a regulated floating exchange rate regime based on market supply and demand with reference to a basket of currencies. It is likely that the exchange rates of the Hong Kong dollar and the U.S. dollar against the RMB will fluctuate further. In the event of a significant change in the exchange rate of the U.S. dollar against the RMB, the Group's ability to make payments in U.S. dollars may be adversely affected. It is possible that PRC authorities may lift restrictions on fluctuations in the RMB exchange rate and decrease intervention in the foreign exchange market.

**Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in the PRC could limit the legal protections available to you**

A substantial portion of the Group's business is conducted in the PRC and is governed by PRC laws and regulations. All of the Group's operating subsidiaries that are located in the PRC are subject to PRC laws and regulations. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development.

However, due to the fact that these laws and regulations have not been fully developed, and because of the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. The interpretation of statutes, regulations and rules may also be subject to government policies which can change to reflect domestic political factors. Depending on the government agency or how or by whom an application or case is presented to such agency, the Group may receive less favourable interpretation of laws and regulations than our competitors. For example, according to the NDRC Circular, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue debt securities outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such debt securities, file certain prescribed documents with NDRC and procure a registration certificate from the NDRC in respect of such issuance. In addition, unless otherwise approved by NDRC, the enterprise must also make the NDRC Post-issue Filing within ten PRC business days of the completion of the issue. The NDRC Circular is a recent regulation and its interpretation may involve significant uncertainty. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by NDRC.

## RISKS RELATING TO THE BONDS AND THE GUARANTEE

### The Bonds may not be a suitable investment for all investors

The Bonds are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

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

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### The liquidity and price of the Bonds following the offering may be volatile

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

**Members of the Group may subscribe for the Bonds as initial investors and purchase Bonds in the secondary market**

Under the terms of the Bonds, Bonds purchased by members of the Group are not required to be surrendered for cancellation. Members of the Group may therefore purchase the Bonds as initial investors and may purchase and sell Bonds in the secondary market. The interests of such member of the Group may be different from the interests of the other holders of the Bonds. If any member of the Group subscribes for the Bonds as an investor, the liquidity of the Bonds may be limited and the proceeds received by the Issuer from external investors will be less than the aggregate principal amount of the Bonds. Investors should take the foregoing into account when making an investment decision in the Bonds.

**The Bonds constitute a new issue of securities for which there is no existing trading market**

There is currently no existing trading market for the Bonds and the Bonds offer limited liquidity. Although an application will be made to the Hong Kong Stock Exchange, the Issuer and the Guarantor cannot guarantee that the application to the Hong Kong Stock Exchange will be approved, or that a liquid trading market for the Bonds will develop or continue. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Issuer Group's or the Group's operations and the market for similar securities. The Joint Lead Managers are not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

**The Bonds are redeemable in the event of certain withholding taxes being applicable**

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Bonds may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Cayman Islands, the PRC or any subdivision or authority therein or thereof having power to tax. See "*Terms and Conditions of the Bonds – Redemption for Taxation Reasons*" for additional details.

**The Issuer or the Guarantor may not be able to meet its outstanding obligations under the Bonds**

The Issuer, failing whom, the Guarantor may (and at maturity, will) be required to redeem all of the Bonds. If such an event were to occur, the Issuer or the Guarantor may not have sufficient cash on hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by or on behalf of the Issuer or the Guarantor may constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's or the Guarantor's other indebtedness.

**The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction**

In certain circumstances (including without limitation giving of notice to the Issuer and the Guarantor pursuant to Condition 9 (Events of Default) of the Terms and Conditions of the Bonds and taking action pursuant to Condition 11 (Events of Default) of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Bondholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or prefunded and/or secured to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed constituting the Bonds and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Bondholders to take such actions directly.

**Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Trust Deed, Agency Agreement and the Deed of Guarantee by the Trustee or less than all of the Bondholders**

The Terms and Conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including those Bondholders who do not attend and vote at the relevant meeting and those Bondholders who vote in a manner contrary to the majority. Furthermore, there is a risk that the decision of a majority of Bondholders may be adverse to the interests of individual Bondholders.

The Terms and Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders, agree to any modification of the Trust Deed, the Agency Agreement or the Deed of Guarantee which in the opinion of the Trustee will not be materially prejudicial to the interests of Bondholders and to any modification of the Trust Deed, the Agency Agreement or the Deed of Guarantee which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed, the Agency Agreement or the Deed of Guarantee (other than a proposed breach or breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

**Obligations of the Guarantor under the Bonds are structurally subordinated to the current and future liabilities and obligations of the Guarantor's subsidiaries.**

The obligations of the Guarantor under the Bonds will be effectively subordinated to all existing and future obligations of its existing or future subsidiaries, and all claims of creditors of its existing or future subsidiaries and rights of holders of preferred shares of such subsidiaries (if any) will have priority as to the assets of such subsidiaries over the claims of the Guarantor and those of the Guarantor's creditors, including the holders of the Bonds. As a result, all of the existing and future liabilities of the Guarantor's subsidiaries, including any claims of trade creditors and preferred stockholders, will be effectively senior to the Bonds. In addition, even if the Guarantor was a creditor of any subsidiary, its rights as a creditor would be subordinated to any security interest in the assets of such subsidiary and any indebtedness of the subsidiary senior to that held by the Guarantor.

**The Bonds and the Guarantee are unsecured obligations.**

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

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

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

**Claims by the holders of the Bonds are structurally or effectively subordinated to secured debt**

The Bonds are senior and unsecured obligations of the Issuer. Payments under the Bonds are structurally or effectively subordinated to all the secured debts of the Issuer to the extent of the value of the assets securing such debts. The effect of this subordination is that, in the event of a bankruptcy, liquidation, dissolution, reorganisation or similar proceeding involving the Issuer, the assets of the Issuer could not be used to pay the holders of the Bonds until after all secured claims against the Issuer have been fully paid.

**The Group may issue additional Bonds in the future**

The Issuer Group or the Group may, from time to time, and without prior consultation of the Bondholders create and issue further Bonds (See "*Terms and Conditions of the Bonds – Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

**Changes in market interest rates may adversely affect the value of the Bonds**

Investment in the Bonds, which carry a fixed rate of interest, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

**Gains on the transfer of the Bonds may be subject to income tax under PRC tax laws**

Under the new Enterprise Income Tax Law ("**EIT Law**") and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as incomes derived from sources within the PRC. Under the EIT Law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "**Arrangement**"), Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, are exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied.

If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

**Any downgrading of the Issuer's or the Guarantor's corporate ratings, or those of their respective subsidiaries, by rating agencies could adversely affect the Issuer Group's or the Group's business and the Issuer Group's or the Group's liquidity**

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

**The Issuer or the Guarantor may not be able to repurchase the Bonds upon a change of control or No Registration Event**

Following the occurrence of a Change of Control or No Registration Event, Bondholders may require the Issuer to redeem their Bonds. See "Terms and Conditions of the Bonds – Redemption and Purchase – Redemption upon Change of Control or No Registration Event". The source of funds for any such redemption would be the Issuer's or the Guarantor's available cash or third-party financing. However, there is no assurance that the Issuer or the Guarantor would have sufficient funds at that time to make the required redemption of the Bonds.

If an event constituting a Change of Control or No Registration Event occurs at a time when the Issuer is prohibited from repurchasing the Bonds, the Issuer may seek the consent of the lenders under such indebtedness to purchase the Bonds or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer may be unable to repurchase the Bonds. The Issuer's failure to make the offer to purchase or purchase the outstanding Bonds would constitute an event of default under the Bonds. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If the Issuer's other debt were to be accelerated, it may not have sufficient funds to purchase the Bonds and repay the debt.

Certain of the events constituting a Change of Control under the Bonds may also constitute an event of default under certain of the Issuer's debt instruments, requiring repurchase of such debt or otherwise cancelling its lenders' commitments under such debt instruments. In addition, future debt of the Issuer may also (1) prohibit the Issuer from purchasing Bonds in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Bondholders of their right to require the Issuer to purchase the Bonds could cause a default under the Issuer's other indebtedness, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer.

**If the Issuer or the Guarantor is unable to comply with the terms of the Trust Deed governing the Bonds or its future debt agreements, there could be a default under those agreements, which could cause repayment of the debt of the Issuer to be accelerated**

If the Issuer or the Guarantor is unable to comply with the terms in the Trust Deed governing the Bonds or its future debt obligations and other agreements, there could be a default under those agreements. If that occurs, the holders of the debt could terminate their commitments to lend to the Issuer or the Guarantor, as the case may be, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, the Trust Deed governing the Bonds contains, and the Issuer's or the Guarantor's future debt agreements are likely to contain, cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other obligations, including the Bonds, or result in a default under its other debt agreements, including the Trust Deed governing the Bonds. If any of these events occur, the Issuer's or the Guarantor's assets and cash flow might not be sufficient to repay in full all of its indebtedness and the Issuer or the Guarantor might not be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, it might not be on terms that are favourable or acceptable to it.

**The Bonds will initially be held in book-entry form, and therefore Bondholders must rely on the procedures of the relevant clearing systems to exercise any rights and remedies**

The Bonds will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the Global Certificate representing the Bonds will trade in book-entry form only, and Bonds in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Bonds for purposes of the Trust Deed. A common depositary for Euroclear and Clearstream will be the sole registered holder of the Global Certificate. Accordingly, Bondholders must rely on the procedures of Euroclear or Clearstream, and if a Bondholder is not a participant in Euroclear or Clearstream, on the procedures of the participant through which the Bondholder owns its interest, to exercise any rights and obligations of a holder of the Bonds under the Trust Deed. Upon the occurrence of an event of default under the Trust Deed, unless and until definitive registered Bonds are issued in respect of all book-entry interests, if a Bondholder owns a book-entry interest, such Bondholder will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds. See "*Summary of Provisions Relating to the Bonds in Global Form*".

**Investors in the Bonds may be subject to foreign exchange risks**

The Bonds are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which the Issuer's Group and the Group has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

**International financial markets and world economic conditions may adversely affect the market price of the Bonds**

Developments in other markets may adversely affect the market price of the Bonds. The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

**The Issuer may be treated as a PRC resident enterprise for PRC tax purposes, which may subject the Issuer to PRC income taxes on its worldwide income and interest payable by the Issuer to foreign investors and gain on the sale of the Bonds may be subject to withholding taxes under PRC tax law**

Under the EIT Law and the implementation rules which both took effect on 1 January 2008 and further amended on 24 February 2017 and 29 December 2018 respectively, enterprises established outside the PRC whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax purposes.

The implementation rules define the term "de facto management body" as a management body that exercises full and substantial control and management over the business, personnel, accounts and properties of an enterprise.

Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management (國家稅務總局關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) issued by the State Administration of Taxation on 22 April 2009 ("**Circular 82**") provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "de facto management body" located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within China; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within China. On 27 July 2011, the State Administration of Taxation issued Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group (境外注冊中資控股居民企業所得稅管理辦法) ("**Circular 45**"), to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group." Circular 45 provides two ways for a foreign enterprise "controlled by a PRC enterprise or a PRC enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in China based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

To date, the Issuer has not been notified by the competent tax bureau that it is a PRC resident enterprise. If the Issuer is deemed to be a PRC resident enterprise for EIT purposes, the Issuer would be subject to the PRC enterprise income tax at the rate of 25 per cent. on its worldwide taxable income. Furthermore, the Issuer may be obligated to withhold PRC income tax of up to 7 per cent. on payments of interest and certain other amounts on the Bonds to investors that are Hong Kong resident enterprises or 10 per cent. on payments of interest and other amounts on the Bonds to investors that are not Hong Kong resident enterprises, provided that there are no tax treaties between China and those countries which exempt or reduce such withholding tax, because the interest and other amounts may be regarded as being derived from sources within the PRC. In addition, if the Issuer fails to do so, it may be subject to fines and other penalties. Similarly, any gain realised by such non-resident enterprise investors from the transfer of the Bonds may be regarded as being derived from sources within the PRC and may accordingly be subject to a 10 per cent. PRC withholding tax provided that there are no tax treaties between China and those countries which exempt or reduce such withholding tax.

If the Issuer is required under the EIT Law to withhold PRC income tax from interest payments made to the Issuer's foreign investors who are "non-resident enterprises", the Issuer will be required to pay such additional amounts as will result in receipt by a holder of the Bonds of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Bonds, and could have a material adverse effect on its ability to pay interest on, and repay the principal amount of, the Bonds, as well as its profitability and cash flow. In addition, if Bondholders are required to pay PRC income tax on the transfer of the Bonds, the value of investments in the Bonds may be materially and adversely affected. It is unclear whether, if the Issuer is considered a PRC "resident enterprise", holders of the Bonds might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

**The Issuer may be able to redeem the Bonds in whole at a redemption price equal to 100 per cent. of the principal amount plus accrued and unpaid interest in the event the Issuer is required to pay additional amounts because it is treated as a PRC "resident enterprise"**

In the event that the Issuer is treated as a PRC "resident enterprise" under the EIT Law, it may be required to withhold PRC income tax on interest payable to certain of its non-resident investors. In such case, the Issuer will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Bond of such amounts as have been received by the holder had no such withholding been required. As set out in Condition 6.2 (Redemption for Taxation Reasons) of the Terms and Conditions of the Bonds, in the event that as a result of a change in PRC tax law such that such PRC deduction or withholding is in excess of the Applicable Rate (as defined in the Terms and Conditions of the Bonds) and the Issuer is required to pay additional amounts as a result of certain changes in, or interpretations of, tax law, including any change or interpretation that results in the Issuer being required to withhold tax on interest payments as a result of its being treated as a PRC "resident enterprise", the Issuer may redeem the Bonds in whole at the principal amount, together with interest accrued to the date fixed for redemption but unpaid.

**Additional procedures may be required to be taken to hear English law governed matters in the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law matters**

The Terms and Conditions of the Bonds are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters, Hong Kong courts may require certain additional procedures to be taken. Under the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned"(關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. As compared to other similar debt securities issuances in the international capital market where the relevant security holders would not typically be required to submit to an exclusive jurisdiction, the Bondholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Bondholders' ability to initiate a claim outside of Hong Kong will be limited.

**The insolvency laws of the Cayman Islands and the PRC may differ from those of another jurisdiction with which the Bondholders are familiar**

As the Issuer is incorporated under the Cayman Islands laws and the Guarantor is incorporated under the PRC laws, any insolvency proceeding relating to the Issuer or the Guarantor, even if brought in other jurisdictions, would likely involve insolvency laws of the Cayman Islands or the PRC, as the case may be, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Bondholders are familiar.

**PRC corporate disclosure and accounting standards differ from IFRS.**

The financial statements of the Guarantor are prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain respects from IFRS. See "Description of Certain Differences between PRC GAAP and IFRS".

**If the Guarantor fails to complete the SAFE registration in connection with the Guarantee, there may be hurdles for cross-border payment under the Guarantee.**

Under the Guarantee, the Guarantor will undertake to guarantee the due payment of all sums expressed to be payable by the Issuer due under the Bonds and the Trust Deed.

The Guarantor is required by the Cross-border Security Registration to register the Guarantee with SAFE within 15 working days of the date of execution of the Guarantee. Although the non-registration does not render the Guarantee ineffective or invalid under PRC law, SAFE may impose penalties on the Guarantor if the Guarantor fails to complete the SAFE registration. Further, there may be hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of SAFE registration in connection with the Guarantee in order to effect such remittance. The Guarantor intends to register the Guarantee as soon as practicable and in any event before the Registration Deadline (being 150 Registration Deadline Business Days after the Issue Date). If the registration is not completed on or before the Registration Deadline, each Bondholder will have the right to request the Issuer to redeem all of that Bondholder's Bonds and will need to rely on the Issuer to source sufficient U.S. dollars to fully discharge its obligations under the Bonds and the Trust Deed. Prior to the performance or discharge of its obligations under the Guarantee, the Guarantor is also required to complete a verification process with banks for each remittance under the Guarantee.

## USE OF PROCEEDS

The gross proceeds from this offering will be U.S.$300,000,000. The Issuer intends to use the net proceeds from this offering, consisting of the gross proceeds less the underwriting discounts and commissions and other expenses payable in connection with the Bonds, for repayment of short-term revolving bank loans.

# EXCHANGE RATES

## PRC

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. Following an announcement by the PBOC on 11 August 2015 that authorised market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market, the Renminbi depreciated significantly against the U.S. dollar through the remainder of 2015 and 2016 before rebounding in 2017. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a depreciation in value against U.S. dollar followed by fluctuations in 2018 and 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate to above RMB7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may from time to time make further adjustments to the exchange rate system in the future.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods presented:

| | Noon Buying Rate[(1)] | | | |
|---|---|---|---|---|
| | **End** | **Average[(2)]** | **High** | **Low** |
| **Year** | | | | |
| 2014 | 6.2046 | 6.1620 | 6.2591 | 6.0402 |
| 2015 | 6.4778 | 6.2827 | 6.4896 | 6.1870 |
| 2016 | 6.9430 | 6.6400 | 6.9580 | 6.4480 |
| 2017 | 6.5063 | 6.7350 | 6.9575 | 6.4773 |
| 2018 | 6.8755 | 6.6090 | 6.9737 | 6.2649 |
| 2019 | 6.9618 | 6.9014 | 7.1786 | 6.6822 |
| 2020 | | | | |
| July | 6.9744 | 7.0041 | 7.0703 | 6.9744 |
| August | 6.8647 | 6.9310 | 6.9799 | 6.8647 |
| September | 6.7896 | 6.8106 | 6.8474 | 6.7529 |
| October | 6.6919 | 6.7254 | 6.7898 | 6.6503 |
| November | 6.5600 | 6.6020 | 6.6899 | 6.5556 |
| December | 6.5250 | 6.5393 | 6.5705 | 6.5208 |
| 2021 | | | | |
| January (through 22 January 2021) | 6.4810 | 6.4698 | 6.4810 | 6.4550 |

*Notes:*

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

## Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 17 October 1983, the Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00. The central element in the arrangements which gave effect to the peg is that, by agreement between the Hong Kong Special Administrative Region government and the three Hong Kong banknote issuing banks (i.e., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China Limited), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars at the fixed exchange rate of HK$7.80 to

U.S.$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to U.S.$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong Special Administrative Region government has stated its intention to maintain the link at that rate and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Special Administrative Region government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Special Administrative Region government will maintain the link at HK$7.75 to HK$7.85 per U.S. dollar, or at all.

The following table sets forth information concerning exchange rates between the Hong Kong dollar and the U.S. dollar for the periods presented:

| | **Noon Buying Rate[1]** | | | |
|---|---|---|---|---|
| | **End** | **Average[2]** | **High** | **Low** |
| **Year** | | | | |
| 2014 | 7.7531 | 7.7545 | 7.7669 | 7.7495 |
| 2015 | 7.7507 | 7.7519 | 7.7686 | 7.7495 |
| 2016 | 7.7534 | 7.7620 | 7.8270 | 7.7505 |
| 2017 | 7.8128 | 7.7926 | 7.8267 | 7.7540 |
| 2018 | 7.8316 | 7.8376 | 7.8499 | 7.8043 |
| 2019 | 7.7894 | 7.8335 | 7.8499 | 7.7850 |
| 2020 | | | | |
| July | 7.7500 | 7.7509 | 7.7538 | 7.7499 |
| August | 7.7501 | 7.7502 | 7.7506 | 7.7498 |
| September | 7.7500 | 7.7500 | 7.7504 | 7.7499 |
| October | 7.7548 | 7.7503 | 7.7548 | 7.7498 |
| November | 7.7522 | 7.7526 | 7.7552 | 7.7505 |
| December | 7.7534 | 7.7519 | 7.7539 | 7.7505 |
| 2021 | | | | |
| January (through 22 January 2021) | 7.7519 | 7.7536 | 7.7555 | 7.7517 |

*Notes:*

(1) Exchange rates between Hong Kong dollar and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

## TERMS AND CONDITIONS OF THE BONDS

*The following are the Terms and Conditions of the Bonds substantially in the form in which they (other than the text in italics) will be endorsed on the definitive bonds and referred to in the Global Certificate.*

The U.S.$300,000,000 2.00 per cent. Guaranteed Bonds due 2024 (the "**Bonds**", which expression includes, unless the context requires otherwise, any further bonds issued pursuant to Condition 18 and consolidated and forming a single series therewith) issued by China Industrial Securities International Financial Group Limited 兴证国际金融集团有限公司(the "**Issuer**") are constituted by a trust deed (as amended or supplemented from time to time, the "**Trust Deed**") to be dated on or about 9 February 2021 (the "**Issue Date**") between the Issuer, China Industrial Securities Co., Ltd. (兴业证券股份有限公司)(the "**Guarantor**") as guarantor of the Bonds and Citicorp International Limited (the "**Trustee**", which expression shall include all persons for the time being as the trustee or trustees under the Trust Deed, and shall include its successors or assigns) as trustee for itself and the holders of the Bonds (the "**Bondholders**"). The Bonds were authorised by written resolutions of the board of directors of the Issuer dated 20 January 2021. The giving of the Guarantee (as defined below) was authorised by resolutions of the board of directors of the Guarantor on 30 March 2020 and of the shareholders of the Guarantor on 15 April 2020.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the deed of guarantee to be dated on or about the Issue Date given by the Guarantor (the **Guarantee**) and the agency agreement (as amended or supplemented from time to time, the "**Agency Agreement**") to be dated on or about the Issue Date relating to the Bonds between the Issuer, the Guarantor, the Trustee, Citibank, N.A., London Branch as registrar (the "**Registrar**"), transfer agent (the "**Transfer Agent**") and initial principal paying agent (the "**Principal Paying Agent**") and other agents (each named therein) and the Trustee are available for inspection by Bondholders on prior written notice and upon satisfaction of proof of holding, during normal business hours (being between 9:00 a.m. and 3:00 p.m. from Monday to Friday (other than public holidays)) at the specified office for the time being of the Principal Paying Agent. References herein to "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent and any other agent or agents appointed from time to time pursuant to the Agency Agreement with respect to the Bonds and shall include their respective successors or assigns. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Guarantee and the Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Bonds are issued in registered form in amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Bond). A bond certificate (each a "**Certificate**") will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Issuer will procure to be kept by the Registrar, at the registered office of the Issuer and in accordance with the provisions of the Agency Agreement (the "**Register**").

#### 1.2 Title

Title to the Bonds passes only by registration in the Register. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Bondholder**" and (in relation to a Bond) "**holder**" means the person in whose name a Bond is registered in the Register.

*Upon issue, the Bonds will be represented by a global certificate (the "**Global Certificate**") registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). These conditions are modified by certain provisions contained in the Global Certificate.*

*Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.*

## 2. TRANSFERS OF BONDS AND ISSUE OF CERTIFICATES

### 2.1 Transfer

A Bond may, subject to the Agency Agreement and Conditions 2.4 and 2.5, be transferred by depositing the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents.

### 2.2 Delivery of New Certificates

Each new Certificate to be issued upon transfer of Bonds will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Bond to the address specified in the form of transfer. For the purposes of this Condition 2.2, "**business day**" shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Bonds in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Bonds not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

### 2.3 Formalities Free of Charge

Registration of transfer of Bonds will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity and/or security and/or prefunding as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

### 2.4 Closed Periods

No Bondholder may require the transfer of a Bond to be registered (i) during the period of 15 days ending on (and including) the due date for any payment of principal, premium (if any) or interest on that Bond, (ii) after a Put Exercise Notice (as defined in Condition 8.3) has been deposited in respect of the Bonds pursuant to Condition 8.3, (iii) after any such Bond has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7.1).

### 2.5 Regulations

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (at the expense of the Issuer) by the Registrar to any Bondholder who requests one.

## 3. STATUS OF THE BONDS

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Issuer and (subject as stated above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

## 4. GUARANTEE

### 4.1 Guarantee

The payment of principal, premium (if any) and interest in respect of the Bonds and all other moneys expressed to be payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor in the Guarantee.

### 4.2 Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5) unsecured obligations of the Guarantor and (subject as stated above) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

## 5. COVENANTS

### 5.1 Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and the Guarantor will procure that none of its other Subsidiaries (as defined below) will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (the "**Security**") upon the whole or any part of its business, undertaking, assets or revenues (including any uncalled capital), present or future, to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness, or any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Bonds or, as the case may be, the Guarantor's obligations under the Guarantee (i) are secured by the Security equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement (whether or not it includes the giving of a Security) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

### 5.2 Provision of Information

So long as any Bond remains outstanding:

(a) the Issuer and the Guarantor will each furnish the Trustee with a Compliance Certificate on which the Trustee may rely as to such compliance within 14 days after demand by the Trustee therefor and at the same time as the provision of the Audited Financial Reports referred in Condition 5.2(b) below;

(b) the Issuer and the Guarantor shall each prepare and supply to the Trustee within 150 days (in the case of the Guarantor) and 120 days (in the case of the Issuer) after the end of each financial year for the time being (which is, at the Issue Date, 31 December) a copy of the relevant Audited Financial Reports, prepared in accordance with generally accepted accounting principles applicable to enterprises established in Hong Kong or, as the case may be, the PRC, together with the relevant audit report thereto as at and for the last financial year, (X) each in English; or (Y) if such statements shall be in the Chinese language, together with an English translation of the same translated by (i) the Guarantor's auditor (in the case of the Guarantor) or the Issuer's auditor (in the case of the Issuer), (ii) an internationally recognised firm of independent accountants of good repute or (iii) a professional translation service provider, together with a certificate in the English language signed by an Authorised Signatory of the Issuer or the Guarantor (as the case may be) certifying that such translation is complete and accurate; and

(c) the Issuer and the Guarantor shall each prepare and supply to the Trustee within 90 days after the end of each financial half-year for the time being (which is, at the Issue Date, 30 June) the unaudited semi-annual financial statements of the Issuer and the Guarantor (including but not limited to the statement of profit or loss and other comprehensive income, statement of financial position, statement of cash flows and statement of changes in equity, each on an individual and a consolidated basis, together with accompanying notes), prepared on a basis consistent with the Audited Financial Reports, (X) each in English or (Y) if such financial statements shall be in the Chinese language, together with an English translation of the same translated by (i) the Guarantor's auditor (in the case of the Guarantor) or the Issuer's auditor (in the case of the Issuer), (ii) an internationally recognised firm of independent accountants of good repute or (iii) a professional translation service provider, together with a certificate in the English language signed by an Authorised Signatory of the Issuer or the Guarantor (as the case may be) certifying that such translation is complete and accurate;

The Trustee shall not be required to review the Audited Financial Reports delivered to it as contemplated in this Condition 5.2 and the Trustee shall not be liable to any Bondholder or any other person for not doing so.

**5.3 Undertakings relating to NDRC**

The Guarantor undertakes to (i) file or cause to be filed with the National Development and Reform Commission of the PRC (the "**NDRC**") the requisite information and documents within ten PRC Business Days after the Issue Date (or with respect to any further issue pursuant to Condition 18, the issue date of such further issue) in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**") and (ii) comply with all applicable PRC laws, rules and regulations in connection with the NDRC Post-issue Filing.

The Guarantor shall (i) within ten PRC Business Days after submission of such NDRC Post-issue Filing, provide the Trustee with (x) a certificate in English substantially in the form scheduled to the Trust Deed signed by an Authorised Signatory confirming the submission of the NDRC Post-issue Filing, together with (y) copies of the relevant document(s) (if any) evidencing due filing with the NDRC, each certified in English as true and complete copies of the originals by an Authorised Signatory and (ii) within ten PRC Business Days after provision of the documents described above to the Trustee, instruct the Principal Paying Agent to publish the notice to the Bondholders (in accordance with Condition 14) substantially in the form scheduled to the Trust Deed confirming the submission of the

NDRC Post-issue Filing. The Trustee may rely conclusively on the documents described in this Condition 5.3 and shall have no obligation to monitor or ensure the filing or completion of the NDRC Post-issue Filing is made on or before the deadline referred to above or as otherwise required by this Condition 5.3 or to assist with the NDRC Post-issue Filing or to verify the accuracy, validity and/or genuineness of any certificate, confirmation or other document in relation to or in connection with the NDRC Post-issue Filing or to give notice to the Bondholders confirming the submission of the NDRC Post-issue Filing, and the Trustee shall not be liable to the Bondholders or any other person for not doing so.

**5.4 Registration of the Guarantee**

The Guarantor undertakes that it will (i) register or cause to be registered with the State Administration of Foreign Exchange of the PRC ("**SAFE**") the Guarantee in accordance with, and within the time period prescribed by, the Provisions on the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 and effective from 1 June 2014 (the "**Cross-Border Security Registration**"), and any implementation rules as issued by SAFE from time to time, (ii) complete the Cross-Border Security Registration and obtain a registration record from SAFE on or before the Registration Deadline (as defined in Condition 8.3) and (iii) comply with all applicable PRC laws and regulations in relation to the Guarantee.

The Guarantor shall (i) within ten PRC Business Days after the receipt of the registration record from SAFE, provide the Trustee with (x) a certificate in English substantially in the form scheduled to the Trust Deed signed by an Authorised Signatory confirming such registration, together with (y) copies of the relevant document(s) (if any) evidencing such registration with SAFE, each certified in English as true and complete copies of the originals by an Authorised Signatory (such certificate and documents being the "**Registration Documents**") and (ii) within ten PRC Business Days after provision of the Registration Documents to the Trustee, instruct the Principal Paying Agent to publish the notice to the Bondholders (in accordance with Condition 14) substantially in the form scheduled to the Trust Deed confirming the Cross-Border Security Registration. The Trustee shall have no obligation or duty to monitor or ensure the registration of the Guarantee with SAFE on or before the Registration Deadline or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the Cross-Border Security Registration and/or the Registration Documents or to give notice to the Bondholders confirming the completion of the Cross-Border Security Registration, and shall not be liable to Bondholders or any other person for not doing so.

For the purposes of these Conditions (and unless otherwise stated):

(a) "**Audited Financial Reports**" means annual audited consolidated financial statements (including, for the removal of doubt, such financial statements as at and for the year ended 31 December of the year prior to the Issue Date) of the Issuer and, as the case may be, the Guarantor, which comprise the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Issuer or, as the case may be, the Guarantor, together with any directors' report, the independent auditors' report and notes to the consolidated financial statements;

(b) "**Authorised Signatory**" has the meaning given to it in the Trust Deed;

(c) "**Compliance Certificate**" means a certificate of the Issuer or, as the case may be, the Guarantor (in the form or substantially in the form set out in Schedule 5 to the Trust Deed) signed by any one of their respective Authorised Signatories that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer, as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(i) no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(ii) each of the Issuer and the Guarantor (as the case may be) has complied with all its obligations under the Trust Deed, the Agency Agreement, the Guarantee and the Bonds, to which it is a party;

(d) **"Hong Kong"** means the Hong Kong Special Administrative Region of the People's Republic of China;

(e) "**PRC**" means the People's Republic of China excluding the Special Administrative Regions of Hong Kong and Macau and the region of Taiwan;

(f) "**PRC Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are generally open for business in the PRC; and

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

## 6. INTEREST

The Bonds bear interest on their outstanding principal amount from and including the Issue Date at the rate of 2.00 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.$10.00 per Calculation Amount (as defined below) on 9 February and 9 August in each year (each an "**Interest Payment Date**") commencing 9 August 2021. Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Bond, payment of principal is improperly withheld or refused, in such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

Interest in respect of any Bond shall be calculated per U.S.$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

## 7. PAYMENTS

### 7.1 Payments in respect of Bonds

Payment of principal, premium (if any) and interest will be made by transfer to the registered account of the Bondholder. Payments of principal or premium and payments of interest due otherwise than on an Interest Payment Date will only be made against (provided that payment is made in full) surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Bonds due on an Interest Payment Date will be paid to the holder shown on the Register at the close of business on the date (the "**record date**") being the fifteenth day before the relevant Interest Payment Date.

For the purposes of this Condition, a Bondholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollar, details of which appear on the Register at the close of business, in the case of principal, premium and interest due otherwise than on an Interest Payment Date, on the second Business Day (as defined below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Bondholder's "**registered address**" means its address appearing on the Register at that time.

*So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the Global Certificate), each payment in respect of the Global Certificate will be made to the person shown as the Bondholder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where* ***Clearing System Business Day*** *means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

### 7.2 Payments subject to Applicable Laws

Payments in respect of principal, premium (if any) and interest on Bonds are subject in all cases to (i) any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

### 7.3 No commissions

No commissions or expenses shall be charged to the Bondholders in respect of any payments made in accordance with this Condition.

### 7.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated on the due date for payment (or, if it is not a Business Day, the immediately following Business Day) or, in the case of a payment of principal and premium or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent. Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day (subject to the foregoing proviso), if the Bondholder is late in surrendering its Certificate (if required to do so). If any date for payment in respect of any Bond is not a Business Day, the Bondholder shall not be entitled to any interest or other sum in respect of such postponed payment.

In these Conditions **Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business in New York City, Hong Kong and London and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

### 7.5 Partial Payments

If the amount of principal, premium or interest which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium or interest in fact paid.

### 7.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. Each of the Issuer and the Guarantor reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(i) there will at all times be a Principal Paying Agent;

(ii) so long as the Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be an Agent (which may be the Principal Paying Agent) having a specified office in the place required by the rules and regulations of the relevant stock exchange or any other relevant authority;

(iii) there will at all times be a Transfer Agent; and

(iv) there will at all times be a Registrar which will maintain the Register outside the United Kingdom.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

## 8. REDEMPTION AND PURCHASE

### 8.1 Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 9 February 2024. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 8.

**8.2 Redemption for Taxation Reasons**

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption but unpaid, if:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in, or amendment to, the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after 2 February 2021 either (i) the Issuer would be required to pay Additional Tax Amounts as provided or referred to in Condition 9 or (ii) (if the Guarantee is called) the Guarantor in making payment itself would be required to pay such Additional Tax Amounts; and

(b) such obligation cannot be avoided by the Issuer, or as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due.

Prior to the publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall deliver to the Trustee (i) a certificate signed by an Authorised Signatory of the Issuer or, as the case may be, the Guarantor stating that the obligation referred to in subparagraph (a) above cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it and (ii) an opinion, in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendments. The Trustee shall be entitled (but not obliged) to, and without liability to any person for doing so, accept and rely on (without further investigation or query) such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in subparagraph (a) and (b) above, in which event they shall be conclusive and binding on the Bondholders and the Trustee shall be protected and shall have no liability to any Bondholder or any other person for so accepting and relying on such certificate or opinion.

Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to any Bondholders or any other Person for not doing so.

**8.3 Redemption for Change of Control or No Registration Event**

At any time following the occurrence of a Change of Control or No Registration Event (each as defined below), the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds on the Put Settlement Date (as defined herein) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any Transfer Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any Transfer Agent (a "**Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed by not later than 30 days following a Change of Control or No Registration Event, as the case may be, or, if later, 30 days following the date upon which notice thereof is given to the Bondholders by the Issuer in accordance with Condition 14.

The "**Put Settlement Date**" shall be the fourteenth day or, if such day is not a business day, the next following business day (in the case of a redemption for a Change of Control) or the fifth business day (in the case of a redemption for a No Registration Event) after the expiry of such period of 30 days as referred to above. A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date. If the Bonds become due and repayable due to the occurrence of an Event of Default following the delivery of a Put Exercise Notice but prior to the occurrence of the relevant Put Settlement Date, such Put Exercise Notice shall be deemed to be void.

The Issuer, failing whom the Guarantor, shall give notice to Bondholders in accordance with Condition 14 and to the Trustee, the Transfer Agent and the Principal Paying Agent by not later than 14 days (in the case of a redemption for a Change of Control) or five days (in the case of a redemption for a No Registration Event) following the first day on which it becomes aware of the occurrence of a Change of Control or No Registration Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 8.3.

The Trustee and the Agents shall not be required to monitor or to take any steps to ascertain whether a Change of Control or No Registration Event or any event which could lead to the occurrence of a Change of Control or No Registration Event has occurred and shall not be responsible or liable to the Bondholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

In this Condition 8.3:

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

a. the Guarantor ceases to, directly or indirectly, own or control the Issuer; or

b. Fujian Provincial Department of Finance (福建省財政廳) ceases to be the largest single shareholder of the Guarantor; or

c. any Person or Persons (other than Fujian Provincial Department of Finance (福建省財政廳)) acting together acquires control of the Guarantor; or

d. the Issuer consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, other than any Person directly or indirectly controlled by the Guarantor; or

e. the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, other than any Person directly or indirectly controlled by the Fujian Provincial Department of Finance (福建省財政廳) or any other person or entity directly controlled by the central government of the PRC;

"**control**" means (i) the ownership or control of no less than 50 per cent. of the voting rights of each class of shares of the Issuer or the Guarantor, as the case may be, or (ii) the right to appoint and/or remove all or the majority of the members of the board of directors or other governing body of the Issuer or the Guarantor, as the case may be, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a “**No Registration Event**” occurs when the Release Condition is not complied with on or before the Registration Deadline;

“**Person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Guarantor’s board of directors or any other governing board and does not include the Guarantor’s wholly-owned direct or indirect subsidiaries;

“**Registration Deadline**” means the day falling 150 Registration Deadline Business Days after the issue date of the Bonds;

“**Registration Deadline Business Day**” for the purposes of this definition means a day other than a Saturday or Sunday on which banks are open for business and settlement in Beijing; and

“**Release Condition**” means the receipt by the Trustee of the Registration Documents.

**8.4 Notices of Redemption**

If, in respect of any Bond, both a redemption notice pursuant to Condition 8.2 and a Put Exercise Notice are given, the notice given first in time shall prevail.

**8.5 Purchases**

The Issuer, the Guarantor or any of the Guarantor’s other Subsidiaries (as defined in Condition 5) may at any time purchase Bonds in any manner and at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of the Guarantor’s other Subsidiaries, the holding company of the Issuer or the Guarantor or any Subsidiary of such holding company shall not entitle the holder to vote at any meetings of the holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the holders or for the purposes of Condition 11 and Condition 15.

**8.6 Cancellations**

All Bonds which are redeemed will forthwith be cancelled, and accordingly may not be held, reissued or resold.

**9. TAXATION**

**9.1 Payment without Withholding**

All payments of principal, premium and interest in respect of the Bonds by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed, levied, collected, withheld or assessed by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor by or within the PRC up to and including the aggregate rate applicable on 2 February 2021 (the “**Applicable Rate**”), the Issuer or, as the case may be, the Guarantor will pay such additional amounts as may be necessary in order that the net amount received by Bondholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of the withholding or deduction.

If the Issuer or the Guarantor is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate or (ii) by or within any Relevant Jurisdiction other than the PRC, the Issuer or, as the case may be, the Guarantor will pay such additional amounts (the "**Additional Tax Amount**") as may be necessary in order that the net amounts received by the Bondholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds in the absence of the withholding or deduction; except that no Additional Tax Amounts shall be payable in relation to any payment in respect of any Bond:

(i) presented for payment by or on behalf of a holder (or to a third party on behalf of a holder) who is liable to the Taxes in respect of the Bond by reason of his having some connection with such Relevant Jurisdiction other than the mere holding of the Bond; or

(ii) (in the case of payment of principal, premium or interest (other than interest due on an Interest Payment Date)) if the Certificate in respect of such Bond is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to Additional Tax Amounts on presenting the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a Business Day (as defined in Condition 7).

**9.2 Interpretation**

In these Conditions:

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by an Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 14; and

"**Relevant Jurisdiction**" means the Cayman Islands, Hong Kong, the PRC or any political subdivision or any authority therein or thereof having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it of principal, premium and interest on the Bonds.

**9.3 Additional Amounts**

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any Additional Tax Amounts which may be payable under this Condition or any additional amounts which may be payable under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

**10. PRESCRIPTION**

Claims in respect of principal, premium (if any) and interest will become prescribed unless made within 10 years (in the case of principal and premium) and five years (in the case of interest) from the Relevant Date, as defined in Condition 9.

**11. EVENTS OF DEFAULT**

**11.1 Events of Default**

The Trustee at its discretion may, and if so requested by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (provided that in either such case, the Trustee shall have been indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest as provided in the Trust Deed, if any of the following events occurs (the "**Event of Default**"):

(a) *Non-payment:* default is made in the payment of any principal, premium or interest due in respect of the Bonds or any of them and, in the case of interest, the default continues for a period of 14 days; or

(b) *Breach of Other Obligations:* the Issuer or the Guarantor fails to perform or observe any of its other obligations under these Conditions (other than where such non-performance or non-compliance gives rise to a right for redemption pursuant to Condition 8.3), the Trust Deed or the Guarantee and the failure continues for a period of 30 days following the service by the Trustee on the Issuer or the Guarantor (as the case may be) of written notice requiring the same to be remedied; or

(c) *Cross-Acceleration:*(A) any Indebtedness for Borrowed Money (as defined below) of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries is declared due and repayable prior to its stated maturity by reason of an event of default or potential event of default (however described); (B) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment or, as the case may be, within any originally applicable grace period; or (C) the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries fails to make any payment in respect of any amount payable under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person on the due date for payment; provided that no event described in this subparagraph 11.1(c) shall constitute an Event of Default unless the Indebtedness for Borrowed Money due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money due and unpaid relative to all (if any) other events specified in (A) through (C) inclusive above which have occurred, amounts to at least U.S.$50,000,000 (or the equivalent thereof in any other currency); or

(d) *Winding-up:* any order is made by any competent court or resolution is passed for the winding-up or dissolution of the Issuer, the Guarantor or any of the Principal Subsidiaries, save in the case of any Principal Subsidiary, (A) for any solvent winding-up, liquidation or dissolution; or (B) for the purposes of any reorganisation, reconstruction, merger or consolidation (x) whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor and/or another Subsidiary of the Issuer or the Guarantor or (y) on terms approved by an Extraordinary Resolution; or (C) pursuant to a disposal of such Principal Subsidiary or any of its assets on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal is vested in the Issuer or the Guarantor and/or any Subsidiary of the Issuer or the Guarantor; or

(e) *Cessation of Business:* the Issuer, the Guarantor or any of the Principal Subsidiaries ceases or threatens to cease to carry on all or substantially all of its business (save in the case of any Principal Subsidiary, where the cessation is for the purposes (A) of a solvent winding-up, liquidation or dissolution; or (B) of a reorganisation, reconstruction, merger or consolidation (x) whereby the business, undertaking and assets of such Principal Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor and/or another Subsidiary of the Issuer or the Guarantor or (y) on terms approved by an Extraordinary Resolution; or (C) pursuant to a disposal of such Principal Subsidiary or any of its assets on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal is vested in the Issuer, the Guarantor and/or another Subsidiary of the Issuer or the Guarantor) or the Issuer, the Guarantor or any of the Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts as they fall due or is deemed unable to pay its debts as they fall due pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(f) *Enforcement of Security:* any security, in relation to all or any substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Principal Subsidiaries, present or future, created or assumed by the Issuer, the Guarantor or any of the Principal Subsidiaries becomes enforceable and is not discharged or stayed within 45 days; or

(g) *Enforcement Proceedings:* (A) proceedings are initiated against the Issuer, the Guarantor or any of the Principal Subsidiaries in relation to all or any substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Principal Subsidiaries, or (B) the Issuer, the Guarantor or any of the Principal Subsidiaries (or their respective directors or shareholders) initiates or consents to any judicial proceedings relating to itself, under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a general moratorium in respect of all or any substantial part of its debts), or (C) an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Principal Subsidiaries or, as the case may be, in relation to all or any substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Principal Subsidiaries or an encumbrancer takes possession of all or any substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Issuer's Principal Subsidiaries, or a distress, execution, attachment, sequestration or other process is levied, enforced upon or put in force against all or any substantial part of the undertaking or assets of the Issuer, the Guarantor or any of the Principal Subsidiaries; and in any such case (other than the appointment of an administrator), unless initiated by the relevant company, is not discharged or stayed within 45 days; or

(h) *Debt Restructuring*: the Issuer, the Guarantor or any of the Principal Subsidiaries makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally; or

(i) *Authorisation and Consents:* any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (A) to enable each of the Issuer and the Guarantor to lawfully to enter into, exercise its rights and perform and comply with their respective obligations under these Conditions, the Trust Deed and the Guarantee, (B) to ensure that those obligations are legally binding and enforceable and (C) to make the Bonds, the Trust Deed and the Guarantee admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

(j) *Illegality:* any one or more of obligations to be performed or complied by the Issuer or the Guarantor under any of the Bonds, the Trust Deed or the Guarantee becomes unlawful; or

(k) *Unenforceability:* the Bonds, the Guarantee or the Trust Deed is or becomes unenforceable or invalid; or

(l) *Analogous Events:* any event occurs which, under the laws of any relevant jurisdiction, has or may have, an analogous effect to any of the events referred to in subparagraphs (d) to (h).

**11.2 Interpretation**

For the purposes of this Condition:

"**Indebtedness for Borrowed Money**" means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money (including but not limited to bank loans and other borrowings) or any liability under or in respect of any acceptance or acceptance credit; and

"**Principal Subsidiary**" means any Subsidiary of the Issuer or the Guarantor, as the case may be:

a. whose revenue (consolidated in the case of a Subsidiary which itself has consolidated subsidiaries), net profits (consolidated in the case of a Subsidiary which itself has consolidated subsidiaries) or total assets (consolidated in the case of a Subsidiary which itself has consolidated subsidiaries) represents not less than five per cent. of the consolidated revenue, consolidated net profits or, as the case may be, consolidated total assets of the Issuer or the Guarantor, as the case may be, all as calculated respectively by reference to the latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited consolidated financial statements of the Issuer or the Guarantor, as the case may be, provided that:

    (1) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer or the Guarantor, as the case may be relate for the purpose of applying each of the foregoing tests, the reference to the latest audited consolidated financial statements of the Issuer or the Guarantor, as the case may be shall be deemed to be a reference to such audited financial statements adjusted as if such Subsidiary had been shown therein by reference to its then latest relevant audited financial statements;

    (2) if at any relevant time in relation to the Issuer or the Guarantor, as the case may be or any Subsidiary no financial statements are prepared and audited, its revenue, net profits and total assets (consolidated, if applicable) shall be determined on the basis of pro forma financial statements (consolidated, if applicable) prepared for this purpose by the Issuer or the Guarantor, as the case may be; and

    (3) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (i) above of this definition) are not consolidated with those of the Issuer or the Guarantor, as the case may be, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Issuer or the Guarantor, as the case may be prepared for this purpose by the Issuer or the Guarantor, as the case may be; or

b. to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Principal Subsidiary, whereupon (i) in the case of a transfer by a Principal Subsidiary, the transferor Principal Subsidiary shall immediately cease to be a Principal Subsidiary; and (ii) the transferee Subsidiary shall immediately become a Principal Subsidiary, provided that on or after the date on which the relevant audited financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Principal Subsidiary shall be determined pursuant to the provisions of sub-paragraph (a) above of this definition.

A certificate signed by an Authorised Signatory of the Issuer or the Guarantor, as the case may be, whether or not addressed to the Trustee, that in their opinion a Subsidiary is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall (in the absence of manifest error), be conclusive and binding on all parties.

## 12. ENFORCEMENT

**12.1** The Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer and/or the Guarantor as it may think fit to enforce the provisions of the Trust Deed, the Guarantee and the Bonds, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Guarantee or the Bonds unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

**12.2** The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

No Bondholder shall be entitled (i) to take any steps or action directly against the Issuer or the Guarantor to enforce the performance of any of the provisions of the Trust Deed, the Guarantee or the Bonds or (ii) take any other proceedings (including lodging an appeal in any proceedings) in respect of or concerning the Issuer or the Guarantor, in each case unless the Trustee, having become bound so to take any steps or action, fails so to do within a reasonable period and the failure shall be continuing.

## 13. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity, prefunding and otherwise as the Issuer and/or the Registrar or such

Transfer Agent may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 14. NOTICES

Notices to the holders of Bonds shall be mailed at the Issuer's or, as the case may be, the Guarantor's expense to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. The Issuer and the Guarantor shall also ensure that notices are duly published at the Issuer's or, as the case may be, the Guarantor's expense in a manner that complies with the rules and regulations of any stock exchange on which the Bonds are for the time being listed or other relevant authority. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

*So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System (as defined in the Global Certificate), notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.*

## 15. [RESERVED]

## 16. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

### 16.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed, the Agency Agreement or the Guarantee. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of any Reserved Matter (as defined in the Trust Deed), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one third, of the principal amount of the Bonds for the time being outstanding.

The Trust Deed provides that a resolution passed (i) at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) in writing signed by or on behalf of the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than three-fourths in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present and whether or not they voted at the meeting at which such resolution was passed. A resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

### 16.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Bondholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the Guarantee, the Agency Agreement or the Bonds, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven.

### 16.3 Trustee to have Regard to Interests of Bondholders as a Class

In connection with the exercise of its functions, rights, powers, authorities and/or discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the interests of the Bondholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Bondholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof, and the Trustee shall not be entitled to require on behalf of any Bondholder, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

### 16.4 Notification of the Bondholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Bondholders and, unless the Trustee agrees otherwise, shall be notified by the Issuer, failing whom, the Guarantor, to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

## 17. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND THE GUARANTOR

### 17.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

### 17.2 Trustee Contracting with the Issuer and the Guarantor

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor, and/or any of the Guarantor's other Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, the Guarantor and/or any of the Guarantor's other Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trustee may rely without liability to Bondholders on any report, confirmation, certificate or opinion or any advice of any accountants, lawyers, financial advisers, financial institutions or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate or advice and, if it does so, such report, confirmation, certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders.

## 18. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Bondholders to create and issue further notes or bonds (whether in bearer or registered form) either (i) ranking *pari passu* in all respects (or in all respects save for their issue date and the first payment of interest thereon and the NDRC Post-issue Filing and the Cross-Border Security Registration) and so that the same shall be consolidated and form a single series with the outstanding bonds or securities of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed or (ii) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further bonds or securities which are to form a single series with the outstanding bonds or securities of any series (including the Bonds) constituted by the Trust Deed or any supplemental deed shall, and any other further bonds or securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of bonds or securities of other series in certain circumstances where the Trustee so decides.

## 19. CURRENCY INDEMNITY

U.S. dollar is the sole currency of account and payment for all sums payable by the Issuer or, as the case may be, the Guarantor under or in connection with the Bonds, the Guarantee, the Trust Deed and the Agency Agreement, including damages. Any amount received or recovered in a currency other than U.S. dollar (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer, the Guarantor or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor will only constitute a discharge to the Issuer or the Guarantor to the extent of the U.S. dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that U.S. dollar amount is less than the U.S. dollar amount expressed to be due to the recipient under any Bond, the Guarantee, the Trust Deed or the Agency Agreement, the Issuer and the Guarantor will indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer and the Guarantor will indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition, it will be sufficient for the Bondholder or the Trustee, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Bondholder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond the Trust Deed, the Agency Agreement or any other judgment or order.

## 20. GOVERNING LAW AND JURISDICTION

### 20.1 Governing Law

The Trust Deed, the Agency Agreement, the Guarantee and the Bonds and any non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, English law.

### 20.2 Jurisdiction

(a) The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes, claims, difference or controversy that may arise out of, in relation to or in connection with the Trust Deed, the Agency Agreement or the Bonds, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a **Dispute**) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Agency Agreement or the Bonds (the **Proceedings**) may be brought in such courts.

(b) Each of the Issuer, the Guarantor, the Trustee, the Agents and any Bondholder irrevocably submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum to settle any Dispute.

### 20.3 Service of Process

The Guarantor irrevocably appoints the Issuer as its authorised agent for service of process in Hong Kong. If for any reason the Issuer shall cease to be such agent for service of process, the Guarantor shall forthwith appoint a new agent for service of process in Hong Kong and deliver to the Trustee a copy of the new agent's acceptance of that appointment within seven days of the Issuer ceasing to be such agent for service of process. The Guarantor agrees that failure by a process agent to notify it of any process will not invalidate the relevant proceedings. Nothing in this clause shall affect the right to serve process in any other manner permitted by law.

### 20.4 Sovereign Immunity

To the fullest extent permitted by law, each of the Issuer and the Guarantor irrevocably and unconditionally:

(a) submits to the jurisdiction of the Hong Kong courts in relation to any Dispute and waives and agree not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts in relation to any Dispute (including to the extent that such immunity may be attributed to it), and agrees to ensure that no such claim is made on its behalf; and

(b) submits to the jurisdiction of the Hong Kong courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the Hong Kong courts in relation to any Dispute and waives and agrees not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts or the courts of any other jurisdiction in relation to the recognition of any such judgment or court order and agrees to ensure that no claim is made on its behalf; and

(c) consents to the enforcement of any order or judgment made or given in connection with any Dispute and the giving of any relief in the Hong Kong courts and the courts of any other jurisdiction whether before or after final judgment including, without limitation:

(i) relief by way of interim or final injunction or order for specific performance or recovery of any property;

(ii) attachment of its assets; and

(iii) enforcement or execution against and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property, revenues or other assets whatsoever (irrespective of their use or intended use); and

(d) waives and agrees not to claim any sovereign or other immunity from the jurisdiction of the Hong Kong courts or the courts of any other jurisdiction in relation to such enforcement and the giving of such relief (including to the extent that such immunity may be attributed to it), and agrees to ensure that no such claim is made on its behalf.

**21. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Bond, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "**Conditions**" or the "**Terms and Conditions**") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

The Bonds will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, will promise to pay such principal and interest on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Conditions.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no successor clearing system is available, **provided that** the holder of the Bonds represented by the Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

### Payment

So long as the Bonds are represented by the Global Certificate, each payment in respect of the Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day immediately prior to the date of payments, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

So long as the Bonds are evidenced by the Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds evidenced by such Global Certificate.

### Trustee's Powers

In considering the interests of the Bondholders whilst the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) may consider such interests on the basis that such accountholders were the holder of the Bonds in respect of which such Global Certificate is issued.

**Notices**

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication to the relative accountholders. Any such notice shall be deemed validly given to the Bondholders on the day on which such notice is delivered to Euroclear and/or Clearstream (as the case may be) as aforesaid.

**Bondholder's Redemption**

For so long as all of the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, the Bondholders' redemption option in Condition 8.3 may be exercised by the holder of the Bonds giving notice to any Agent in accordance with the standard procedures of Euroclear or Clearstream (which may include notice being given on his instructions by Euroclear or Clearstream or any common depository for them or the Relevant Nominee to any Agent by electronic means) of the principal amount of the Bonds in respect of which the option is exercised and presenting or procuring the presentation of the Global Certificate to such Agent for endorsement within the time limits specified in the Conditions.

**Transfers**

Transfers of book-entry interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

**Cancellation**

Cancellation of any Bond by the Issuer following its redemption or purchase by the Issuer will be effected by reduction in the principal amount of the Bonds in the register of the Bondholders.

**Meetings**

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless the Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote for each U.S.$1,000 principal amount of Bonds so produced or for which he is a proxy or representative.

## CAPITALISATION AND INDEBTEDNESS

The following tables set forth the capitalisation and indebtedness of the Group and the Issuer Group as at 31 December 2019 and as adjusted to give effect to the issuance of the Bonds offered hereby.

### THE GROUP

Investors should read this table in conjunction with the Group's audited consolidated financial statements as at and for the year ended 31 December 2019, and related notes included in the Offering Circular.

| | As at 31 December 2019 | | | |
|---|---|---|---|---|
| | Actual | | As adjusted | |
| | *(RMB'000)* | *(U.S.\$'000)*(1) | *(RMB'000)* | *(U.S.\$'000)*(1) |
| Short-term loans | 5,883,211 | 845,070 | 5,883,211 | 845,070 |
| Short-term financing payables | 6,365,189 | 914,302 | 6,365,189 | 914,302 |
| Placements from banks and other financial institutions | 505,444 | 72,603 | 505,444 | 72,603 |
| Financial liabilities at fair value through profit or loss | 3,993,399 | 573,616 | 3,993,399 | 573,616 |
| Financial assets sold under repurchase agreements | 25,756,433 | 3,699,680 | 25,756,433 | 3,699,680 |
| Long-term loans | 2,999,187 | 430,806 | 2,999,187 | 430,806 |
| Bonds payable | 45,375,194 | 6,517,739 | 45,375,194 | 6,517,739 |
| Bonds to be issued(2) | – | – | 2,088,540 | 300,000 |
| **Total indebtedness** | **90,878,058** | **13,053,816** | **92,966,597** | **13,353,816** |
| Share capital | 6,696,672 | 961,917 | 6,696,672 | 961,917 |
| Capital reserve | 14,374,588 | 2,064,780 | 14,374,588 | 2,064,780 |
| Other comprehensive income | 498,725 | 71,637 | 498,725 | 71,637 |
| Surplus reserve | 1,716,991 | 246,630 | 1,716,991 | 246,630 |
| General risk reserve | 4,166,682 | 598,506 | 4,166,682 | 598,506 |
| Retained earnings | 6,978,613 | 1,002,415 | 6,978,613 | 1,002,415 |
| Non-controlling interests | 2,611,417 | 375,107 | 2,611,417 | 375,107 |
| **Total shareholder's equity** | **37,043,687** | **5,320,993** | **37,043,687** | **5,320,993** |
| **Total capitalisation**(3) | **127,921,745** | **18,374,809** | **130,010,284** | **18,674,809** |

*Notes:*

(1) These amounts have been translated from Renminbi into U.S. dollars for convenience purposes at a rate of RMB6.9618 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of on 31 December 2019.

(2) This amount represents the aggregate principal amount of the Bonds to be issued, before deducting the commissions and other estimated expenses payable by the Issuer in connection with the offering of the Bonds.

(3) Total capitalisation represents the sum of "Total indebtedness" and "Total shareholders' equity".

Since 31 December 2019, the Group has entered into the following material financing arrangements which are not reflected in the table above:

- On 17 February 2020, a domestic issuance of RMB3,000,000,000 3.10 per cent. corporate bonds (anti-epidemic bonds) by the Guarantor with a term of three years.
- On 23 July 2020, a domestic issuance of RMB3,000,000,000 2.55 per cent. super-short-term bonds by the Guarantor with a term of 85 days. The bonds were redeemed at its maturity.
- On 15 September 2020, a private placement of RMB3,500,000,000 4.10 per cent subordinated bonds (Phase I) by the Guarantor with a term of three years.
- On 16 November 2020, a domestic issuance of RMB4,000,000,000 3.10 per cent. super-short-term bonds by the Guarantor with a term of 81 days.
- On 15 December 2020, a domestic issuance of RMB4,000,000,000 3.18 per cent. short term corporate bonds (Phase I) by the Guarantor with a term of 120 days.

- On 12 February 2020, CISI Brokerage entered into a HK$200.0 million facility agreement.
- On 24 July 2020, the Issuer entered into a HK$300.0 million facility agreement.
- On 27 August 2020, the Issuer entered into a HK$4.0 billion facility agreement.
- On 20 October 2020, CISI Brokerage entered into a HK$250.0 million facility agreement.
- On 31 December 2020, the Issuer entered into a HK$800.0 million facility agreement.
- On 31 December 2020, the Issuer entered into a HK$200.0 million facility agreement.
- On 18 January 2021, a domestic issuance of RMB3,500,000,000 2.40 per cent. super-short-term bonds by the Guarantor with a term of 72 days.
- On 20 January 2021, the Issuer entered into a U.S.$50.0 million facility agreement.
- On 26 January 2021, a domestic issuance of RMB3,500,000,000 3.45 per cent. corporate bonds by the Guarantor with a term of two years.

Other than the material financing agreements listed above, there has been no material change in the Group's consolidated total capitalisation and total indebtedness since 31 December 2019.

## THE ISSUER GROUP

Investors should read this table in conjunction with the Issuer Group's audited consolidated financial statements as at and for the year ended 31 December 2019, and related notes included in the Offering Circular.

| | As at 31 December 2019 | | | |
|---|---|---|---|---|
| | Actual | | As adjusted | |
| | (HK$'000) | (U.S.$'000)[1] | (HK$'000) | (U.S.$'000)[1] |
| **Current indebtedness** | | | | |
| Bank borrowings | 6,371,479 | 817,968 | 6,371,479 | 817,968 |
| Other borrowings | 196,217 | 25,190 | 196,217 | 25,190 |
| Notes | 31,302 | 4,019 | 31,302 | 4,019 |
| Bonds | 2,173,672 | 279,055 | 2,173,672 | 279,055 |
| **Total current indebtedness** | **8,772,670** | **1,126,232** | **8,772,670** | **1,126,232** |
| **Non-current indebtedness** | | | | |
| Bank borrowings | 3,348,129 | 429,831 | 3,348,129 | 429,831 |
| Bonds to be issued[2] | – | – | 2,336,820 | 300,000 |
| **Total non-current indebtedness** | **3,348,129** | **429,831** | **5,684,949** | **729,831** |
| **Total indebtedness**[3] | **12,120,799** | **1,556,063** | **14,457,619** | **1,856,063** |
| **Total equity** | **3,839,642** | **492,932** | **3,839,642** | **492,932** |
| **Total capitalisation**[4] | **15,960,441** | **2,048,995** | **18,297,261** | **2,348,995** |

*Notes:*

(1) These amounts have been translated into Hong Kong dollars for convenience purposes at a rate of HK$7.7894 to U.S.$1.00.

(2) This amount represents the aggregate principal amount of the Bonds to be issued, before deducting the commissions and other estimated expenses payable by the Issuer in connection with the offering of the Bonds.

(3) Total indebtedness represents the sum of "Total current indebtedness" and "Total non-current indebtedness".

(4) Total capitalisation represents the sum of "Total indebtedness" and "Total equity".

Since 31 December 2019, the Issuer Group has entered into the following material financing arrangements which are not reflected in the table above:

- On 12 February 2020, CISI Brokerage entered into a HK$200.0 million facility agreement.
- On 24 July 2020, the Issuer entered into a HK$300.0 million facility agreement.
- On 27 August 2020, the Issuer entered into a HK$4.0 billion facility agreement.
- On 20 October 2020, CISI Brokerage entered into a HK$250.0 million facility agreement.
- On 31 December 2020, the Issuer entered into a HK$800.0 million facility agreement.
- On 31 December 2020, the Issuer entered into a HK$200.0 million facility agreement.
- On 20 January 2021, the Issuer entered into a U.S.$50.0 million facility agreement.

Other than the material financing agreements listed above, there has been no material change in the Issuer Group's consolidated total capitalisation and total indebtedness since 31 December 2019.

# DESCRIPTION OF THE GROUP

## GROUP OVERVIEW

The Group is a full-service securities group based in mainland China with integrated service offerings comprising wealth management business, institutional service business, proprietary investment business and overseas business. The Guarantor was incorporated under the laws of the PRC on 19 May 2000 with limited liability with its principal place of business at 21st Floor, East Tower Industrial Securities Building, 36 Changliu Road, Pudong New Area, Shanghai. The Group operates its business mainly through the Guarantor, which was listed on the Shanghai Stock Exchange in 2010 (stock code 601377).

The predecessor of the Guarantor was Fujian Industrial Securities Company, which was established as the Securities Business Department by Fujian Industrial Bank in October 1991 and then decoupled from Fujian Industrial Bank by capital increase and share expansion in 1999. The controlling shareholder and actual controller of the Guarantor is Fujian Provincial Department of Finance. With over 20 years of operating history, "兴证" is a widely recognised brand in the PRC. The Group has been able to effectively establish a nationwide market presence, reinforce client confidence in its services and grow its client base, as well as to provide the Issuer Group with high-quality management resources to establish a strong presence in Hong Kong since commencement of the Issuer Group's business in 2012. Benefiting from both the brand reputation of "兴证" and other core competitive strengths, the Group has been actively seeking growth opportunities through expanding its client sources, innovating products and services to align with the diversifying needs of its clients and optimising its business structure in response to changing economic cycles and global financial markets development trends. With the pace of internationalisation of Renminbi gaining speed and increasing interactions between mainland China and foreign investors, the Group will continue to develop new clients and deliver new products and professional services that create value for new and potential clients in mainland China, Hong Kong and across the globe.

Principal business lines of the Group are:

- ***Wealth management business*: ** the Group's wealth management business includes securities and futures brokerage business and asset management business. The securities and futures brokerage business provides customers with targeted integrated financial service solutions such as securities and futures brokerage, product sales, margin trading, stock pledge repurchase, investment consulting, etc. through a combination of offline and online methods. The asset management business includes providing clients with various securities asset management services, fund asset management services and private equity investment fund management services.

- ***Institutional service business*: ** the Group's institutional service business includes research and institutional sales business and investment banking business. Research and institutional sales services include the provision of securities research and sales transaction services, brokerage transaction settlement services, asset custody and outsourcing services for various institutional clients. Investment banking business provides corporate and government clients with one-stop direct financing services such as stock financing, bond financing, merger financing, new third board and structured financing, asset securitisation, financial advisory, and regional equity market services.

- ***Proprietary investment business*: ** the Group's proprietary investment business includes multiple types of proprietary investment, trading and market-making services such as stocks, bonds, derivatives, equity and alternative investments made under the principals of value investing and stable operation.

- ***Overseas business*: ** the Group's overseas business includes global securities and futures brokerage, institutional sales and trading, corporate financing, fixed income, investment and financing services such as asset management and private wealth management, which is mainly conducted through the Guarantor's wholly-owned subsidiary China Industrial Securities (Hong Kong) Financial Holdings Co., Ltd. and the Issuer Group.

Set forth below is an overview of the major subsidiaries and affiliates of the Guarantor:

- China Industrial Securities Global Fund Management Co., Ltd. (兴证全球基金管理有限公司)(formerly known as Xingquan Fund Management Co., Ltd. 兴全基金管理有限公司) was incorporated under the laws of the PRC in September 2003 with limited liability and with a registered capital of RMB150 million. Its business scope includes fund raising, fund sales, asset management, specific customer asset management and other businesses licensed by the CSRC. The Guarantor holds 51 per cent. of the equity of this subsidiary.

- China Industrial Securities Asset Management Co., Ltd. (兴证证券资产管理有限公司) was incorporated under the laws of the PRC in June 2014 with a registered capital of RMB800 million. Its scope of business is securities asset management. It is a wholly-owned subsidiary of the Guarantor.

- China Industrial Securities Futures Co., Ltd. (兴证期货有限公司) was incorporated under the laws of the PRC in December 1995 with limited liability and with a registered capital of RMB1.2 billion. Its business scope includes commodity futures brokerage, financial futures brokerage, fund sales and asset management. The Guarantor holds 99.55 per cent. of the equity of this subsidiary.

- China Industrial Securities (Hong Kong) Financial Holdings Limited (兴证(香港)金融控股有限公司) was incorporated under the laws of Hong Kong in July 2011 with a registered capital of HK$2 billion. It engages in securities business indirectly through its controlled subsidiaries, which include the Issuer. The business scope of its subsidiaries includes securities trading, futures contract trading, advising on securities, futures contracts and institutional financing, securities margin financing and asset management. It is a wholly-owned subsidiary of the Guarantor.

- China Industrial Securities Innovation Capital Management Co., Ltd. (兴证创新资本管理有限公司) was incorporated under the laws of the PRC in April 2010 with a registered capital of RMB700 million. Its business scope is private equity investment fund business. It is a wholly-owned subsidiary of the Guarantor.

- China Industrial Securities Investment Management Co., Ltd. (兴证投资管理有限公司) was incorporated under the laws of the PRC in March 2015 with a registered capital of RMB3 billion. Its scope of business includes financial product investment, equity investment, project investment and other investment products recognised by the regulatory authorities, and investment management. It is a wholly-owned subsidiary of the Guarantor.

- Fuzhou Industrial Securities Property Management Co., Ltd. (福州兴证物业管理有限公司) was incorporated under the laws of the PRC in November 2009 with a registered capital of RMB500,000. Its business scope consists primarily of property management services. It is a wholly-owned subsidiary of the Guarantor.

- China Southern Fund Management Co., Ltd. (南方基金管理股份有限公司) was incorporated under the laws of the PRC with a registered capital of RMB362 million in January 2018. Its business scope includes fund raising, fund sales, asset management and other businesses permitted by the CSRC. The Guarantor holds 9.15 per cent. of the equity of this affiliate.

- Straits Equity Exchange Centre (Fujian) Co., Ltd.（海峡股权交易中心（福建）有限公司）was incorporated under the laws of the PRC in October 2011 with a registered capital of RMB210 million. Its business scope consists primarily of facilitating securities trading in the regional equity trading market through the over-the-counter market. The Guarantor holds 21.43 per cent. of the equity of this affiliate.

Core competitive strength of the Group lies in its strong service capability that fulfils the varying investment and financing needs of its clients. In addition to the offerings of the Issuer in the Hong Kong and global markets, operating subsidiaries of the Group are licensed to conduct various regulated activities under PRC laws, including securities brokerage business, securities investment consulting, financial advisory related to securities trading and securities investment activities, securities underwriting and sponsorship, securities proprietary business, securities asset management business, securities investment fund agency and intermediate introductory services for futures companies, among others. A diversified business portfolio allows the Group to create synergies between its business lines, generate cross-selling opportunities and provide integrated financial services to clients.

The fast-growing business of the Group is underpinned by its professional and seasoned workforce. Executive and non-executive directors of the Group have an average of more than 10 years of experience in the financial services industry and the senior management members of the Group have served renowned financial institutions in the PRC, Hong Kong and/or overseas. The strong and experienced management team of the Group allows it to keep abreast of the latest developments in the capital market and financial services industry, formulate sound business strategies and respond timely to changing market conditions to capture growth opportunities.

The Group began its business in 2000 and has experienced rapid growth since then. The total revenue of the Group increased from RMB6,499.4 million for the year ended 31 December 2018 to RMB14,249.5 million for the year ended 31 December 2019, representing a year-on-year increase of 119.2 per cent. Commission and fee income from the securities and futures brokerage business and asset management business and revenue from institutional service business, proprietary investment business and overseas business constitute the main sources of revenue for the Group. Revenue from the Group's business lines is summarised below.

- ***Wealth management business***

Revenue from the Group's securities and futures brokerage business within its wealth management business line amounted to RMB1,902.2 million and RMB2,022.5 million for the years ended 31 December 2018 and 2019, respectively, representing 29.3 per cent. and 14.2 per cent. of the Group's total revenue for the same periods, respectively. The amount of revenue from the Group's securities and futures brokerage business for the year ended 31 December 2017 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. Aggregate revenue from the Group's wealth management business amounted to RMB2,596.5 million for the year ended 31 December 2017, representing 29.4 per cent. of its total revenue for the same period.

Revenue from the Group's asset management business within its wealth management business line amounted to RMB1,862.3 million, RMB2,367.2 million and RMB2,180.7 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 21.1 per cent., 36.4 per cent. and 15.3 per cent. of its total revenue for the same periods, respectively.

- ***Institutional service business***

Revenue from the Group's institutional service business amounted to RMB1,765.0 million and RMB5,892.5 million for the years ended 31 December 2018 and 2019, respectively, representing 27.2 per cent. and 41.4 per cent. of its total revenue during the same periods, respectively. The amount of revenue from the Group's institutional service business for the year ended 31 December 2017 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

Revenue from the Group's investment banking business within its institutional service business line amounted to RMB1,133.6 million for the year ended 31 December 2017, representing 12.9 per cent. of its total revenue during the same period. The amount of revenue from the Group's investment banking business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

- ***Proprietary investment business***

Revenue from the Group's proprietary investment business amounted to RMB609.9 million and RMB3,906.6 million for the years ended 31 December 2018 and 2019, respectively, representing 9.4 per cent. and 27.4 per cent. of its total revenue during the same periods, respectively. The amount of revenue from the Group's proprietary investment business for the year ended 31 December 2017 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

Revenue from the Group's proprietary securities business amounted to RMB2,526.0 million for the year ended 31 December 2017, representing 28.6 per cent. of its total revenue for the same period. The amount of revenue from the Group's proprietary securities business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

- ***Overseas business***

Revenue from the Group's overseas business amounted to RMB658.2 million, RMB513.6 million and RMB430.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 7.5 per cent., 7.9 per cent. and 3.0 per cent. of its total revenue for the same periods, respectively.

## GROUP COMPETITIVE STRENGTHS

The Group believes that the following strengths distinguish it from its competitors:

### The Group's strong market position supports its goal of becoming a "top ten" securities firm in China

Since establishment, the Group has steadily grown its businesses and in recent years has consistently ranked among the top 20 securities firms in China in terms of total assets, net assets, net capital, operating income and net profit according to data published by the Securities Association of China. For the year ended 31 December 2019, the Group ranked 15th in total assets, 16th in net assets, 15th in net capital, 15th in operating income and 17th in net profit. The Group believes it can further strengthen its market position to become one of the top ten financial securities companies in China.

### The Group's emphasis on integrated systems has further strengthened the Group's management capabilities

The Group has installed and implemented information and monitoring systems that integrate the flow of information between and among the Group's various businesses, subsidiaries and branches. The Group has also consolidated various basic rules and systems of management to ensure the coordination and connection of the Group and its subsidiaries for the implementation of the systematic development philosophy on the institutional level. This systematic development philosophy allows for the seamless transfer of information and strengthens the ability of managers and headquarters in particular to supervise the Group's business and monitor performance. Centralised and vertical implementation of information technology systems will continue to be one of the Group's strengths and areas of emphasis going forward.

**The Group's synergy advantages have supported continuous improvement of its comprehensive financial service capabilities**

In line with industry trends and the Group's own emphasis on the integration of customer needs, the Group continues to promote the in-depth development of the Group's internal synergy. In recent years and in particular in 2020, the Group has refined its internal mechanisms and systems for coordination among business lines. These refinements include improvements to the Group's customer management system and to the systematic use of data-driven analysis and market intelligence to support collaborative work among employees. The Group's collaborative culture has become ingrained in the working style of the Group's employees which has contributed to the Group's growth. This internal synergy enhances the Group's financial service capabilities and is a powerful tool for building a first-class securities financial group.

**The Group's investment banking business continues to make contributions to the real economy and to fighting COVID-19**

Despite the headwinds faced by China's economy and capital markets in 2020 as a result of the COVID-19 pandemic, the Group's investment banking business has continued to make gains by assisting corporate clients to raise capital which they will use to contribute to the growth of the real economy. The Group earnestly fulfils its responsibilities as a gatekeeper to the PRC capital markets, and continues to improve its project contracting capabilities, pricing research capabilities, and sales and transaction capabilities. According to the financial industry monitoring company Wind Info, the Group ranked 6th in the PRC in the first half of 2020 in terms of the amount of equity capital underwritten and 11th in terms of the principal amount of initial equity offerings underwritten. The Group ranked 12th in China in terms of the amount of corporate bond capital underwritten, also according to Wind Info. The Group has also actively assisted key enterprises to raise capital to fight the COVID-19 pandemic. In the first half of 2020, the Group participated as a lead underwriter in the issue of five epidemic prevention and control bonds and two epidemic prevention and control asset-backed bonds. The excellent quality of service of the Group's investment banking business earned it awards as the "Best All-around Investment Bank" and the "Best IPO Sponsor" for 2020 given by *Securities Times*, a well-known nationwide financial newspaper in the PRC.

**The transformation of the Group's wealth management business has achieved results and enhanced the Group's brand**

With increasingly fierce competition in China's securities industry accelerated by the rapid development of Internet banking, China's traditional securities brokerage businesses are expected to gradually transform their business models into a comprehensive income model centred on wealth management services offering a diverse range of financial products. The Group believes it is among the leaders in this transformation because of its high-quality positioning, continuous enrichment of its product matrix, improvements to its customer service system and classification of customers, all of which are strengthening the quality of the Group's investment advisory services. The number of the Group's brokerage business clients continues to increase, the Group's ranking for net income from the securities trading brokerage services continues to improve while its ranking for net income from financial products brokerage remains among China's leading securities firms. The Group's leadership and brand recognition in brokerage has benefitted the expansion of its wealth management ecosystem, which in turn has created reciprocal benefits to its brokerage business. In particular, the Group's industry-leading investment management capabilities demonstrated by selection on multiple occasions as a "Golden Bull Fund Company" by the *Securities Times* has driven a positive growth cycle wherein corporate customers are able to take advantage of the public offerings of investee companies to increase their financial returns.

**The Group's branch expansion plan has resulted in the achievement of nationwide coverage**

As at 30 June 2020, the Group had established 219 branch outlets across the PRC, forming a branch network layout with the provinces and core economic regions as the centre of gravity and covering the whole country. Branch offices serve as the regional base and execution platform for various Group businesses. The Group has continued to improve the organisational structure of its branches and comprehensively strengthened the talent of the employees who work in branches, thus strengthening regional competitiveness.

**The Group's investment research capabilities remain a key strength which supports the effectiveness of its services**

The Group is widely recognised by institutional investors for the quality of its investment research capabilities. The Group continues to build the depth and breadth of its investment research talent and systems so as to remain at the forefront of the industry. The Group's income from brokerage commissions paid by funds for the years 2017, 2018 and 2019, which the Group believes is an indicator of its research capabilities, was among the leaders in the industry and its market share continues to increase. The Group is also taking advantage of its research advantages to create internal synergy which is expected to yield economic benefits. To accomplish such transformation, the Group is expanding its research capabilities from seller-centric research to comprehensive research which will provide high-level intellectual support, systematic and full-industry professional research for the Group's business development and strategic transformation.

**The Group benefits from its outstanding investment management capabilities and stable investment performance**

The Group focuses on building first-class investment management capabilities through the establishment of long-term mechanisms that emphasise recruiting, training and retaining talent and implementing risk control measures as keys to successful prudent value-focused proprietary investing. Combined with strong market research informing its management's decisions, the Group's return on investment has been stable.

**The Group's compliance and risk control system operates effectively and actively prevents and resolves risks**

The Group's risk management philosophy is based on the concept of "sound operations for long-term development". The Group strictly enforces a prudent risk appetite and promotes the implementation of a unified Group-wide approach to risk. The vertical penetration of compliance risk control management systems such as a risk management indicator system and authorisation management system provides risk control management full coverage throughout the Group. The Group's unified risk appetite and risk limits have been substantively implemented, and the Group's management continues to emphasise daily compliance within the Group's various businesses through regulatory training, compliance checks, the implementation of anti-money laundering controls and employee practice management.

**The Group benefits from a talented workforce**

The Group understands the importance of recruiting, developing and retaining talented employees and managers and works to actively create the conditions necessary to attract and retain talent. The operation and management team has a deep understanding of the securities industry and the importance of a high-quality workforce and has established a performance and ability-oriented employment mechanism that allows for lateral and vertical advancement. The Group boldly supports the advancement of younger employees so as to fully mobilise and stimulate the initiative, enthusiasm and creativity of its employees and to create an inspiring corporate culture. The level of talent throughout the Group assures the high-quality development of the Group's various businesses.

## GROUP BUSINESS STRATEGIES

The Group intends to focus on the following strategies:

### Further strengthen market position to support achieving goal of becoming one of the top ten financial securities companies in China

The Group intends to further strengthen its market position in order to achieve its strategic goal of building a first-class securities financial group which is among the top ten in China as measured by revenue and other key industry metrics. Recent and planned regulatory changes in the securities industry in China provide significant development opportunities for the Group to reach its "top ten" goal. The regulatory authorities are gradually promoting profound changes in the basic system as indicated by the new securities law implemented in March 2020. In the future the direction of capital market reforms centred on a registration system will be further clarified. At the same time, policies related to major asset mergers and acquisitions, optimisation and relaxation of the refinancing system, and the reform of the National Equities Exchange and Quotations (also known as the "New Third Board") have been implemented successively. The overall regulatory climate will remain strict, and coupled with the market turbulence brought about by the global spread of COVID-19, securities companies such as the Group are bound to face more complex market competition. Within this challenging environment, the Group believes it can reach its "top ten" goal by emphasising strong capital strength, first-class competitiveness and profitability, scientific systems and mechanisms, first-class talents, an inspirational corporate culture, strong international competitiveness and first-class risk management capabilities.

### Continue to emphasize wealth management and institutional businesses as the two primary drivers of the Group's growth

In order to achieve its strategic objectives, the Group intends to emphasise the following:

- Focus on institutional clients by accelerating the sophistication and comprehensiveness of services provided to them.

- Continue to promote retail brokerage while deepening the transformation of the Group's business to wealth management.

- Based on actual business results, effectively promote the comprehensive empowerment of financial technology to the Group's business development and operation management.

- Continue to reinforce stable operations as the underlying bottom-line for all actions, and continue to improve data-driven, science-supported compliance and risk management.

- Establish management performance as the primary driver for actively building comprehensive management capabilities that meet the needs of the company's transformation and development.

- Strive for excellence as the goal, and comprehensively strengthen the Group's discipline inspection work carried out by the Chinese Communist Party and corporate culture construction.

### Continue to grow the Group's overseas business by emphasizing the Issuer as the Group's main overseas platform

The Group has prudently grown the share of its revenue from outside Mainland China by supporting the businesses of the Issuer Group. Among the Issuer Group's businesses, the brokerage business in particular has shown steady growth. As at 30 June 2020, the Issuer Group's market value of shares in Hong Kong Securities Clearing House ranked 8th among Chinese securities firms. The Issuer will continue to focus its work on corporate financing and bond underwriting business, institutional sales business, wealth management business, asset management business and research business to achieve endogenous business growth and high-quality development, thereby increasing the proportion of revenue from fee-based businesses.

**GROUP RECENT DEVELOPMENTS**

On 29 August 2020, the Group published its interim financial report for the six months ended 30 June 2020. The Group Interim Financial Information is not audited or reviewed, may differ from future audited or reviewed information, is not included in and does not form part of this Offering Circular and is not incorporated, directly or indirectly, in any form or manner, into this Offering Circular. Investors should therefore not rely on the Group Interim Financial Information in making their investment decision.

For the six months ended 30 June 2020 as compared to the six months ended 30 June 2019, the Group's operating revenue and net profit increased mainly as a result of the increase of the Group's commission and fee income and also revenue from the Group's proprietary investment business. For the six months ended 30 June 2020 as compared to the six months ended 30 June 2019, the Group's operating expenses increased mainly as a result of the increase of the Group's assets impairment losses (including credit impairment losses).

**GROUP HISTORY AND DEVELOPMENT**

The Guarantor was incorporated in the PRC with limited liability on 19 May 2000. The predecessor of the Guarantor was Fujian Industrial Securities Company, which was established as the Securities Business Department by Fujian Industrial Bank in October 1991 and then decoupled from Fujian Industrial Bank by capital increase and share expansion in 1999. The controlling shareholder and actual controller of the Guarantor is Fujian Provincial Department of Finance.

The following table sets out the landmark events during the Group's development:

| | |
|---|---|
| 2000 . . . . . . . . . . . . . . . | On 15 March 2000, with the approval of the CSRC, Fujian Industrial Securities Co., Ltd. officially changed its name to China Industrial Securities Co., Ltd. and was approved to become a comprehensive securities company with a registered capital of RMB908 million. |
| 2007 . . . . . . . . . . . . . . . | On 28 September 2007, the Guarantor was approved by the CSRC to increase its registered capital to RMB1.49 billion. |
| 2010 . . . . . . . . . . . . . . . | The Guarantor was listed on the Shanghai Stock Exchange on 13 October 2010 (stock code 601377). |
| 2013 . . . . . . . . . . . . . . . | On 12 March 2013, with the approval of the CSRC, the Guarantor issued RMB400 million ordinary shares through a non-public offering of shares, and the registered capital of the Guarantor was increased to RMB2.6 billion. |
| 2014 . . . . . . . . . . . . . . . | On 5 September 2014, the Guarantor issued 2.6 billion shares and increased its registered capital to RMB5.2 billion. |
| 2016 . . . . . . . . . . . . . . . | On 5 January 2016, the Guarantor placed 1,496,671,674 ordinary shares to all original shareholders, and the registered capital was increased to RMB6,696,671,674. |

In 2016, the Guarantor implemented a share repurchase plan totalling 68,000,243 shares. The repurchased shares were used as the source of shares for the implementation of the employee stock ownership plan.

2017 . . . . . . . . . . . . . . . The election of the board of directors, the board of supervisors and senior management of the Guarantor was successfully completed in November 2017.

2018 . . . . . . . . . . . . . . . The Guarantor consecutively won the title of Top 100 Enterprises in Fujian Province in 2018, and the Guarantor's affiliated securities company was rated as Category A and Class A.

2019 . . . . . . . . . . . . . . . The Guarantor's wholly-owned subsidiary, the Issuer, was listed on the Main Board of the Hong Kong Stock Exchange (stock code: 6058).

2020 . . . . . . . . . . . . . . . The Guarantor obtained approval to establish 16 branches in the PRC from Fujian Securities Regulatory Bureau on 22 January 2020.

**Awards and Recognitions**

Set forth below is a summary of the key honours and awards the Group received in recent years:

2019 . . . . . . . . . . . . . . . Awarded "Excellent Underwriter of Corporate Bonds" and "Excellent Underwriter of Local Government Bonds" by Shanghai Stock Exchange

Awarded No. 1 in "Best Sales Service Team" and No. 1 in "Best Service Team in Beijing, Shanghai, Guangzhou and Shenzhen" by *New Fortune*, a well-known financial magazine in the PRC

Awarded No. 1 in medical biology, transportation and storage, and chemical research and No. 2 in the most influential securities research institutions by *Shanghai Securities News*, the official newspaper of Shanghai Stock Exchange

Awarded No. 1 in non-ferrous metals, medical biology, overseas research and No. 1 in sales and service managers in Beijing, Shanghai, Shenzhen and Guangzhou by *Securities Market Weekly*, a well-known financial magazine in the PRC

Awarded ''Annual Brokerage Brand Award'' and ''Annual Brokerage Outstanding Asset Management Award'' by Hexun (https://m.hexun.com/), a well-known financial website in the PRC

Awarded "Top 100 Financial Service Provider" and "Top 100 Financial Institutions for Innovation" by China Economy (http://www.ce.cn/), a well-known financial website in the PRC

2018 . . . . . . . . . . . . . . . Awarded No. 1 in "Most Popular Research Institution for Insurance Funds", No. 1 in "Most Popular Research Institutions among Small and Medium-sized Insurance Funds", No. 2 in "Best Research Institutions", No. 3 in "Most Popular Research Institutions for Insurance Funds" and No. 3 in "Best Cooperative Research Institution" by China Insurance Asset Management Association

Awarded Third Prize of "Securities and Futures Science and Technology Award" by China Securities Industry Association

Awarded "Annual Outstanding Contribution Award of China Fund Industry" by China Fund Industry Association

Awarded "Excellent Underwriter of Corporate Bonds" by Shanghai Stock Exchange

Awarded "Excellent Underwriter of Corporate Bonds" and "Excellent Underwriter of Local Government Bonds" by Shenzhen Stock Exchange

Awarded "China Bond Excellent Underwriter Award" and "Best Contribution Award for Non-Bank Underwriters of Interbank Local Bonds" by China National Debt Registration and Settlement Co., Ltd.

2017 . . . . . . . . . . . . . . . Awarded "Outstanding Contribution Mainland Brokerage Award in Shanghai-Hong Kong Stock Connect" by the Hong Kong Stock Exchange

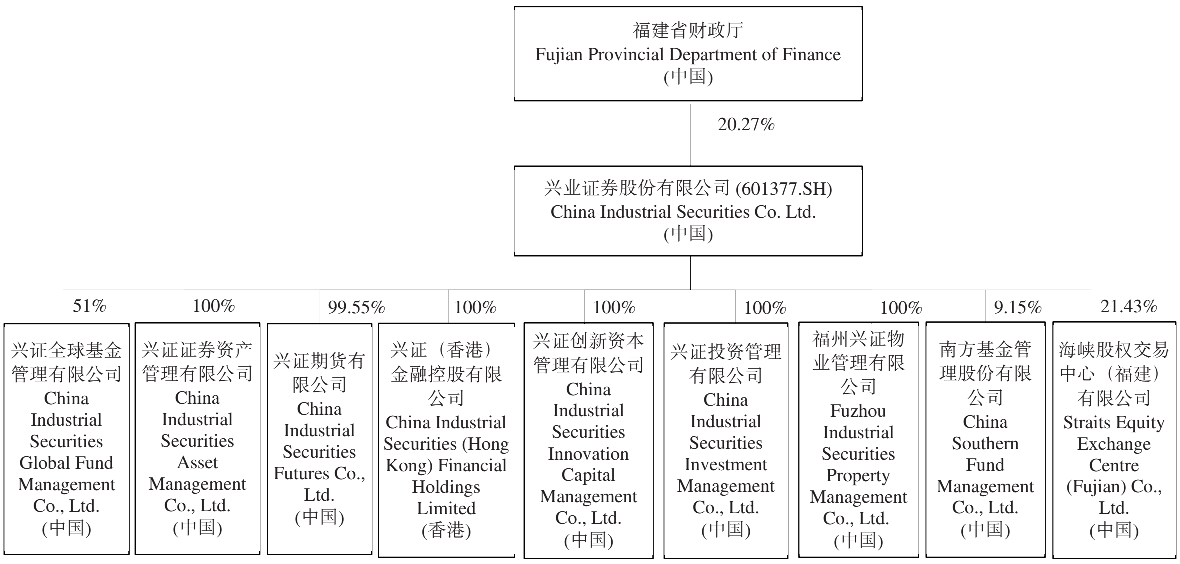
Awarded "2017 China's Best Investment Bank" by China Economy (http://www.ce.cn/), a well-known financial website in the PRC

Awarded No. 1 in "Best Insurance Funding Service Institution", No. 1 in "Best Small and Medium-sized Insurance Funding Service Institution" by China Insurance Asset Management Association

2016 . . . . . . . . . . . . . . . Awarded "Excellent Underwriter of Corporate Bonds" by Shanghai Stock Exchange

**GROUP CORPORATE STRUCTURE**

The following chart shows a simplified group structure of the Group as at the date of this Offering Circular:



## GROUP BUSINESS

The Group provides a wide array of financial services targeted to high net worth individual clients, corporations and financial institutions, including wealth management business, institutional service business, proprietary investment business and overseas business. The following tables set forth the revenue and other income of the Group by segment for the periods indicated:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2018 | | 2019 | |
| | *(RMB in millions)* | % | *(RMB in millions)* | % |
| Wealth management business | | | | |
| Securities and futures brokerage | 1,902.2 | 29.3 | 2,022.5 | 14.2 |
| Asset management | 2,367.2 | 36.4 | 2,180.7 | 15.3 |
| Institutional service business | 1,765.0 | 27.2 | 5,892.5 | 41.4 |
| Proprietary investment business | 609.9 | 9.4 | 3,906.6 | 27.4 |
| Overseas business | 513.6 | 7.9 | 430.8 | 3.0 |
| Others | 1,513.7 | 23.3 | 1,010.1 | 7.1 |
| Inter-segment offset | (2,172.2) | (33.5) | (1,193.7) | (8.4) |
| **Total revenue** | **6,499.4** | **100.0** | **14,249.5** | **100.0** |

| | For the year ended 31 December | |
|---|---|---|
| | 2017 | |
| | *(RMB in millions)* | % |
| Wealth management business | 2,596.5 | 29.4 |
| Proprietary securities business | 2,526.0 | 28.6 |
| Investment banking | 1,133.6 | 12.9 |
| Asset management | 1,862.3 | 21.1 |
| Overseas business | 658.2 | 7.5 |
| Others | 1,222.6 | 13.9 |
| Inter-segment offset | (1,178.8) | (13.4) |
| **Total revenue** | **8,820.4** | **100.0** |

### Wealth management business

***Overview***

The Group's wealth management business mainly includes securities and futures brokerage and asset management. The securities and futures brokerage business provides customers with targeted integrated financial service solutions such as securities and futures brokerage, product sales, margin trading, stock pledge repurchase and investment consulting, among others, through a combination of offline and online methods. The asset management business includes providing clients with various securities asset management services, fund asset management services and private equity investment fund management services.

***Securities and futures brokerage***

The Group engages in the trading of various securities and futures products on behalf of its clients, including stocks, funds, bonds, derivatives, futures and other financial products.

The Group's revenue for its securities and futures brokerage business for the years ended 31 December 2018 and 2019 was RMB1,902.2 million and RMB2,022.5 million, respectively. The amount of revenue from the Group's securities and futures brokerage business is not available for the year ended 31 December 2017 because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. The Group's revenue for its wealth management business for the year ended 31 December 2017 was RMB2,596.5 million.

*Asset management*

In the field of securities brokerage asset management business, China Industrial Securities Asset Management Co., Ltd. focuses on developing active management business, continuously improving product investment performance and solidly advancing the "stabilise income +" business strategy. As at 30 June 2020, China Industrial Securities Asset Management Co., Ltd. had entrusted assets under management of RMB54.4 billion, as compared to RMB62.4 billion at 31 December 2019.

In the field of public fund management business, China Industrial Securities Global Fund Management Co., Ltd. has focused on enhancing its performance and making steady progress. As at 30 June 2020, the total assets under management of China Industrial Securities Global Fund Management Co., Ltd. was RMB445.6 billion, an increase of 18 per cent. from the RMB379.0 billion under management as at 31 December 2019.

In the field of private equity investment business, China Industrial Securities Innovation Capital Management Co., Ltd. actively explores expanding its institutional client base, strengthens relationships with existing and potential cornerstone clients, strengthens coordination with branches and actively serves the Group's investors with financial support. As at 30 June 2020, the funds under management of China Industrial Securities Innovation Capital Management Co., Ltd. were RMB6.5 billion, as compared to RMB6.6 billion as at 31 December 2019.

The Group's revenue for its asset management business for the years ended 31 December 2017, 2018 and 2019 was RMB1,862.3 million, RMB2,367.2 million and RMB2,180.7 million, respectively.

**Institutional service business**

*Overview*

The Group's institutional service business includes research and institutional sales business and investment banking business. Research and institutional sales services include the provision of securities research and sales transaction services, brokerage transaction settlement services, asset custody and outsourcing services for various institutional clients. Investment banking business is to provide corporate clients and government clients with one-stop direct financing services such as stock financing, bond financing, merger financing, New Third Board and structured financing, asset securitisation, financial advisory and regional equity market services.

*Research and institutional sales*

In the field of research services, the Group's research strength and institutional service capabilities continued to be among the best in the industry in the first half of 2020. By consolidating and enhancing the competitive advantages of the seller's business industry, the Group will continue to enhance the value of comprehensive research services, focus on the construction of think tanks, actively strengthen external cooperation and exchanges, and further expand the brand influence, deepen the Group's collaborative strategy to promote services through research and in-depth connection of research advantages with the Group's business needs, and promote the transformation of research advantages into economic benefits. According to statistics from the Securities Association of China, the Group's commission income market share has further increased to more than five per cent. in the first half of 2020.

In the field of comprehensive services for public offering clients, the Group integrates corporate custody outsourcing, research services, institutional sales and other resources, intensifies the cooperation of public offerings and product multi-account model, explores the cooperation of ETFs and other products, and actively provides full-process integrated services for public offering managers.

In the field of asset custody and outsourcing services, the Group gives full play to the advantages of the institutional service chain, deeply cultivates the securities private equity investment fund custody market, and actively seeks cooperation in public equity funds, bank wealth management products, private equity funds and other fields. The Group self-researched and launched the industry's first smart operation platform to optimise the functions of the manager's service platform and significantly improve customer service efficiency and customer experience. The Group gradually promoted the transformation of its custody outsourcing business to integrated financial services, and the overall competitiveness of the business has maintained strong growth. As at 30 June 2020, the Group has registered 2,972 private equity investment fund products, an increase of approximately 25 per cent. in quantity as at 31 December 2019. In the first half of 2020, the Group registered 589 new securities-type private equity investment funds, with a market share of 8.7 per cent., and added three new public fund custody products in a total amount of RMB1,667 million.

***Investment banking***

In the field of equity financing, in recent years the Group firmly grasped the reform and market opportunities, and took multiple measures to upgrade its development deployment. The Group has consolidated the business foundation of the registration system for equity offerings in the PRC. It has both normalised the business mechanism of offerings on the Sci-tech Innovation Board and it has completed the submission of multiple listing applications to the GEM exchange. The Group has strengthened regional development and formed a business strategy of providing full service to the Fujian region, focusing on breakthroughs in core regions and expanding the layout of the central and western regions. The Group strengthens the cultivation of industry competitive advantages, accelerates the introduction of internal and external talents based on a team with historical advantages, exerts the linkage effect of stocks and debt instruments, and accelerates the growth of industry groups. As a result, the issuance of equity financing projects of the Group in the first half of 2020 far exceeded that of the year ended 31 December 2019. The year-on-year growth rate far exceeded the industry as a whole, and the Group's ranking in the industry increased significantly. The Group's efforts and achievements in serving the equity financing market continue to be widely recognised.

In the field of mergers and acquisitions business, the Group has always attached great importance to the building of mergers and acquisitions business capabilities and the accumulation of resources, always maintaining sensitivity to mergers and acquisitions transaction policies and continuously deepening research and analysis of industries to improve transaction matching capabilities. In the first half of 2020, the Group achieved breakthroughs in the use of convertible bonds for mergers and acquisitions and financing, assisting clients in completing the injection of high-quality assets and supporting financing, which greatly enhanced the market competitiveness of the clients.

In the field of bond financing business, in the first half of 2020, the Group continued to consolidate and enhance the competitiveness of its bond underwriting business, actively promote business innovation and transformation and cultivate successful business characteristics. At the same time, it is also proactive in responding to calls to serve the construction of new Fujian, epidemic prevention and control, and support for green industries. In the first half of 2020, the scale of the Group's underwritten bond sales increased by more than 50 per cent. year-on-year, and the Group's ranking in the industry stabilised and rebounded. The Group has been very effective in supporting the development of Fujian's real economy. In the first half of 2020, the Group ranked first in the financing scale of assisting enterprises in Fujian province as the lead underwriter, with an aggregate financing of more than RMB9.0 billion; the Group successfully completed the lead underwriting of five issuances of epidemic prevention and control bonds and two issuances of epidemic prevention and control asset-backed securities, with an aggregate financing of RMB3.8 billion; in terms of supporting green industries, the Group successfully issued its first green corporate bonds in the first half of 2020. The Group also completed another green asset-backed special scheme, with a total financing of more than RMB2 billion.

In the field of financing for micro, small and medium-sized enterprises, the Group has firmly grasped the historical opportunity of the comprehensive deepening of the reform of the National Equities Exchange and Quotations ("**NEEQ**"), an over-the-counter system (also known as the "New Third Board" or "新三板") for trading the shares of public limited companies that are not listed on either the

Shenzhen or Shanghai stock exchanges. The Group strives to build a reputation for quality service and brand recognition in the NEEQ market. The Group's clients Longtai Home Furnishing and Sanyou Technology successfully listed in the first batch of listings on the NEEQ.

The Straits Equity Exchange Centre (Fujian) Co., Ltd. adheres to the concept of building a comprehensive financial service platform for micro, small and medium-sized enterprises, and leverages the resource and synergy advantages of the three trading platforms of the regional equity market, the resource environment market and the financial asset market to build an ecosystem for the formation and circulation of capital of micro, small and medium-sized enterprises.

The Group's revenue from its investment banking business for the year ended 31 December 2017 was RMB1,133.6 million. The amount of revenue from the Group's investment banking business for the years ended 31 December 2018 and 2019 is not available because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019.

**Proprietary investment business**

The Group's proprietary investment business includes multiple types of proprietary investment, trading and market-making services such as stocks, bonds, derivatives, equity and alternatives under the principles of value investing and stable operation.

The Group's proprietary investment business adheres to the concept of value investing, takes into account the balance of risks and returns, and creates long-term stable investment returns. In terms of equity investment, the Group adheres to prudent investment management, adjusting the structure of equity assets closely following market dynamics; selecting individual stocks based on value, focusing on the allocation of blue-chip stocks with good fundamentals and sustainable growth capabilities, and focusing on the structural opportunities of technology and the Internet. In terms of bond investment, the Group actively grasped the cyclical market conditions to conduct transactional operations, and obtained interest rate spread allocation income and cyclical transactional income; at the same time, it further strengthened the credit risk management of holding bonds. On the one hand, the Group strictly paid attention to the credit rating of the bonds. On the other hand, the Group continued to optimise and adjust the bond holding structure, and strategically reduced positions on some low-interest bonds.

In the field of alternative investment business, the Group actively develops related businesses through China Industrial Securities Investment Management Co., Ltd.

In the first half of 2020, the Group's proprietary investment business adhered to a neutral-to-prudent risk appetite, focused on its main business, upgraded its expertise, and formed a strategic direction with equity investment and Sci-tech Innovation Board investment as the main area of emphasis and innovation-oriented fixed income as the secondary area of emphasis. In the first half of 2020, the scale of newly-increased equity investment by the Group exceeded RMB200 million, and it has participated in multiple equity investment projects and co-investment projects on the Sci-Tech Innovation Board, further strengthening its business foundation. The Group's revenues for its proprietary investment business for the years ended 31 December 2018 and 2019 was RMB609.9 million and RMB3,906.6 million, respectively. The amount of revenue from the Group's proprietary investment business is not available for the year ended 31 December 2017 because the Group used different business segments in 2017 as compared to the years ended 31 December 2018 and 2019. The Group's revenues for its proprietary securities business for the year ended 31 December 2017 was RMB2,526.0 million.

**Overseas business**

The Group's overseas business is conducted mainly through its subsidiary China Industrial Securities (Hong Kong) Financial Holdings Co., Ltd., a controlling shareholder of the Issuer, and the Issuer Group to carry out global securities and futures brokerage, institutional sales and trading, corporate financing, fixed income, investment and financing services such as asset management and private wealth management.

In recent years, the Issuer Group has followed the market structure and development trend of overseas markets dominated by institutional investors, accelerated the promotion of business structure optimisation and transformation and upgrading, continued to increase the proportion of revenue from fee-based businesses, prudently developed capital businesses, and focused on risk-benefit balance. In particular, the brokerage business has developed steadily. As at 30 June 2020, the Issuer Group's market value of shares in Hong Kong Securities Clearing House ranked 8th among Chinese securities firms; the Issuer Group's investment banking business has actively seized market opportunities and strengthened team building. According to Bloomberg data, in the first half of 2020, the Issuer Group's equity financing business ranked 11th among Chinese securities firms in terms of amount financed, and its debt financing business ranked 10th among Chinese securities firms in terms of amount financed.

The Group actively seizes market opportunities, and its proprietary investment business has achieved better investment returns under the premise of effective risk control; the Group's overseas research services have performed well and market influence has been further enhanced. The Group's revenues for its overseas business for the years ended 31 December 2017, 2018 and 2019 was RMB658.2 million, RMB513.6 million and RMB430.8 million, respectively. For further details see "Description of the Issuer Group".

**GROUP MAJOR CLIENTS**

The Group serves a diverse base of clients, including individual, corporate and institutional entities. Major clients of the Group are mainly high net worth individuals and corporate clients. The Group's clients are mainly individual investors and are primarily based in the PRC. These clients are recruited from other securities and brokerage firms by the Group's account executives or its in-house client managers through their established network. There are also clients who opened trading accounts with the Group in Hong Kong due to the brand recognition associated with Industrial Securities in the PRC.

**GROUP COMPETITION**

The financial service industry in the PRC and Hong Kong is highly competitive with a large number of participants in the market. Among all these players, international investment banks and large-scale mainland PRC-funded players occupied a comparatively large market share in terms of number of transactions and turnover.

To maintain its market position, the Group has to compete effectively over competitors in terms of capital resources, pricing, client base, service coverage and quality, talents and brand recognition. Competitors of the Group may have stronger capital resources, greater brand recognition, more human resources, a wider range of services and longer operating histories than that of the Group. Apart from large multinational financial institutions, the Group also faces competition from newly established local medium and small-sized financial services firms which offer a similar range of services. Despite keen competition, the Group believes that its core competitive advantages, sound business planning and the contributions of its senior management as further described in "*Description of the Group – Group competitive strengths*" and "*Description of the Group – Group business strategies*" have allowed the Group to rapidly stand out as a reputable full-service securities group in the PRC and Hong Kong, and to capture further market share as the Group grows its business.

**GROUP INFORMATION TECHNOLOGY**

To capture business opportunity from online trading which is becoming increasingly popular as well as to enhance its client's trading experience with the Group, leveraging on the information technology and software program developed by and acquired from third party vendors, the Group is able to offer multi-product online electronic trading services, through which clients can easily perform transactions over the web through computers and mobile phones, gain access to the Group's products which cover Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong stocks, Shanghai-Hong Kong Stock Connect, B shares, United States stocks, Canadian stocks, local futures and global futures. To cope with the increasing use of the Internet as a trading platform, the Group has established a system of risk management tools to identify and monitor risks, precisely to respond to risk in an efficient manner. In terms of information technology infrastructure, the Group uses VMware which provides rapid upgrading of the system, the use of multi-layer network architecture, web application firewall, digital security authentication, and intrusion prevention systems, to provide comprehensive security for corporate networks.

## GROUP EMPLOYEES AND ACCOUNT EXECUTIVES

The Group believes that its long-term growth depends on the knowledge, experience and continuing commitment of its employees. The human resources department of the Group is in charge of the employee recruitment, training, compensation and performance appraisal. As at 31 December 2019, the Group had approximately 8,300 employees, including directors.

## GROUP INSURANCE

The Group generally does not take out insurance for its regulated activities in the PRC, which it believes is consistent with industry practices in the PRC. The Group purchases insurances for certain assets, such as vehicles. The Group does not purchase any business interruption insurance for its operations in the PRC, which is consistent with industry practices in the PRC.

## GROUP LEGAL AND REGULATORY COMPLIANCE

### Licensing requirements

#### *Regulated activities*

The securities market in the PRC and Hong Kong is highly regulated. The principal regulatory bodies governing the Group's business are the CSRC in the PRC and the SFC and the Hong Kong Stock Exchange in Hong Kong. The Group's principal business and its responsible personnel are subject to a number of legislations and regulations and the respective rules of the CSRC in the PRC and the SFC, the Hong Kong Stock Exchange and the Listing Rules in Hong Kong.

In particular, the Group is required to be licensed with the CSRC in the PRC and the SFC and be admitted as a Stock Exchange Participant in Hong Kong to carry on its business. Set out below is a summary of some of the material licences and trading rights currently held by members of the Group in the PRC:

(a) securities brokerage business qualification

(b) securities investment consulting qualification

(c) financial advisory qualification related to securities trading and securities investment activities

(d) securities underwriting and sponsorship qualification

(e) securities proprietary business qualification

(f) securities asset management business qualification

(g) securities investment fund agency qualification

(h) intermediate introductory services for futures companies qualification

(i) Internet information services excluding news, publishing, education, healthcare, medicines and medical equipment, and electronic announcement services

(j) securities companies engaged in related innovation activities

(k) margin trading qualification

(l) direct investment business qualification

For a complete list of the licences and trading rights currently held by members of the Group in the PRC as at 31 December 2019, see the 2019 Group Annual Financial Statements, included elsewhere in this Offering Circular, for more details.

For a summary of the Group's licences in Hong Kong, see "*Description of the Issuer Group – Issuer Group legal and regulatory compliance*".

**Legal proceedings**

The Group is from time to time involved in disputes and legal proceedings arising in the ordinary course of its business. The Group is currently involved in 17 legal proceedings in the PRC, each of whose amount in dispute exceeds RMB5 million. The majority of those legal proceedings were initiated by the Group. As at the date of this Offering Circular, neither the Guarantor nor any of its subsidiaries is engaged in any legal proceedings or claims of material importance and no legal proceedings or claims of material importance are known to its directors to be pending or threatened against the Group or any of its subsidiaries.

## GROUP RISK MANAGEMENT AND INTERNAL CONTROL

During the ordinary course of its business activities, the Group is exposed primarily to the following risks: (a) credit risks arising from the default of clients in performing his or its contractual obligations, which mainly exist in the brokerage, investment and financing businesses of the Group; (b) liquidity risk arising from the Group's inability to meet its payment obligations when these obligations fall due under normal and stress circumstances; (c) operational risks arising from improper operation or errors in executing transactions; (d) regulatory risks of being subject to legal sanctions, enforcement actions, imposition of penalties arising from non-compliance of the Group's operations with the applicable rules and regulations; (e) legal risk in respect of illegal or improper use of the Group's operations by the Group, its employees or third parties; and (f) market risk arising from the change of market, including the risk of price fluctuation in equity-based assets and interest rate risk resulting in loss of or decrease in income or value of the Group's trading or investing positions.

As part of the Group's initiatives to manage these risks, the Group has in place risk management structure and implemented compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures.

The Group's comprehensive risk management system is the core system of the Group's risk control. The overall goal of the Group's comprehensive risk management is to establish a strong internal control system and core risk management competitiveness to ensure that risks are measurable, controllable and manageable, so as to promote the long-term healthy development of the Group's business and the realisation of strategic goals. The Group's comprehensive risk management follows the principles of adaptability, comprehensiveness, pertinence and checks and balances.

In order to implement the above risk control system, the Group has established a comprehensive risk management organisation structure consisting of the board of directors, operating management, risk management departments, various departments and branches, namely the four-level structure of "the board of directors and its risk management committee, the board of supervisors – Group's management and its risk management committee – risk management department – departments and branches", to comprehensively improve the level of risk control.

**Monitoring and management of major risks**

***Credit risks***

The Group manages credit risks primarily through the following measures:

- the Group has established a risk management committee primarily responsible for designing risk management structure and strategies for its principal business units, reviewing and monitoring the implementation of risk management policies for its principal business units, identifying risks, approving trading limits and credit limits, and updating its risk management policies in response to changes;

- the Group has implemented "know-your-client" procedures and credit check to ascertain the background of its potential clients;

- the Group performs credit assessment on potential clients especially in its financing business, and requires its futures brokerage clients and financing clients to provide margin deposits or acceptable collateral (as the case may be) to minimise the Group's exposure;

- the Group closely monitors the margin ratio and loan-to-value ratio of the Group's financing clients and take appropriate action to recover or minimise the Group's loss where it foresees that its client may default in his/her or its obligation;

- the Group has a credit risk management department responsible for the evaluation of the customers' creditworthiness, financial background, value of the collateral provided and repayment abilities in the Group's daily operation; and

- the Group has credit policy with respect to the trading limits, credit line and credit period granted to the Group's brokerage and financing clients, which are subject to the Group's on-going review and revision.

***Liquidity risks***

The Group manages liquidity risks primarily through the following measures:

- the Group has in place a liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain the Group's liquidity and financial resources requirements as specified under applicable laws and regulations. Regular financial statement analysis and variance comparison against budget are performed by the management to identify any potential capital shortfall;

- the Group has established a multi-tier authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. Authorisation limits are set for any commitment or fund outlay, such as procurement, investments, loans, etc. The finance department of the Group assesses the impact of those transactions on the capital level; and

- the Group meets its funding requirements primarily through bank borrowings from multiple banks. The Group has also adopted stringent liquidity management measures to ensure the Group satisfies capital requirements under the applicable laws.

***Operational risks***

The Group manages operational risks primarily through the following measures:

- the Group has responsible officers responsible for overseeing its day-to-day operations, controlling and monitoring compliance issues and solving dealing problems;

- the Group has formulated an operational manual for each business function to standardise its operational procedures and reduce human errors. the Group has surveillance systems to monitor the trading activities of its business units and staff on a real-time basis;

- the Group has set an authorisation hierarchy and procedures for its daily operations, such as granting trading limits and credit lines and closing out error trades, to reduce the risk of unauthorised activities;

- the Group has implemented a policy requiring its dealing staff to follow order taking procedures and report to the responsible officer and compliance department in writing as soon as they are aware of any error trade, and close out error position in accordance with the Group's internal policy;

- the Group requires all trading information be uploaded simultaneously to its computer system or recorded in accordance with its paper filing system and be backed up on a daily basis; and

- the Group provides regular training and formulate contingency plans to increase the capability of its staff to manage operational risks in emergency situations, such as system breakdown or power failure.

***Regulatory and legal risks***

The Group manages regulatory and legal risks primarily through the following measures:

- the department conducts checks and inspections on the Group's business units and reports irregularities to its senior management and the relevant department head for further action;

- the Group has formulated compliance and operational manuals for each business function, which is observed by its employees at all levels;

- the finance department monitors the Group's compliance with applicable laws and regulations on an ongoing basis. Under the Group's policy, liquid capital estimation is computed on a daily basis to ensure that timely information is conveyed to the management of the Group;

- the Group has implemented "know-your-client" procedures across its business functions. For example, the execution team in the finance business conducts due diligence in connection with each transaction, including review of due diligence materials, on-site visits, attendance at meetings, conducting interviews with Guarantors or listing applicants and their directors, senior management and employees;

- through the Group's surveillance system, the Group closely monitors and detects unusual and irregular trading activities, and generates exceptional trade reports for its compliance department and relevant department heads or responsible officers for further action;

- the compliance department closely monitors the licensing status and conditions of the Group, and arranges for the renewal of licences before expiry. The compliance department is required to notify the regulator in accordance with the notification requirements of applicable laws, rules, regulations and guidelines;

- the Group has implemented procedures and appointed a complaints officer under the compliance department for handling complaints received from clients in relation to the regulated activities of the Group; and

- the compliance department arranges for continuous professional training on topics such as anti-money laundering for the Group's staff from time to time.

*Market risks*

The Group manages market risks primarily through the following measures:

- the Group's senior management and head of business units regularly review its balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Group, especially during adverse market movements;

- the Group reviews market risk limits for certain business lines such as the asset management and financial products and investments of the Group to manage risk and periodically reviews and adjusts market strategies of the Group in response to changes in the Group's business performance, risk tolerance levels and variations in market conditions;

- the Group reviews its trading positions on a daily basis and the general market condition from time to time;

- the investment decision committee is responsible for formulating investment policies and guidelines and the Group's investment managers are responsible for executing investment decisions;

- business units such as the corporate finance department of the Group internally discuss and evaluate market risks relating to potential new engagements and new businesses prior to engaging in any such new transaction or launching of any such new business; and

- the risk manager of the Group monitors the Group's daily asset management activities to ensure that the investment strategy and scope, asset allocation, selection of asset class and concentration level of each asset management product matches its product descriptions and disclosure in marketing materials.

*Foreign exchange and interest rate risks*

The Group manages foreign exchange and interest rate risks primarily through the following measures:

- the Group pays close attention to exchange rate trends and adopt hedging measurements from time to time; and

- the Group closely monitors its interest rate risk exposure and adopts hedging measurements such as U.S. dollar bond futures from time to time.

**Staff dealing rules**

The Guarantor and its subsidiaries generally restrict their employees from trading securities. These measures include blanket prohibitions of trading and, in some cases, permitted trading providing a notice is provided to the Group as employer detailing the executed securities trades and positions. Trading of stocks is generally subject to more stringent internal rules than other securities.

**Segregation of business**

To minimise the risk of collusion and improper trading activities, the Group assigns duties and functions to different departments and it is the policy that no employee may work concurrently for two or more departments with conflicts of interests or in situation where it may involve or result in improper dealing. For example, the Group requires its brokerage business to be segregated from other businesses with conflicts of interest, such as asset management and corporate finance. Under the Group's policy, key functions, such as customer services, sales, trading, account opening, client money deposit and withdrawal, accepting delegation from clients and clearing and settlement should be properly segregated and separately handled by separate staff members.

The Group also separately handles and manages its clients' funds from the Group's own funds.

**Chinese wall**

Employees are required to ensure that all information relating to the Group's clients, transactions and mandates are kept confidential. Any use of confidential information for personal purpose or for the benefit of any third party is strictly prohibited.

The Group has adopted a Chinese wall, which is designed to restrict the flow of such information across different business functions. The Group's Chinese wall operates to separate those areas such as corporate finance that routinely receive non-public and potentially inside information in the ordinary course of the business from those areas that deal in securities or provide investment advice, ensuring that those outside the Chinese wall will have no knowledge of confidential information within the Group. In case where it is necessary for the Group's staff to "cross-over-the-wall", such "cross-over-the-wall" shall be strictly monitored and controlled. Prior approval from head of relevant business units and the compliance department shall be obtained, and confidentiality undertaking shall be given by the relevant staff before allowing access to confidential or potentially price sensitive information. The Group's staff will be given access to the information only to the extent necessary.

**Anti-money laundering**

To mitigate the Group's money laundering risk, all of its staff members are required to adhere to the requirements set out in applicable laws and regulations. The Group has also provided education and training to the Group's staff on anti-money laundering. The Group's guidelines on anti-money laundering are provided in the Group-wide compliance manual and operational manuals provided to the Group's staff to ensure that they are aware of the possibility of money laundering and their own personal legal obligations in relation thereto. In addition, the Group has set up an anti-money laundering committee to ensure compliance with the relevant rules and regulations regarding anti-money laundering.

The Group conducts ongoing monitoring by periodically requesting and reviewing updated information, data and documents relating to clients. The Group also monitors the activities of its clients and identifies transactions that are large and unusual.

In respect of the Group's anti-money laundering efforts, the Group has adopted the "know your client" principle espoused in the guidelines mentioned above, whereby the Group requires potential clients to provide it with proof of identity, their occupation, background and contact details for verification.

## GROUP IT RISK MANAGEMENT

For the year ended 31 December 2019, there was no significant deviation identified in the Group's current internal control system in relation to the guidance on information technology management. In addition, the Group regularly reviews its information technology internal control system.

***Access controls***

The Group has in place information security policy and rules which control over the Group's information technology infrastructure. Access controls are in place so that all users' (including staff, clients and vendors of the securities/futures trading system and back-office system) access to the system has to be authorised by the Group. Password policies and standards are formalised to facilitate user authentication and access control. The Group's computer system and information processing facilities are protected by firewalls, intrusion protection systems and anti-virus software to prevent and detect any potential threats by computer viruses and other malicious software. Encryption is applied to the transmission of sensitive information. The Group performs a compliance check against the established information technology policies. Daily backup procedures and a business continuity plan are in place to ensure continuity of its operation.

## GROUP RELATED PARTY TRANSACTIONS

The Group currently engages in, and expect from time to time in the future to engage in, financial and commercial transactions with its subsidiaries, associates, and shareholders. All such transactions are conducted on an arm's length and commercial basis and in accordance with the applicable laws and rules.

See note X to the 2018 Group Annual Financial Statements and note IX to the 2019 Group Annual Financial Statements, included elsewhere in this Offering Circular, for more details.

# DESCRIPTION OF THE ISSUER GROUP

## ISSUER GROUP OVERVIEW

The Issuer Group is a full-service securities group based in Hong Kong with integrated service offerings comprising brokerage, corporate finance, loans and financing, asset management and financial products and investments services. The Issuer was incorporated under the laws of the Cayman Islands on 21 July 2015 with limited liability and is registered in Hong Kong as a non-Hong Kong company with its principal place of business at 32/F, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong. The Issuer Group operates its business mainly through the Issuer, which was listed on the Hong Kong Stock Exchange GEM in 2016 and transferred to the Main Board in 2019 (stock code 6058).

The Issuer was the first subsidiary of a Chinese securities enterprise listed offshore by spin-off. The controlling shareholder of the Issuer, the Guarantor, is listed on the Shanghai Stock Exchange (stock code: 601377) and is one of the leading securities firms in the PRC. With over 20 years of operating history, "兴证" is a widely recognised brand in the PRC. The Issuer Group's relationship with the Guarantor has allowed the Issuer Group to effectively establish a local market presence, reinforce client confidence in its services and grow its client base, as well as provided the Issuer Group with high-quality management resources to establish a strong presence in Hong Kong since commencement of its business in 2012. Benefiting from its history as a subsidiary of the Guarantor and capitalising on both the brand reputation associated with "兴证" and its own core competitive strengths, the Issuer Group has been actively seeking growth opportunities through expanding its client sources, innovating products and services to align with the diversifying needs of its clients and optimising its business structure in response to changing economic cycles and global financial markets development trends. With the pace of internationalisation of Renminbi gaining speed and increasing interactions between mainland China and foreign investors, the Issuer Group will continue to leverage Hong Kong's position as an international financial hub and gateway to Chinese capital to develop new clients and deliver new products and professional services that create value for new and potential clients.

Principal business lines of the Issuer Group are:

- ***Brokerage*: **the Issuer Group engages in the trading of listed securities, futures, options, other securities, eligible A-shares of the Shanghai Stock Exchange and securities and futures in overseas markets (including the United States, Taiwan, Singapore, Australia, the United Kingdom and Germany) on behalf of its clients. The Issuer Group also offers third party insurance, pensions and other wealth management products to its clients.

- ***Loans and financing*: **the Issuer Group offers margin financing to customers.[1]

- ***Corporate finance*: **the Issuer Group provides corporate finance services, including underwriting of equity and debt securities offerings, sponsorship of listings and corporate advisory services.

- ***Asset management*: **the Issuer Group offers collective asset management products, discretionary account management and investment advisory services tailorable to the investment styles and risk appetites of individual clients.

- ***Financial products and investments*: **the Issuer Group engages in proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

*Note:*

(1) For the period covered by the financial statements disclosed in this Offering Circular the Issuer Group also offered secured and unsecured loans to customers. The Issuer Group ceased to offer such loans in February 2020.

Set forth below is an overview of the major subsidiaries of the Issuer Group:

- China Industrial Securities International Brokerage Limited 興證國際證券有限公司 (formerly known as Industrial Securities (Hong Kong) Brokerage Limited 興證(香港)證券經紀有限公司)("**CISI Brokerage**") – CISI Brokerage was incorporated under the laws of Hong Kong on 20 July 2011 with limited liability and is currently licensed under the Securities and Futures Ordinance ("**SFO**") to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.

- China Industrial Securities International Futures Limited (興證國際期貨有限公司)(formerly known as Industrial Securities (Hong Kong) Futures Limited (興證(香港)期貨有限公司))("**CISI Futures**") – CISI Futures was incorporated under the laws of Hong Kong on 18 January 2012 with limited liability and is currently licensed under the SFO to engage in Type 2 (dealing in futures contracts) regulated activity.

- China Industrial Securities International Capital Limited (興證國際融資有限公司)(formerly known as Industrial Securities (Hong Kong) Capital Limited (興證(香港)融資有限公司)("**CISI Capital**") – CISI Capital was incorporated under the laws of Hong Kong on 16 August 2012 with limited liability and is currently licensed under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities.

- China Industrial Securities International Asset Management Limited (興證國際資產管理有限公司)(formerly known as Industrial Securities (Hong Kong) Asset Management Limited (興證(香港)資產管理有限公司))("**CISI Asset Management**") – CISI Asset Management was incorporated under the laws of Hong Kong on 31 October 2011 with limited liability and is currently licensed under the SFO to engage in Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities.

- China Industrial Securities International Finance Limited (興證國際財務有限公司)(formerly known as Industrial Securities (Hong Kong) Finance Limited (興證(香港)財務有限公司))("**CISI Finance**") – CISI Finance was incorporated under the laws of Hong Kong on 28 October 2013 with limited liability and until 12 February 2020 was a licensed money lender under the Money Lenders Ordinance ("**MLO**").

- China Industrial Securities International Investment Limited (興證國際投資有限公司)(formerly known as Industrial Securities (Hong Kong) Investment Limited (興證(香港)投資有限公司))("**CISI Investment**") – CISI Investment was incorporated under the laws of Hong Kong on 29 May 2014.

- China Industrial Securities International Wealth Management Limited (興證國際私人財富管理有限公司)(formerly known as Industrial Securities (Hong Kong) Wealth Management Limited (興證(香港)私人財富管理有限公司))("**CISI Wealth Management**") – CISI Wealth Management was incorporated under the laws of Hong Kong on 21 April 2015 with limited liability and is currently a member of the Professional Insurance Brokers Association.

- CISI Investment Limited was incorporated under the laws of British Virgin Islands on 11 May 2016 with limited liability.

- CISI Capital Management Limited was incorporated under the laws of British Virgin Islands on 27 January 2017 with limited liability.

Core competitive strength of the Issuer Group lies in its strong service capability that fulfils the varying investment and financing needs of its clients. Operating subsidiaries of the Issuer Group are licensed to conduct different regulated activities under the SFO. The Issuer Group conducts brokerage and margin financing businesses through CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, and CISI Futures, which is licensed to carry on Type 2 (dealing in futures contracts) regulated activity. Corporate finance business of the Issuer Group is conducted through CISI Capital, which is licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and qualified to act as sponsor under the SFO, while the asset management business of the Issuer Group is conducted through CISI Asset Management which is licensed to carry on Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 9 (asset management) regulated activities under the SFO. The Issuer Group offers wealth management products developed by third parties to its clients through CISI Wealth Management, which is a member of the Professional Insurance Brokers Association. A diversified business portfolio allows the Issuer Group to create synergies between its business lines, generate cross-selling opportunities and provide integrated financial services to clients.

The fast-growing business of the Issuer Group is underpinned by its professional and seasoned workforce. Executive and non-executive directors of the Issuer Group have an average of more than 19 years of experience in the financial services industry and the senior management members of the Issuer Group have served renowned financial institutions in the PRC, Hong Kong and/or overseas. The strong and experienced management team of the Issuer Group allows it to keep abreast of the latest developments in the capital market and financial services industry, formulate sound business strategies and respond timely to changing market conditions to capture growth opportunities.

The Issuer Group began its business in 2012 and has experienced rapid growth since then. The total revenue of the Issuer Group increased from HK$1,011.0 million for the year ended 31 December 2018 to HK$1,261.6 million for the year ended 31 December 2019, representing a year-on-year increase of 24.8 per cent. Commission and fee income from the brokerage business, commission and advisory fee income from the corporate finance business and interest income from the loans and financing business constitute the main sources of revenue for the Issuer Group. The commission and fee income from the Issuer Group's brokerage business amounted to HK$182.2 million, HK$212.5 million and HK$167.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 19.6 per cent., 21.0 per cent. and 13.3 per cent. of its total revenue during the same periods, respectively. Commission and advisory fee income from the Issuer Group's corporate finance business amounted to HK$123.3 million, HK$211.3 million and HK$154.8 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 13.3 per cent., 21.0 per cent. and 12.3 per cent. of its total revenue during the same periods, respectively. Interest income from the Issuer Group's loans and financing business amounted to HK$310.5 million, HK$428.2 million and HK$479.2 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 33.5 per cent., 42.3 per cent. and 38.0 per cent. of its total revenue during the same periods, respectively.

## ISSUER GROUP COMPETITIVE STRENGTHS

The Issuer Group believes that the following strengths distinguish it from its competitors:

### The Issuer Group is a fast-growing securities group with a strong capital base in Hong Kong

Leveraging sound business planning, the Issuer Group has since the commencement of its business rapidly stood out as a reputable China-affiliated securities group based in Hong Kong. Its business lines have evolved from conventional brokerage and margin financing to a full range of financial services including corporate finance and wealth management. The outstanding performance of its business for the years ended 31 December 2017, 2018 and 2019 is evidenced as follows:

- commission and fee income from the Issuer Group's brokerage business grew from HK$182.2 million for the year ended 31 December 2017 to HK$212.5 million for the year ended 31 December 2018 before decreasing to HK$167.8 million for the year ended 31 December 2019 due to lower trading volumes;

- the total balance of margin loans provided by the Issuer Group (including the provision of impairment allowance) increased by approximately 34.1 per cent. from HK$4,402.0 million as at 31 December 2017 to HK$5,902.1 million as at 31 December 2018 and decreased by approximately 34.9 per cent. from HK$5,902.1 million as at 31 December 2018 to HK$3,842.8 million as at 31 December 2019. Interest income from the Issuer Group's loans and financing business increased by approximately 37.9 per cent. from HK$310.5 million for the year ended 31 December 2017 to HK$428.2 million for the year ended 31 December 2018 and increased by approximately 11.9 per cent. from HK$428.2 million for the year ended 31 December 2018 to HK$479.2 million for the year ended 31 December 2019;

- the Issuer Group's AUM as at 31 December 2019 amounted to HK$9.0 billion and management fees received from its asset management business increased by approximately 48.8 per cent. from HK$12.9 million for the year ended 31 December 2017 to HK$19.2 million for the year ended 31 December 2018 and increased by approximately 87.6 per cent. from HK$19.2 million for the year ended 31 December 2018 to HK$36.1 million for the year ended 31 December 2019;

- the value of securities the Issuer Group had underwritten or placed in all equity fund-raising transactions in which the Issuer Group acted as an underwriter or a placing agent increased from HK$2.3 billion for the year ended 31 December 2017 to HK$3.4 billion for the year ended 31 December 2018 before decreasing to HK$2.1 billion for the year ended 31 December 2019;

- the value of securities the Issuer Group had underwritten in all publicly offered and privately placed bonds in debt fund-raising transactions increased from U.S.$1.6 billion for the year ended 31 December 2017 to U.S.$2.3 billion for the year ended 31 December 2018, and to U.S.$2.3 billion for the year ended 31 December 2019, according to industry data compiled and published by Bloomberg L.P.; and

- in 2019, the Issuer Group completed 48 projects of issue and underwriting of publicly offered and privately placed bonds denominated in G3 currencies (including preferred shares), completed two sponsorship projects, submitted applications for two sponsorship projects, entered into seven compliance/finance/independent financial advisory projects, completed a total of 15 IPO underwriting projects and placing projects in the secondary market.

The Issuer Group believes that its expansion and outstanding performance is grounded in its full-service capability to fulfil the varying needs of its clients, its technical expertise and its seasoned workforce that deliver professional and customised services of high quality. The Issuer Group's strong capital base, as evidenced by its bank balance (excluding trust accounts) of HK$5,360.0 million as at 31 December 2019, allows it to extend larger loans and more personalised financing services to customers of different capital and financing requirements. The Issuer Group will continue to leverage its service capability and capital base advantages to innovate its portfolio of products and services so as to attract high-quality clients, resulting in an increase of its market share and achievement of long-term growth in its businesses.

**The Issuer Group benefits from PRC enterprises listed in Hong Kong**

According to the Hong Kong Stock Exchange, as at 31 December 2019 enterprises based in the PRC comprised 51 per cent. of all listed companies, 73 per cent. of the total market capitalisation and 79 per cent. of the average daily equity turnover of share transactions on the Hong Kong Stock Exchange, all of which benefit it as a known provider of PRC-related brokerage expertise and services.

**The Issuer Group benefits from its history as a subsidiary of the Guarantor and the brand reputation associated with "兴证"**

The Issuer Group's controlling shareholder, the Guarantor, is one of the leading securities firms in the PRC. The Guarantor was established in 1994 and was one of the first batch of regulated securities companies in China. It has an outstanding track record of over 20 years in the financial service industry and sales coverage across more than 20 provinces, autonomous regions and municipalities in the PRC. The core businesses of the Group in the PRC include securities and futures brokerage, securities proprietary trading, investment banking and asset management. With over 20 years of operating history, "兴证" is a widely recognised brand in the PRC. As the indirect subsidiary of the Guarantor, the Issuer benefits from the strong brand recognition and reputation associated with "兴证", which has effectively allowed it to establish a local market presence in Hong Kong, as a gateway for Chinese capital, (ii) reinforce clients' confidence in its services, and (iii) grow its client base continuously since commencement of its business. The experience gained by several of its directors and senior management while working at the Group has also provided it with high-quality management resources, technical expertise and sound business planning at an early stage of its development, which are critical for it to stand out as a fast-growing securities group in Hong Kong.

Capitalising on its own competitive advantages and background as a China-affiliated securities firm with presence in the local market, the Issuer Group has developed an in-depth understanding of the investment needs of investors from Hong Kong and mainland China and enlarged it client sources. The Issuer Group believes that the Issuer Group is well-positioned to leverage the growing trend of offshore investment needs of investors and deliver financial services tailored to their needs.

**The Issuer Group provides full-service offerings tailored to the varying needs of its clients**

The Issuer Group offers brokerage services and trading of stocks, futures, options and other securities listed in Hong Kong on behalf of clients seeking to realise gain from market movements. The Issuer Group is one of the China Connect Exchange Participants, which enables it to execute trades of eligible stocks listed on the Shanghai Stock Exchange for its clients. The Issuer Group also offers trading services in respect of securities and futures traded on overseas exchanges (including the United States, Taiwan, Singapore, Australia, the United Kingdom, and Germany) through external brokers. These brokers (or their agents) are licensed in their respective jurisdictions to trade such securities. The Issuer Group provides loans and financing services to clients who seek to maximise gain through leverage or satisfy business needs through external financing. The Issuer Group offers corporate finance services including acting as sponsor for companies conducting an IPO or listing on Hong Kong Stock Exchange, underwriting shares in IPOs and secondary offerings, underwriting bond offerings and providing financial advisory services to clients to formulate their financing strategies. The Issuer Group offers asset management products for clients seeking to identify the best balance of risk and growth opportunity and to create value from their assets. The Issuer Group also offers wealth management products such as insurance and pension schemes developed by third parties to its clients. The Issuer Group's full-service business enables it to expand its client base effectively.

The Issuer Group's wide array of service offerings enables it to cross-sell its expertise developed across different service areas, deliver customised products or services and offer advice which suits the needs of its clients, create synergies through cross-selling across different business lines, optimise its client coverage effort, create new business opportunities for each product team and in turn maximise its revenue.

**The Issuer Group has a professional and seasoned team with diverse backgrounds**

The Issuer Group's professional and seasoned management team has played a significant role in shaping its success to date. Its executive and non-executive directors have an average of over 19 years of experience in finance-related industries. Most of its senior management also possess more than 10 years of experience in finance-related disciplines and represent diverse cultural backgrounds, including China, Hong Kong and Taiwan, enabling them to contribute global and domestic market perspectives and business acumen when formulating long-term business goals and expansion plans for the Issuer Group, better serve the needs of clients from diverse cultural backgrounds, effectively adapt to, identify and capture business opportunities arising from market and regulatory changes, and lay down a solid foundation for its future expansion into the capital markets of different jurisdictions.

For mid-level management and employees, the Issuer Group places great emphasis on their professional training and development in order to further their technical expertise and execution capabilities, aiming at delivering premium services that can effectively respond to its clients' demands. In line with the development of its business lines, the Issuer Group actively recruits talented individuals with experience in leading financial institutions, such as renowned banks, to further strengthen its service and execution standards. Through on-going staff training, recruitment of a high quality workforce and enhancement of service quality, the Issuer Group believes that it has successfully cultivated customer loyalty and a reputation for exemplary service.

## ISSUER GROUP BUSINESS STRATEGIES

With the increasing pace of internationalisation of Renminbi, efforts to open up China's capital market have ramped up significantly in recent years. The Issuer Group believes that the pace of Chinese enterprises "going global" will quicken and a rising number of Chinese enterprises will increase their interaction with global capital markets, driving even more Chinese capital abroad and increasing demand amongst Chinese investors for financial services in Hong Kong. In addition, it is expected that more overseas capital will be deployed into China, which will, in turn, further promote the expansion and opening up of the Chinese capital market. The role of Hong Kong as an offshore Renminbi centre and an important regional financial hub has become increasingly crucial throughout this process. As an important gateway into Hong Kong's capital markets, the Issuer Group expects that it will continue to benefit from such trends through the implementation of the following strategies.

### Optimising client base by increasing diversification of client sources and offering customised services

The Issuer Group aims to optimise its client base through the following client-focused strategies:

- *Increasing diversification of client sources*: Capitalising on the increasing integration of the Chinese and Hong Kong financial markets and the trend of internationalisation of Chinese capital in recent years, the Issuer Group has developed a strong clientele of Chinese investors. Whilst the Issuer Group will continue to accommodate the needs of such PRC clients, the Issuer Group believes that both local and overseas clients will continue to present an attractive business opportunity. The diversification of client sources, in particular localisation, has become an important direction for the development of the Issuer Group. To achieve this, the Issuer Group is enhancing its sales capability in both local and overseas markets.

- *Increasing efforts in offering customised services to cater for the varying needs of different clients*: Both Hong Kong and overseas markets are dominated by institutional investors. With the further development of its corporate finance and asset management businesses, the Issuer Group has been increasing the proportion of institutional clients and corporate clients. Going forward, the Issuer Group will step up its efforts in developing its coverage of institutional clients and corporate clients on the basis of the further development of affluent individual clients. To implement this strategy, the Issuer Group will consider: (i) continuing to offer personalised wealth management portfolios tailored to the needs of affluent and high net worth clients; (ii) continuing to further strengthen its sales team to focus on expanding its institutional and corporate client base; and (iii) encouraging cross-selling between its various business lines.

### Continuing to enrich brokerage and wealth management services

The Issuer Group derives a significant proportion of its total revenue from its brokerage business and related services. For the years ended 31 December 2017, 2018 and 2019, commission and fee income from its brokerage business amounted to HK$182.2 million, HK$212.5 million and HK$167.8 million, respectively, representing 19.6 per cent., 21.0 per cent. and 13.3 per cent. of its total revenue, respectively. The Issuer Group will continue to enrich its securities and futures brokerage services, enhance its market share and accelerate the development of its Hong Kong and overseas client base. Through taking advantage of the PRC's various preferential policies regarding Hong Kong (such as

Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect and the recently promulgated new Foreign Exchange Administrative Measures on Investment in Domestic Securities by Qualified Foreign Institutional Investors (which introduced a more transparent investment quota regime and relaxed capital remittance requirements)), the Issuer Group strives to enrich its products and services, enhance talent nurturing and boost its service capabilities in relation to cross-border opportunities for its brokerage and wealth management business lines.

The Issuer Group will gradually transform itself from a conventional securities brokerage firm to an integrated service provider for client wealth management. To achieve this, the Issuer Group has already established a team for distribution of insurance and financial products. The Issuer Group plans to continue to enlarge the scope of its brokerage services and deepen its cooperation with various professional investment institutions, such as mutual funds, private equity funds, hedge funds, banks, insurance and trust companies to grow its institutional client base and increase the revenue contribution of its brokerage services. In addition, tapping the advantage of its Internet-based financial platform, subject to the compliance with the applicable regulatory requirements, the Issuer Group will proactively explore and innovate a financial direct sales model and offer "one-click" comprehensive wealth management services, thereby realising the "dual enhancement" of both asset yields and profit contribution.

**Enhancing asset management, corporate finance, institutional sales and research service capabilities**

The Issuer Group will continue to develop its asset management and corporate finance business lines to achieve balanced growth as an integrated and full-service securities group. Research abilities of the Issuer Group are an integral part of its asset management capabilities.

- *Accelerate the development of asset management business*

The Issuer Group strives to forge a bi-directional investment platform for overseas investments of mainland China capital as well as mainland China-bound investments of overseas capital, focusing on the development of such alternative investment products as passively managed products to achieve a rapid, sound growth of the total size of the assets under management. The Issuer Group plans to further diversify its product categories and the structure of its asset management business, and expand its amount of AUM. The Issuer Group will focus on its core assets in China and continue to enrich product categories, while improving the operational capabilities of its asset management business and its brand building.

- *Further developing sales and research capabilities for institutional clients*

The Issuer Group plans to further develop its sales and research capabilities by expanding its research team which is tailored to its business needs and future development. The Issuer Group's goal is to create a research institution influential in Hong Kong and overseas. Throughout its rapid growth, the Issuer Group has emphasised its research capabilities as evidenced by having jointly established its Overseas Research Centre with Industrial Securities, which is the earliest established and one of the most comprehensive market research teams of any Chinese securities enterprise outside the PRC. The research team of the Issuer Group focuses on providing research of China-affiliated enterprises listed in Hong Kong and overseas markets, offering quality research support services to institutional investors both home and abroad and assisting them in embracing various challenges amidst the surging wave of overseas assets allocation. The research team's excellence is highly recognised by the industry, as evidenced by prizes including the "Most Innovative Research Institution"(最具創新能力研究機構) at the 9th China Securities Golden Bauhinia Awards in 2019, "Most Valuable Gold Bull Analyst"(最具價值金牛分析師) of the "Ninth Chinese Securities Analyst Gold Bull Award"(第9屆中國證券業分析師金牛獎) in 2018, the "Best Research Institution" of the 2018 HKCAMA-Bloomberg Offshore China Fund Award in 2018, "No. 2 Industry Stock Picking – Consumer Discretionary" and "No. 3 Industry Earning Estimates – Health" of the "2018 Thomson Reuters Analyst Awards – Hong Kong and China" in 2018 and the "No. 1 in Best Overseas Research"（最佳海外研究第一名）by the IAMAC Awards of the Most Popular Seller Analysts of the China Insurance Asset Management Industry（IAMAC獎-中國保險資產管理業最受歡迎賣方分析師）in 2017 and 2018.

Research analysts of the Issuer Group will continue to closely track the business growth of target listed companies and conduct in-depth analysis of their corporate fundamentals in order to drive the development of its institutional sales business using quality research outcomes and services, continuously expand the breadth of coverage of listed companies and the depth of relevant research, and deepen its interactive collaboration with institutional investors. The Issuer Group's objectives are to (i) build on the loyalty of institutional clients through research services and roadshow services, and turn the institutional sales business into a driving force to develop its corporate finance business and asset management business, (ii) actively expand its operation team and brokerage team, and broaden marketing channels and (iii) actively explore the development model of internet securities, build an online customer marketing and service system based on internet mobile terminal, thereby achieving a continuous growth in the number of institutional and retail clients and assets. The Issuer Group aims to focus its research coverage over Hong Kong stocks as well as overseas stocks and cultivate and recruit top analysts for key research areas to broaden its coverage for overseas institutional investors.

- *Promote the development of its corporate finance business*

The Issuer Group will step up its efforts in introducing and building professional teams, strengthening its full-service business chain including soliciting, undertaking and underwriting, and enhancing brand awareness, thereby improving the business capability and profitability of its equity financing business. As for its bond issue and underwriting business, the Issuer Group will actively participate in various projects such as public offered bonds, privately placed bonds and financing for specific projects, expand the institutional client base, and increase sales efforts, so as to further promote the overall development of the business.

**Expanding capital-based intermediary business with its strong capital base**

For the year ended 31 December 2019, a significant proportion of the Issuer Group's revenue was derived from brokerage commissions, management fees and commissions on fund raising. For the years ended 31 December 2017, 2018 and 2019, commission and fee income from the brokerage business of the Issuer Group amounted to HK$182.2 million, HK$212.5 million and HK$167.8 million, respectively, representing 19.6 per cent., 21.0 per cent. and 13.3 per cent., respectively of its total revenue for the same periods. Such charge-based businesses are susceptible to stock market fluctuations and, with the intensification of market competition, have exhibited a gradual decreasing trend. Going forward, the Issuer Group plans to adopt a more capital-driven approach to provide clients with liquidity and risk management services for meeting their needs and increase its focus on the development of capital-based intermediary business beginning in fixed-income business and then gradually entering other capital-based intermediary business areas such as market maker business and derivatives business.

Over time the Issuer Group intends to increase its efforts to expand its capital-based intermediary business lines so that they will become a significant business segment. The Issuer Group has begun to see positive results from this effort as indicated by the fact that for the year ended 31 December 2019, loans and financing business of the Issuer Group represented 38.0 per cent. of its total revenue. The Issuer Group intends to further its loans and financing capability to tap into the growing financing needs of its clients as well as to enlarge the customer base of institutional clients who have strong demand for both financing and other financial services that the Issuer Group offers, such as brokerage and corporate finance services, thereby creating more cross-selling opportunities. To achieve this, the Issuer Group intends to apply bank borrowings and internal resources to fund its future capital requirement for developing its loans and financing business.

Apart from further developing its conventional loans and financing business, the Issuer Group will increase its efforts in proprietary trading and further expand into other new capital-based intermediary businesses such as market making for stocks and bonds, foreign exchange and commodity transactions, financing related to mergers, acquisitions and reorganisations, derivatives, and private equity investments. To achieve this, the Issuer Group plans to establish a market-making team tailored to its business needs and futures development. The market-making team of the Issuer Group will offer market-making services for exchange traded and non-exchange traded products, such as futures and options, stock options, ETF, commodities, bonds and structured notes, which will give the Issuer Group a competitive advantage in offering customised solutions to meet the investing, financing, liquidity and risk management and hedging needs of clients.

## ISSUER GROUP RECENT DEVELOPMENTS

On 21 August 2020, the Issuer Group published its interim financial information for the six months ended 30 June 2020 and on 27 August 2020 the Issuer Group published its interim financial report for the six months ended 30 June 2020. The Issuer Group prepared its Issuer Group Interim Financial Information in accordance with the applicable disclosure provisions of the Listing Rules. The Issuer Group Interim Financial Information is not audited or reviewed and it may differ from future audited or reviewed information. The Issuer Group Interim Financial Information is not included in and does not form part of this Offering Circular and is not incorporated, directly or indirectly, in any form or manner, into this Offering Circular. Investors should therefore not rely on the Issuer Group Interim Financial Information in making their investment decision.

For the six months ended 30 June 2020 as compared to the six months ended 30 June 2019, the Issuer Group's operating revenue decreased, and the Issuer Group recorded a net loss after tax for the six months ended 30 June 2020 as compared to a net profit for the six months ended 30 June 2019. The main reasons for the loss were: first, revenue from the Issuer Group's financial products and investments business decreased substantially due to market volatility and, second, global stock markets and the Hong Kong stock market experienced substantial corrections due to the COVID-19 pandemic which led the Issuer Group to make a substantial provision for impairment of margin loans.

## ISSUER GROUP HISTORY AND DEVELOPMENT

The Issuer was incorporated in the Cayman Islands with limited liability on 21 July 2015. Prior to 18 December 2015, the business of the Issuer Group was conducted by the Issuer and its subsidiaries. On 18 December 2015, the Issuer Group performed a reorganisation in which CISI Brokerage, CISI Asset Management, CISI Futures, CISI Capital, CISI Finance and CISI Investment were acquired by the Issuer.

The following table sets out the landmark events during the Issuer Group's development:

| | |
|---|---|
| 2011 . . . . . . . . | Industrial Securities (Hong Kong) Financial Holdings Limited (興證(香港)金融控股有限公司)("**Industrial Securities (Hong Kong)**") was established with initial issued share capital of HK$100 million |
| 2012 . . . . . . . . | The Issuer Group issued its first offshore fund product |
| | The SFC granted CISI Brokerage Type 1 and Type 4 regulated activities licences |
| | The SFC granted CISI Futures a Type 2 regulated activity licence |
| | The SFC granted CISI Asset Management Type 4 and Type 9 regulated activities licences |
| 2013 . . . . . . . . | The SFC granted CISI Capital Type 1 and Type 6 regulated activities licences |
| | CISI Capital qualified to act as a sponsor under the SFO |

| | |
|---|---|
| | The SFC granted CISI Asset Management Type 5 regulated activity licence |
| 2014 . . . . . . . . | The total issued and paid-up share capital of Industrial Securities (Hong Kong) reached HK$500 million |
| | The Licensing Court granted CISI Finance a Money Lenders Licence (which expired 12 February 2020) |
| 2015 . . . . . . . . | Total amount of client assets held by the Issuer Group reached HK$30 billion |
| 2016 . . . . . . . . | The Issuer listed on the Hong Kong Stock Exchange GEM in October |
| | The total equity of the Issuer exceeded HK$4 billion |
| 2017 . . . . . . . . | The Issuer Group was ranked among the top 10 of all Hong Kong listed China-affiliated securities enterprises in terms of amount of G3 currency denominated bond underwriting |
| 2018 . . . . . . . . | The Issuer Group was ranked third among all Hong Kong listed China-affiliated securities enterprises in terms of G3 currency-denominated high-yield bond underwriting |
| | The Issuer Group was ranked fourth among China-affiliated securities enterprises in terms of total assets held in Hong Kong stocks |
| 2019 . . . . . . . . | The Issuer listed on the Main Board of the Hong Kong Stock Exchange (stock code: 6058) |

**Awards and Recognitions**

Set forth below is a summary of the key honours and awards the Issuer Group received in recent years:

| | |
|---|---|
| 2019 . . . . . . . . | Awarded "Most Innovative Research Institution"(最具創新能力研究機構) at the 9th China Securities Golden Bauhinia Awards Ceremony (第九屆中國證券金紫荊獎頒獎典禮) |
| | Awarded "Capital Market's Star Investment Bank of the Year Award"(年度資本市場明星投行獎) at the annual "China Financing Award"(中國融資大獎) organised by "China Financial Market"(《中國融資》), a well-known financial magazine in Hong Kong |
| | Awarded "Hong Kong Service Brand Award under the Category of Securities Brokerage Business"(香港證券經紀業務服務品牌大獎) at the "Jun Ding Award for China Investment Banks & Securities Brokers 2019"(2019中國區投資銀行&證券經紀商君鼎獎) ceremony hosted by China's authoritative media "Securities Times"(證券時報) |
| | CISI Futures received the "2019 Model Chinese Futures Dealer"(2019模範中資期貨商) award from the Hong Kong Stock Exchange for its outstanding performance in the trading of futures products |
| | Awarded "Most Valuable Investment Listed Company"(最具投資價值上市公司) in the First Phoenix Network Hong Kong Stock Financial Institution's Value List "Golden Award"(第一屆鳳凰網港股金融機構價值榜"金吾獎") by Phoenix Network Hong Kong Stocks (鳳凰網港股) |

Awarded "Most Valuable Financial Stock Company" (最具價值金融股公司) in the 2018 Golden Hong Kong Stocks Award (2018年金港股評選) by Zhitong Finance (智通財經)

2018 . . . . . . . . Awarded "Company with the Highest Growth" (最具成長性上市公司) in the 2018 Golden Lion Award for the Listed Companies in the Hong Kong Stock Market (2018港股上市公司金獅獎) by Sina Finance (新浪財經)

The Issuer Group's futures brokerage business was awarded "2018 Fastest Growing Mainland Future Broker Award" (2018期貨內地經紀最快增長獎) by the Hong Kong Stock Exchange

Awarded "Excellent Hong Kong Wealth Management Institution" (香港優秀財富管理機構) in the 2018 China Wealth Management Agency Awards Jun Ding Award (2018中國財富管理機構評選君鼎獎) by Securities Times (證券時報)

2017 . . . . . . . . Awarded "Best Performance Broker" (經紀業務最佳表現券商) in the 2017 "Golden Central" Awards (2017"金中環"評選) by Zhitong Finance (智通財經)

Awarded "Annual Star Investment Bank in Capital Market" (年度資本市場明星投行) in the "2017 China Financial Market Awards" ("2017中國融資上市公司大獎"評選) by China Financing (中國融資)

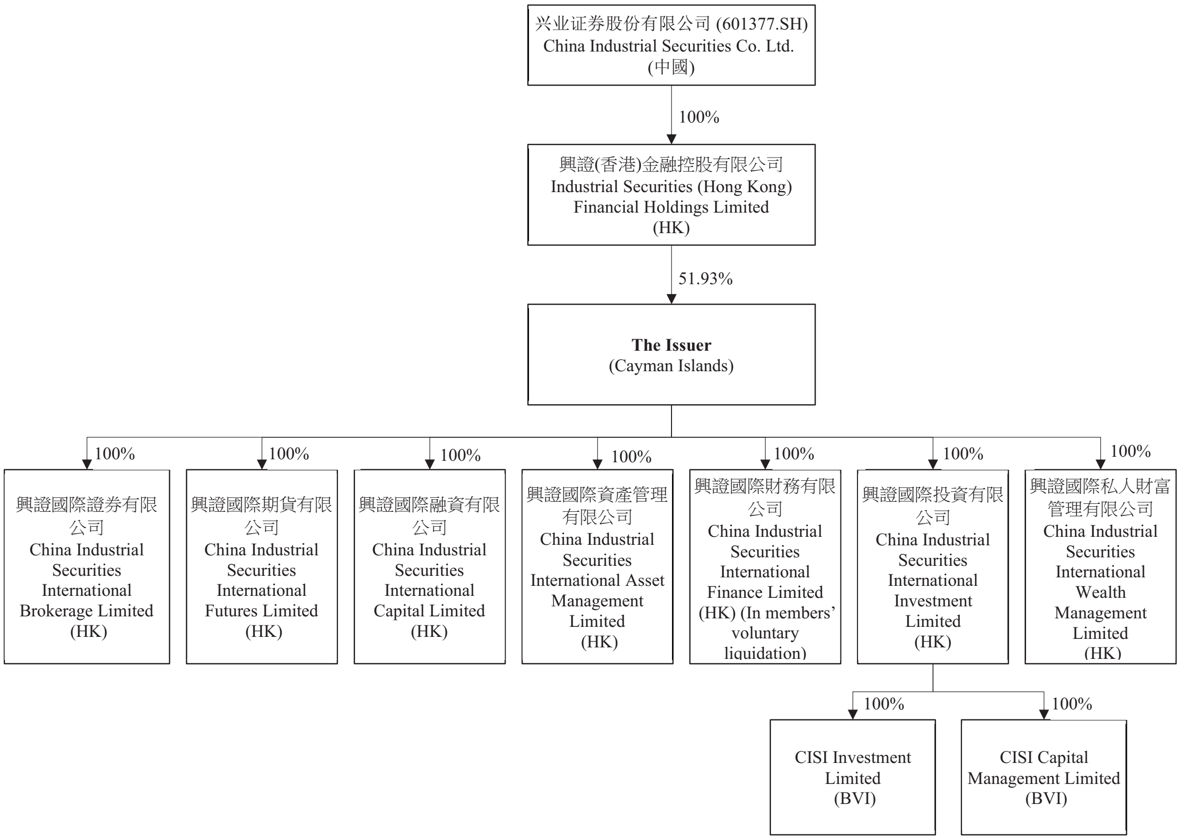
Awarded "Most Valuable Listed Financial Company" (最具價值金融股公司) in the 2017 Golden Hong Kong Stocks Award (2017年金港股評選) by Zhitong Finance (智通財經)

2016 . . . . . . . . Awarded "The Most Valuable Company to be Invested" (最具投資價值) in the 2016 China Financing Listed Company Awards ("2016中國融資上市公司大獎"評選) organised by the China Financing (中國融資) magazine

Awarded "Best Growth Performance Brokerage Firm" (最佳業績增長證券商) in the 2016 Most Investors Welcome Greater China Securities Awards ("2016最受投資者歡迎大中華區證券商") by Hong Kong Commercial Daily (香港商報)

## ISSUER GROUP CORPORATE STRUCTURE

The following chart shows a simplified group structure of the Issuer Group as at the date of this Offering Circular:



## ISSUER GROUP BUSINESS

The Issuer Group provides a wide array of financial services targeted to high net worth individual clients, corporations and financial institutions. Main products and services by business lines of the Issuer Group comprise the following:

| Business Lines | Main Products and Services |
|---|---|
| Brokerage. . . . . . . . . . . . | • Securities brokerage |
| | • Futures and options brokerage |
| | • Insurance brokerage |
| Loans and financing . . . . | • Margin financing |
| | • Money lending (the Issuer Group ceased its money lending business on 12 February 2020) |
| Corporate finance . . . . . . | • Placing, underwriting and sub-underwriting |
| | • Corporate advisory |
| | • Listing sponsorship |
| | • Arrangement |
| Asset management. . . . . . | • Collective investment management schemes |
| | • Discretionary account management |
| | • Investment advisory |
| Financial products and investments . . . . . . . . . | • Proprietary trading and investments |

In addition to the products and services above, the Issuer Group also engages in wealth management business.

The following table sets forth a breakdown of the revenue and other income of the Issuer Group by segment for the period indicated:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | |
| | *(HK$ in millions)* | % | *(HK$ in millions)* | % | *(HK$ in millions)* | % |
| **Commission and fee income from customers** | | | | | | |
| **Brokerage:** | **182.2** | **19.6** | **212.5** | **21.0** | **167.8** | **13.3** |
| – Commission and fee income from securities brokerage | 160.4 | 17.3 | 182.2 | 18.0 | 137.5 | 10.9 |
| – Commission and fee income from futures and options brokerage | 18.1 | 1.9 | 27.0 | 2.7 | 24.3 | 1.9 |
| – Commission income from insurance brokerage | 3.7 | 0.4 | 3.3 | 0.3 | 6.0 | 0.5 |
| **Corporate finance:** | **123.3** | **13.3** | **211.3** | **21.0** | **154.8** | **12.3** |
| – Commission on placing, underwriting and sub-underwriting | 52.5 | 5.7 | 175.2 | 17.4 | 116.4 | 9.2 |
| – Debt securities | 31.8 | 3.5 | 125.0 | 12.4 | 62.6 | 5.0 |
| – Equity securities | 20.7 | 2.2 | 50.2 | 5.0 | 53.8 | 4.2 |
| – Corporate advisory fee income | 1.2 | 0.1 | 3.1 | 0.3 | 0.8 | 0.1 |
| – Sponsor fee income | 7.1 | 0.8 | 8.0 | 0.8 | 7.8 | 0.6 |
| – Arrangement fee | 62.5 | 6.7 | 25.0 | 2.5 | 29.7 | 2.4 |
| **Asset Management:** | **12.9** | **1.4** | **19.2** | **1.9** | **36.1** | **2.8** |
| – Asset management fee income | 9.5 | 1.0 | 16.4 | 1.6 | 31.8 | 2.5 |
| – Investment advisory fee income | 3.4 | 0.4 | 2.8 | 0.3 | 4.2 | 0.3 |
| **Interest revenue** | | | | | | |
| **Loans and financing:** | **310.5** | **33.5** | **428.2** | **42.3** | **479.2** | **38.0** |
| – Interest income from margin financing | 304.6 | 32.8 | 422.9 | 41.8 | 477.8 | 37.9 |
| – Interest income from money lending activities | 5.9 | 0.7 | 5.2 | 0.5 | 1.4 | 0.1 |
| **Financial products and investments:** | **–** | **–** | **5.0** | **0.5** | **55.9** | **4.4** |
| – Interest income from reverse repurchase agreements | – | – | 5.0 | 0.5 | 55.9 | 4.4 |
| **Net investment income and gains or losses** | | | | | | |
| **Financial products and investments:** | **298.8** | **32.2** | **134.9** | **13.3** | **367.8** | **29.2** |
| – Interest income from financial assets at fair value through profit or loss | 127.0 | 13.7 | 461.6 | 45.7 | 372.2 | 29.5 |
| – Dividend income from financial assets at fair value through profit or loss | 8.0 | 0.9 | 12.2 | 1.2 | 8.2 | 0.6 |
| – Net realised gain/(loss) on financial assets at fair value through profit or loss | 26.3 | 2.8 | (258.7) | (25.6) | 56.3 | 4.5 |
| – Net unrealised gain/(loss) on financial assets at fair value through profit or loss | 21.0 | 2.3 | (215.6) | (21.3) | (59.2) | (4.7) |
| – Interest income from available-for-sale financial assets | 137.5 | 14.8 | – | – | – | – |
| – Net realised loss on available-for-sale financial assets | (14.1) | (1.5) | – | – | – | – |
| – Interest income from derivatives | – | – | – | – | 10.4 | 0.8 |
| – Net realised gain/(loss) on derivatives | (13.9) | (1.5) | 28.3 | 2.8 | (66.1) | (5.2) |
| – Net unrealised gain on derivatives | 3.2 | 0.3 | 6.3 | 0.6 | 26.3 | 2.1 |
| – Net realised loss on financial liabilities at fair value through profit or loss | – | – | (1.8) | (0.2) | (6.4) | (0.5) |
| – Net unrealised gain on financial liabilities at fair value through profit or loss | 3.8 | 0.4 | 102.6 | 10.2 | 26.1 | 2.1 |
| **Total revenue** | **927.7** | **100.0** | **1,011.0** | **100.0** | **1,261.6** | **100.0** |

## Brokerage

### *Overview*

The brokerage business of the Issuer Group is conducted through its subsidiaries, CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, and CISI Futures, which is licensed to carry on Type 2 (dealing in futures contracts) regulated activity.

The Issuer Group executes trades on its clients' behalf in equity securities and futures contracts traded on the Hong Kong Stock Exchange. The Issuer Group offers brokerage services through its sales team comprising in-house client managers and self-employed account executives, all of whom are licensed under the SFO. Client managers are primarily responsible for providing advice and various client services to its clients, such as receiving and passing client orders or instructions to the operations departments. In addition, client managers may provide investment information (if incidental to its brokerage service under the scope of its Type 1 licence), such as the latest buy/sell prices and trading volume of the relevant stocks, to clients to assist them in placing well-considered orders. The Issuer Group also offers trading services in respect of securities and futures traded on overseas exchanges (including the United States, PRC, Taiwan, Singapore, Australia, the United Kingdom and Germany) through external brokers (or their agent) who are licensed in their respective jurisdictions to trade such securities. The Issuer Group maintains securities and futures trading accounts with its external brokers and have entered into standard brokerage agreements with them covering account opening, manner of giving and receiving instructions to and by the broker and settlement arrangements. The Issuer Group is required to pay commissions and fees to the external brokers at agreed rates for orders the Issuer Group places with them on behalf of its customers. The Issuer Group separately charges its customers commissions and fees at a rate that the Issuer Group considers appropriate after taking into consideration its expenses. The external brokers are responsible for carrying out the transaction instructions of the Issuer Group in a timely and professional manner as well as safekeeping the assets in the designated accounts with them, and the Issuer Group is responsible for timely settlement of the transaction amounts, commissions and fees payable to the external brokers for the orders the Issuer Group placed with them as well as complying with all relevant laws and regulations. Pursuant to the relevant brokerage agreements, the Issuer Group may authorise the external brokers to appoint an agent to handle its orders. The Issuer Group handles orders received from its own clients through the trading accounts maintained with external brokers and its external brokers charge the Issuer Group commission for executing such trades. As the Issuer Group does not have actual brokerage activities in such overseas jurisdictions, the Issuer Group is not required to obtain licences in such jurisdictions.

To leverage its established client network and accumulated experience while minimising its staff costs, the Issuer Group also engages self-employed account executives to execute trades on behalf of its clients. Account executives are not employees of the Issuer Group. They receive a pre-determined percentage of brokerage commission received by the Issuer Group from transactions executed for its clients. For the years ended 31 December 2017, 2018 and 2019, HK$51.2 million, HK$52.0 million and HK$32.1 million (or 16.1 per cent., 11.7 per cent. and 9.0 per cent. of its total commission and fee income) was paid to account executives as sales commission. The Issuer Group enters into agency agreement with its account executives setting out the role of the account executives, commission sharing arrangement, trading arrangements and termination events. The ratio of commission sharing is negotiated on a case-by-case basis, and is determined by reference to the prevailing market rate, mutual negotiation, track record and performance of these account executives. The Issuer Group closely monitors their performance through reviewing daily, monthly and year-to-date reports. In case where any loss or liability incurred by the Issuer Group was due to the fraud or wilful default of the account executives engaged by the Issuer Group or where there is any unsettled trade or margin loan balance due from the client referred by them, the responsible account executives indemnify the Issuer Group for any such loss or liability. There is no material difference between the in-house client managers of the Issuer Group and the self-employed account executives in terms of their professional qualifications as well as the licencing requirements, and all of them are licensed to carry on regulated activities. These account executives maintain their relevant licences with CISI Brokerage and CISI Futures only and thus are only allowed to conduct the relevant regulated activities in such capacities.

The Issuer Group will only take orders or instructions from clients who have completed the account opening procedures of the Issuer Group, including the signing of account opening forms, client agreements and, in certain cases, letters of authorisation or powers of attorney. Clients are required to agree that neither the Issuer Group nor any of its officers, employees or agents shall be liable to them for any loss or liability which they may incur (including losses and liabilities resulting from any transactions involving securities trading executed by any account executive) unless due to fraud or wilful default on the Issuer Group's part. Clients take full responsibility for all trading decisions in their securities trading accounts and the Issuer Group is responsible only for the execution, clearing and carrying out of transactions in such accounts.

To personalise its brokerage services, depending on the specific needs of its clients, the Issuer Group also offers ancillary services such as securities custody, dividend collections, and IPO applications, and the Issuer Group charges handling/administrative fees for providing such services.

Brokerage business of the Issuer Group has been one of its core business segments and revenue from this segment has historically represented a significant portion of the total revenue of the Issuer Group. For the years ended 31 December 2017, 2018 and 2019, commission and fee income from the brokerage business amounted to HK$182.2 million, HK$212.5 million and HK$167.8 million, respectively, representing 19.6 per cent., 21.0 per cent. and 13.3 per cent. of the total revenue of the Issuer Group, respectively.

***Securities brokerage***

The Issuer Group engages in the trading of various securities products on behalf of its clients, including:

- ***Stocks***: stocks of listed companies on the Hong Kong Stock Exchange and other stock exchanges worldwide, including the United States, Taiwan, Singapore, Australia, the United Kingdom, and Germany. The Issuer Group is a China Connect Exchange Participant, which allows it to participate in the Shanghai-Hong Kong Stock Connect (i.e. trading eligible stocks listed on the Shanghai Stock Exchange);

- ***Funds***: authorised funds and ETFs;

- ***Bonds***: treasury bonds, corporate bonds and convertible bonds; and

- ***Derivatives***: Hong Kong Stock Exchange traded warrants, CBBCs and stock options.

The gross commission income of the Issuer Group for its securities brokerage business for the years ended 31 December 2017, 2018 and 2019 was HK$160.4 million, HK$182.2 million and HK$137.5 million, respectively.

***Futures and options brokerage***

The Issuer Group provides its futures and options brokerage services through its subsidiary CISI Futures. The Issuer Group offers a diverse range of local and global futures and options contracts trading services, including (a) financial futures, namely, index futures, treasury-bond futures, currency futures and interest rate futures; and (b) commodity futures, such as metal futures, energy futures and agriculture futures. The futures trading system of the Issuer Group has been connected to the latest Automatic Order Matching and Execution System (CLICK TRADE XT), through which transaction instructions are delivered to the Futures Exchange for order matching, execution and settlement to be carried out efficiently. Similar to its securities brokerage services, the Issuer Group also offers futures trading services on overseas exchanges through external brokers, and these brokers (or their agent) are licensed in their respective jurisdictions to trade such futures. The Issuer Group enters into standard agreement with these external brokers, covering the services provided to the Issuer Group, account opening, deposit requirements, manner of giving and receiving instructions and settlement arrangements. As the Issuer Group does not operate in such overseas jurisdictions, the Issuer Group is not required to obtain licences in such jurisdictions. In addition to its online trading platform, the Issuer Group also operates a 24-hour hotline to accept orders placed by clients over the telephone for trading in over 10 markets worldwide. Futures brokerage clients are required to maintain its minimum deposit requirement before they may execute trades on futures contracts through its platforms.

Gross commission income for the futures and options brokerage business of the Issuer Group for the years ended 31 December 2017, 2018 and 2019 was HK$18.1 million, HK$27.0 million and HK$24.3 million, respectively.

#### *Insurance brokerage*

The Issuer Group provides its insurance brokerage services through its subsidiary CISI Wealth Management. The Issuer Group offers a diversified portfolio of third party insurance products, including life insurance, general insurance and unit-linked investment policies.

The gross commission income for the insurance brokerage business of the Issuer Group for the years ended 31 December 2017, 2018 and 2019 was HK$3.7 million, HK$3.3 million and HK$6.0 million, respectively.

#### *Brokerage commission and fee income*

The Issuer Group charges commission and fees to customers who trade through the Issuer Group's trading platforms. The brokerage commission for each client varies and is generally determined by reference to the prevailing market rates, historical and future trading volume, the channel for placing orders, the client's financial position and credit profile and the total value of the position (if any) in the cash account(s) maintained by each client with the Issuer Group. Commission and fee income revenue from the brokerage business of the Issuer Group decreased from HK$212.5 million for the year ended 31 December 2018 to HK$167.8 million for the year ended 31 December 2019, representing a year-on-year decrease of 21.0 per cent., which was due to a decrease in turnover of the Hong Kong stock market in 2019 resulting in the decline in the accumulated trading amount of the Issuer Group's clients.

#### *Trading platforms*

To increase the convenience for its clients and expand its client reach, the Issuer Group provides its clients with multiple trading platforms. Clients can trade via telephone, personal computer, smartphone or tablet and place orders or instructions through such channels. With the increasing proliferation of smartphones and other mobile devices, since 2012 the Issuer Group has rolled out multi-platform electronic trading services, allowing its clients to use their smartphones and tablets to obtain real-time access to its brokerage services, obtain the latest price quotes, perform transactions in respect of products covering Hong Kong stocks, Shanghai-Hong Kong Stock Connect, B shares, United States stocks, Canadian stocks, local futures and global futures, and monitor transaction status online everywhere. Online buy/sell orders are automatically transmitted to its electronic trading system which is connected to the Hong Kong Stock Exchange's trading system and provides automatic matching and execution of buy/sell orders received from clients. Therefore, no involvement of dealers is required for client trading activities performed online.

### Loans and financing

#### *Overview*

The Issuer Group began providing margin financing in 2012 and expanded its service offering to provide money lending in 2014. The Issuer Group ceased its money lending business on 12 February 2020. The loans and financing business of the Issuer Group comprised two sub-segments until 12 February 2020, namely margin financing under Type 1 regulated activity and money lending under its Money Lenders Licence, and currently comprises one sub-segment, namely margin financing. Margin financing of the Issuer Group is complementary to its brokerage business, enabling its securities brokerage clients to obtain short-term liquidity with the Issuer Group's financing services to fund their securities purchases. Under its margin financing business, the Issuer Group takes collateral from margin clients who wish to finance their securities purchases and the Issuer Group offers financing to such clients, thereby giving funding flexibility to its clients by assisting them to leverage their investments. Until 12 February 2020, the Issuer Group also advanced loans to clients through its money lending services to provide its clients with an additional funding channel and funding flexibility for their personal or corporate needs. Interest income from the loans and financing business of the Issuer Group amounted to HK$310.5 million, HK$428.2 million and HK$479.2 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 33.5 per cent., 42.3 per cent. and 38.0 per cent. of its total revenue during the same period, respectively.

The loans and financing business of the Issuer Group is characterised by its capital-intensive nature. Loans provided to clients are sourced mainly from the Issuer Group's external borrowing from banks and financial institutions and from the operating activities and internal resources of the Issuer Group. Since 12 February 2020, the Issuer Group has not engaged in direct loans to clients, but margin financing remains a significant part of the Issuer Group's business. The multiple sources of funding allow the Issuer Group to effectively leverage up its capital structure to capture the surging financing demands of its clients, which in turn, fuel the expansion of and maximise the Issuer Group's return from this business segment.

To manage the associated credit exposure arising from the loans and financing business, the Issuer Group has margin requirements, credit assessment and internal control procedures. The Issuer Group also requires its clients to provide sufficient collateral and further security (if any) when the Issuer Group makes the loans or advances and the Issuer Group may require additional collateral or further security during the term of the loan to manage its exposure against fluctuation of the value of collateral received. The collateral in most cases is in the form of listed securities. For details, see "*Description of the Issuer Group – Risk management and internal control – Monitoring and management of major risks – Credit risks*". See also "*Risk Factors – Risks associated with the business operations of the Group – The Issuer Group's margin financing business could be materially and adversely affected by the decline in market value of the collateral or client's default in repayment*".

***Margin financing***

The margin financing business of the Issuer Group is conducted by its subsidiary CISI Brokerage, which is licensed to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO. Clients who obtain margin financing from Issuer CISI Brokerage may only use such financing for securities trading through their accounts with the Group. Margin financing services are provided by the Issuer Group generally for an initial term of 12 months subject to renewal, and its agreements with clients typically include terms such as the credit line, collateral requirements, margin call policy, interest rate and risk disclosure. The credit line (i.e. lending limit) the Issuer Group grants to margin clients varies for each client. Margin clients must also satisfy its margin requirements. Every margin client maintains a required amount of cash deposit and/or acceptable securities in line with the approved margin ratio with the Issuer Group when the Issuer Group extends margin loans to him/her or it. See "*Description of the Issuer Group – Loans and financing – Collateral*" for details.

As at 31 December 2019, the total margin loan balance of the Issuer Group (including the provision of impairment allowance) of HK$3,842.8 million decreased when compared with HK5,902.1 million as at 31 December 2018. The Issuer Group conducts a regular review of its clients' margin account portfolio and financial status, and impairment provisions are made for the relevant margin loans pursuant to the Issuer Group's internal impairment management method and based on the expected credit loss model. If necessary, the Issuer Group undertakes clean-up and recovery actions, including legal claims. In line with regulatory requirements set out by the SFC intended to further enhance the risk control procedures used to monitor margin financing, the Issuer Group will further limit the total scale of its margin financing business while adjusting and optimising customer structure and income structure.

***Money lending***

The money lending business of the Issuer Group was conducted by its subsidiary, CISI Finance, which was a licensed money lender under the MLO until 12 February 2020. Different from margin financing which can only be used by clients exclusively for securities purchases, money lending clients applied for loans obtained from CISI Finance for personal or corporate purposes. The Issuer Group provided fixed-term loans to clients with maturity periods up to 24 months. The Issuer Group entered into loan agreements with its clients, which typically set out the parties, date of the agreement, principal amount, collateral requirements, maturity date, interest period, interest rates, events of default and a summary of provisions of Part III and Part IV of MLO.

***Collateral***

When the Issuer Group grants margin loans, the Issuer Group requires its clients to provide sufficient collateral to cover the loan amount. Normally only securities quoted on the Hong Kong Stock Exchange are eligible as collateral. A list of eligible securities in relation to which the Issuer Group grants margin loans is posted on its website. The Issuer Group may also accept other marketable assets comprising securities traded on foreign exchanges and bonds on a case-by-case basis after review by its senior management. Based on its policy, when the Issuer Group grants the loan, it sets a margin ratio (i.e. expressed, as the ratio of the margin loan advanced to the market value of the collateral) from 10 per cent. to 70 per cent. which each client is required to maintain during the term of the loan. The margin ratio represents the maximum percentage of financing its client can receive against the value of collateral in his or her account. In the event the Issuer Group notices that the ratio of the outstanding margin loan granted to the relevant client to the value of the collateral provided by that client has reached its approved ratio, a margin report will be automatically generated by the system of the Issuer Group and it is the Issuer Group's standard procedure to issue a margin call and request that client to fulfil the margin call either by depositing additional funds to the respective securities margin accounts, closing out the securities or pledging or providing additional collateral to top up the market value of pledged securities to restore his margin ratio to the approved ratio and/or providing further security to cover its exposure where necessary. Criteria assessed when setting the margin ratio includes market capitalisation, type, liquidity and volatility of the securities provided and the financial position of the relevant listed issuers.

In the event that its client fails to fulfil its margin call within a prescribed time period, the Issuer Group is entitled to exercise its rights to mandatorily liquidate the pledged securities in accordance with the client agreement for margin accounts. The Issuer Group may defer the mandatory liquidation process after assessment of the recent performance of the collateral (such as its liquidity and price), the prevailing market conditions, the potential impact of mandatory liquidation on the market price of the collateral and any potential loss that may arise from such exercise, balanced against the recoverability of the margin loans, taking into account the quality of the collateral, the trading history and credit profile of its client, whether any additional collateral or financial comfort or further security could be made available to the Issuer Group, and the decision on deferral is subject to the approval of the risk management department of the Issuer Group. In such event, the trading accounts of the relevant client will be suspended from trading, its credit department will closely monitor the positions of the collateral held by such client, request for additional collateral of sufficient value or further security to cover the shortfall, realise the collateral or take debt collection action as a last resort.

For the years ended 31 December 2017, 2018 and 2019, there were instances where the day-end margin ratios of certain margin accounts exceeded 100 per cent. The Issuer Group issued margin calls to those clients in accordance with its policy as mentioned above. The actual day-end margin ratio in respect of each margin account could vary greatly due to daily movements of the market value of the listed securities pledged as collateral. See "*Risk Factors – Loans and financing business of the Issuer Group could be materially and adversely affected by the decline in market value of the collateral or client's default in repayment*" for the associated risks relating to this business line. Please also see "*Risk Management and Internal Control – Issuer Group risk management relating to the Issuer Group's loans and financing business*" for further details of its risk management measures.

***Interest income***

The Issuer Group charges interest on margin financing and loans provided to clients. For the years ended 31 December 2017, 2018 and 2019, the interest rate the Issuer Group charged on margin financing was around Hong Kong dollar Prime Rate plus three per cent. per annum. The Issuer Group determines and fixes the interest rates by reference to the prevailing market interest rate, risk profile, size and quality of the collateral, creditworthiness, settlement history, trading volume and years of business relationship of its client, and such rates are subject to change from time to time in response to changing market conditions and its business strategies.

The loans and financing segment of the Issuer Group is integral to its business operations. The Issuer Group recorded a growth in revenue from this segment for the years ended 31 December 2017, 2018 and 2019, the overwhelming majority of which came from margin financing. As direct loans were a minor part of this segment, the Issuer Group chose not to renew its Money Lending License when it expired in February 2020. The following table sets forth the breakdown of segment revenue from the Issuer Group's loans and financing business for the periods indicated:

| | **For the year ended 31 December** | | | | | |
|---|---|---|---|---|---|---|
| | **2017** | | **2018** | | **2019** | |
| **Interest income** | *(HK$ in millions)* | *%* | *(HK$ in millions)* | *%* | *(HK$ in millions)* | *%* |
| – margin financing | 304.6 | 98.1 | 422.9 | 98.8 | 477.8 | 99.7 |
| – money lending | 5.9 | 1.9 | 5.2 | 0.2 | 1.4 | 0.3 |
| **Total** | **310.5** | **100.0** | **428.1** | **100.0** | **479.2** | **100.0** |

***Loan management***

*Loan application*

Potential clients of the Issuer Group's loans and financing services complete its "know-your-client" procedure, which consists of obtaining and reviewing various identification documents. Each applicant signs the client agreement and loan application form with the Issuer Group before the Issuer Group extends any loan to him/her or it.

*Credit assessment*

The Issuer Group completes credit assessments for applicants for its loans and financing services. In assessing their creditworthiness, the Issuer Group's primary focus is on the collateral and security (if any) offered as well as the applicant's background. The Issuer Group evaluates collateral according to various matrices, such as their liquidity, market value, volatility and type. In addition to the collateral, the credit assessment department of the Issuer Group takes into account the client's occupation, financial condition, reputation, investment purpose, securities concentration, trading and settlement history with the Issuer Group, asset proof and credit history, which facilitate the Issuer Group's assessment on the client's repayment ability. Where necessary, the Issuer Group conducts credit search with external credit check agencies to obtain background information and credit history of its client.

***Loan approval***

*(a) Margin financing*

The risk management department of the Issuer Group reviews and evaluates the credit assessment results together with the documents offered in support of the loan application. Based on its credit assessment and upon application by its client, the Issuer Group sets the appropriate credit line for each client. A basic credit line of HK$200,000 will be made available for a new client at the discretion of the Issuer Group's risk management department. The risk and credit management committee of the Issuer Group approves and, where appropriate, revises the credit line extended to each client upon request and completion of its internal assessment procedures.

*(b) Money lending*

Until 12 February 2020, the loan approval process for the Issuer Group's money lending service was similar to that of its margin financing as detailed above. Applicants for money lending service signed loan agreements with the Issuer Group and issued drawdown notices within the term of the loan agreement.

***Post-loan monitoring***

*(a) Margin financing*

The Issuer Group's securities back office system generates a daily margin report, which is reviewed by the risk management department and the senior management of the Issuer Group. The risk management department will conduct more frequent reviews on the securities portfolio provided by its clients as collateral if the market value of such collateral is experiencing material fluctuation. In the event of any adverse movement in the value of the collateral such that the ratio of the outstanding margin loan to the value of the collateral of the relevant client has reached the approved ratio or the value of the collateral provided by the relevant client is considered to be insufficient to cover its exposure with respect to the loan granted to that client, the Issuer Group will issue margin calls via phone call, e-mail, SMS or other means as the Issuer Group considers appropriate and requests such client to fulfil the margin call either by depositing additional funds, closing out the securities, pledging additional securities to top up the market value of pledged securities and/or providing further security to cover any shortfall, within a prescribed period. A client subject to a margin call is not allowed to execute further securities purchases without the approval of at least two members of the risk and credit management committee of the Issuer Group, unless such client has fulfilled the margin call within the prescribed time limit, either within the same day or by 3:30 p.m. on the next trading day. In the case a client fails to do so or the ratio of the outstanding loan reaches or exceeds 140 per cent. of the value of the collateral or 85 per cent. of the total value of the securities held in the cash and margin accounts, unless the Issuer Group agrees to defer the mandatory liquidation process, the Issuer Group may exercise its rights to mandatory liquidate the collateral and take debt collection action for any shortfall in accordance with the agreement signed with the client and the Issuer Group's policies as the last resort. The Issuer Group's client agreement stipulates that in circumstances where the Issuer Group is entitled under its client agreement to carry out the sale or disposal of the collateral, the client agrees that the Issuer Group has the right and power to sell or dispose of any collateral held by the Issuer Group at its absolute discretion.

*(b) Money lending*

During the monitoring stage, the risk management department of the Issuer Group monitors the repayment status of each loan on a daily basis and is required to report to the risk and credit management committee of the Issuer Group. For secured loans, during the loan monitoring process, in the event that the Issuer Group notices that the value of the collateral is considered to be insufficient to cover its risk exposure or that the actual loan-to-value ratio with respect to any loan advanced has reached or exceeded its accepted ratio, the Issuer Group may require the borrower to deposit additional collateral and/or security, partially repay the outstanding loan or realise the value of the collateral in order to bring the loan-to-value ratio back to an acceptable level. For unsecured loans, the credit department of the Issuer Group conducts annual review on each outstanding loan and if the Issuer Group notices that there is a material deterioration in its client's financial position, the Issuer Group may require repayment from its client after reporting to the risk and credit management committee. In the event that a client fails to respond to its request as mentioned above, the Issuer Group may appoint an external debt collection service provider or take appropriate legal actions for debts which have been due for a long period as its last resort. Because the Issuer Group is no longer making new loans under this sub-segment, the amount of outstanding money lending loans decreased to zero in 2019.

**Corporate finance**

The Issuer Group provides corporate finance services, including fund raising services (such as equity and debt securities underwriting), listing sponsorship services and financial advisory services to institutional clients. For the years ended 31 December 2017, 2018 and 2019, segment revenue from the corporate finance business amounted to HK$123.3 million, HK$211.3 million and HK$154.8 million, respectively, representing 13.3 per cent., 21.0 per cent. and 12.3 per cent. of the total revenue of the Issuer Group during the corresponding periods, respectively.

As at 31 December 2019, the corporate finance unit of the Issuer Group had responsible officers for Type 6 (advising on corporate finance) regulated activities. Certain of these responsible officers were sponsor principals and others were responsible officers for Type 1 (dealing in securities) regulated activities under the SFO. The Issuer Group charges commission on placing, underwriting and sub-underwriting services, corporate advisory services, sponsor and service fees from the provision of listing sponsorship services and arrangement fees from the provision of fixed-income structured products issuance services, respectively. The following table sets forth the segment revenue from the Issuer Group's corporate finance services for the periods indicated:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2018 | | 2019 | |
| | *(HK$ in millions)* | *%* | *(HK$ in millions)* | *%* | *(HK$ in millions)* | *%* |
| – Commission on placing, underwriting and sub-underwriting | 52.5 | 42.7 | 175.2 | 82.9 | 116.4 | 75.2 |
| – Debt securities | 31.8 | 25.9 | 125.0 | 59.1 | 62.6 | 40.4 |
| – Equity securities | 20.7 | 16.8 | 50.2 | 23.8 | 53.8 | 34.8 |
| – Corporate advisory fee income | 1.2 | 0.9 | 3.1 | 1.5 | 0.8 | 0.5 |
| – Sponsor fee income | 7.1 | 5.8 | 8.0 | 3.8 | 7.8 | 5.0 |
| – Arrangement fee | 62.5 | 50.6 | 25.0 | 11.8 | 29.7 | 19.2 |
| **Total** | **123.3** | **100** | **211.3** | **100** | **154.8** | **100** |

***Placing, underwriting and sub-underwriting services***

The Issuer Group underwrites IPOs and secondary offerings, rights issues and private placements. The Issuer Group receives underwriting commissions based on the size and type of fund raising, complexity of the transaction as well as market conditions. For the year ended 31 December 2019, the Issuer Group completed 15 IPO underwriting projects and placing projects in the secondary market, as well as 48 projects of issue and underwriting of publicly offered and privately placed bonds denominated in G3 currencies (including preferred shares). For the years ended 31 December 2017, 2018 and 2019, the total underwriting and placing amount of equity securities reached HK$2.3 billion, HK$3.4 billion and HK$2.1 billion, respectively, and the total underwriting and placing amount of debt securities reached U.S.$1.6 billion, U.S.$2.3 billion and U.S.$2.3 billion, respectively. The Issuer Group's fee income from placing, underwriting and sub-underwriting services was HK$52.5 million, HK$175.2 million and HK$116.4 million for the years ended 31 December 2017, 2018 and 2019, respectively. Equity securities commission revenue increased from HK$20.7 million for the year ended 31 December 2017 to HK$50.2 million for the year ended 31 December 2018, representing a year-on-year increase of 142.5 per cent., and from HK$50.2 million for the year ended 31 December 2018 to HK$53.8 million for the year ended 31 December 2019, representing a year-on-year increase of 7.2 per cent. Debt securities commission revenue increased from HK$31.8 million for the year ended 31 December 2017 to HK$125.0 million for the year ended 31 December 2018, representing a year-on-year increase of 292.2 per cent., and decreased from HK$125.0 million for the year ended 31 December 2018 to HK$62.6 million for the year ended 31 December 2019 due primarily to a smaller number of debt issuances underwritten or placed.

***Corporate advisory***

The Issuer Group provides corporate advisory services in various transactions for its clients, including, among others, advice for mergers and acquisitions transactions and independent financial advice for listed companies. The Issuer Group charges advisory fees based on the type and size of the transactions, duration of the engagement, complexity of the transaction and the expected resources required.

For the years ended 31 December 2017, 2018 and 2019, fee income from the Issuer Group's corporate advisory services was HK$1.2 million, HK$3.1 million and HK$0.8 million, respectively.

***Listing sponsorship***

The Issuer Group provides listing sponsorship services for corporate clients who wish to apply for a listing on the Hong Kong Stock Exchange. For the year ended 31 December 2019, the Issuer Group completed two sponsorship projects and submitted applications for an additional two sponsorship projects. The Issuer Group received sponsorship fees of HK$7.1 million, HK$8.0 million and HK$7.8 million for the years ended 31 December 2017, 2018 and 2019, respectively.

***Arrangement***

The Issuer Group acts as an arranger for structured products. For the years ended 31 December 2017, 2018 and 2019, the Issuer Group received arrangement fee income of HK$62.5 million, HK$25.0 million and HK$29.7 million, respectively.

***Asset management***

The Issuer Group commenced its asset management business in 2012. The asset management business of the Issuer Group includes asset management services and investment advisory. As at 31 December 2019, the asset management schemes had a total AUM of HK$9.0 billion. For the years ended 31 December 2017, 2018 and 2019, the Issuer Group received asset management income of HK$12.9 million, HK$19.2 million and HK$36.1 million, respectively.

The asset management services provided by the Issuer Group primarily include:

- *Collective investment scheme*: the Issuer Group manages client assets for a group of clients while keeping client assets in designated accounts pursuant to applicable laws and in accordance with collective asset management contracts. The Issuer Group launched its first collective investment scheme in 2012.

- *Discretionary account management*: the Issuer Group manages assets for a single client pursuant to a discretionary mandate between the client and the Issuer Group through a discretionary account. The Issuer Group launched its discretionary account management service in 2013 and offers customised investment strategies tailored to each client's background, financial condition, risk sensitivity, investment goals and other factors.

- *Investment advisory*: the Issuer Group provides investment advice mainly to institutional clients, which are mainly asset management companies. The Issuer Group also provides investment advisory service for individual and corporate clients, as well as offshore counselling services for QDII products. The Issuer Group charges investment advisory fees based on the nature of the advice the Issuer Group provides and mutual negotiation. The Issuer Group received investment advisory fees of HK$3.4 million, HK$2.8 million and HK$4.2 million for the years ended 31 December 2017, 2018 and 2019, respectively.

***Financial products and investments***

The financial products and investments business of the Issuer Group mainly includes proprietary investments in bonds denominated in U.S. dollars and other fixed income products. For the years ended 31 December 2017, 2018 and 2019, The Issuer Group realised a net gain on financial instruments at fair value through profit or loss (including interest income and dividend income) of HK$298.8 million, HK$139.8 million and HK$423.7 million, respectively, representing approximately 32.2 per cent., 13.8 per cent. and 33.6 per cent. of its total revenue, for the same periods. Revenue from the financial products and investment business of the Issuer Group for the year ended 31 December 2019 increased by 203.0 per cent. on a year-on-year basis as compared to the year ended 31 December 2018, which was attributable mainly to the Issuer Group's effective risk control measures.

***Investment strategies***

The Issuer Group's investment strategy is to actively capture non-high risk opportunities to increase returns on its investments while ensuring sufficiency of working capital and protection of its principal invested. The Issuer Group generally aims to invest into bonds and stocks where the Issuer Group has an in-depth understanding of the relevant issuer and believes there are opportunities for value investing. The Issuer Group's strategies are to mainly invest in debt securities to increase returns while ensuring principal protection. For equity investments, the Issuer Group seeks to adopt a "value investing" strategy where it aims to identify companies with good growth prospects and invest in stock which are relatively undervalued in the market, after conducting in-depth research and detailed analysis. As the Issuer Group continues to expand its financial products and investments business, its investment strategies evolve to accommodate its business need. The key aspects of the Issuer Group's investment strategies are summarised below:

| | |
|---|---|
| General selection criteria of debt securities | • The Issuer Group invests in bonds normally with investment grade ratings (i.e. bonds with BBB-rating or above by international rating agencies) |
| | • The Issuer Group may also invest in non-investment grade bonds with higher return potentials and issued by companies which the Issuer Group has in-depth understanding after applying strict credit selection process |
| | • Duration of the Issuer Group's bond portfolio is generally around five years, with flexibility based on the investment decision committee's assessment by reference to the market development, macro-economic conditions, expected investment return and diversity in bond duration to optimise investment return |
| Asset allocation strategy | • The Issuer Group's bond portfolio shall comprise stable-type bonds which we intend to hold in the longer term and trading-type bonds which the Issuer Group intends to actively trade in the shorter term |
| | • Stable-type bonds are investment-grade bonds with BBB+ rating or above and shall comprise at least 60 per cent. of the Issuer Group's total investment portfolio. No single stable-type bond investment shall comprise over 15 per cent. of the total investment portfolio of the Issuer Group |
| | • Trading-type bonds are investment-grade, high-yield and convertible bonds which the Issuer Group intends to earn profit from active trading. For trading-type investment-grade bonds, no single bond shall comprise over 10 per cent. of the total investment portfolio. For trading-type high-yield and convertible bonds, no single bond shall comprise over five per cent. of the total investment portfolio of the Issuer Group |
| | • Reasonable diversity in overall debt securities portfolio in terms of country of domicile and the industry in which the issuer operates |

| | |
|---|---|
| Debt securities investment strategies | • Duration deviation – based on the Issuer Group's projections of the future interest rate level, duration and investment variety of its portfolio will be reasonably allocated and the impact of changes in market interest rates on the bond portfolio will be constrained to a certain extent. If interest rate is expected to enter an upward cycle, the term of the bond portfolio will be shortened or allocation of floating-rate bonds will be increased for the purpose of lowering interest rate risk. If interest rate is expected to enter a downward cycle, the term of the bond portfolio will be increased or allocation of floating-rate bonds will be decreased for the purpose of lowering interest rate risk<br><br>• Yield curve allocation – based on the remaining term of the portfolio and the Issuer Group's prediction of changes in the shape of the yield curve, long-, medium- and short-term bonds will be allocated in order to earn profit from changes in the relative prices of long-, medium and short-term bonds<br><br>• Type selection – when making allocation amongst fixed income securities, the Issuer Group will consider liquidity management requirements for determining different allocations amongst different types of fixed income securities. Specifically, credit bonds have higher yield but lower liquidity, while government bonds have lower yield but higher liquidity. Therefore, in determining the overall bond allocation, the Issuer Group will consider the profitability of the credit bonds and the liquidity of government bonds, in order to maintain a balanced and comprehensive allocation<br><br>• Credit bond (i.e. bonds other than treasury bonds) – the Issuer Group will conduct a comprehensive analysis of macro economy, interest rate market, industry fundamentals and corporate fundamentals to determine the credit premium of credit bonds relative to interest rate products, and adjust the investment percentage of credit bonds based on market sentiment dynamics, in order to obtain excess returns from the credit bonds. Specifically, under the premise of risk control, the selection of individual credit bond will be focused on the actual creditworthiness rather than credit rating of an individual bond. Additionally, anticipated upgrading of credit rating, special advantageous terms, relatively higher risk-adjusted rate of return and market yield curve will also be considered in bond selection |
| Risk management and tolerance | • The Issuer Group has control functions in place which are indicators performed jointly by its investment team, operation team, financing team, with reporting lines to its investment management committee and its deputy chief executive officer<br><br>• Approval from the Issuer Group's investment decision committee is required for any investments exceeding our pre-set trading limits or material adjustments in asset allocation<br><br>• Senior management reviews investment positions and valuation reports on a daily, weekly and monthly basis |

- For individual bonds, the Issuer Group monitors daily price movement. For example, any five per cent. decrease from initial investment cost will be put on the Issuer Group's monitor list, any 10 per cent. decrease from initial investment cost will trigger cut-loss. For high-yield bonds, the Issuer Group adopts a stricter cut loss mechanism, any five per cent. decrease from initial investment cost will triggers cut-loss

- For portfolio management, the Issuer Group's stop-loss mechanism is triggered if the weekly accumulated loss exceeds one per cent. of the authorised investment capital, or quarterly accumulated loss exceeds 1.5 per cent. of the authorised investment capital and the Issuer Group will liquidate its whole portfolio once our stop-loss mechanism is triggered

- For trading-type bonds, the Issuer Group monitors its sensitivity to interest rates movements, use a quantitative indicator to measure bond price sensitivity to interest rate movement and use bond futures to hedge interest rates risks. Hedge level is between 50 per cent. and 100 per cent. of interest rate risk of trading-type bonds

- For stress management, the Issuer Group conducts a regular portfolio valuation test and perform *ad hoc* valuation during volatile market movements to generate a real-time stress report for assessment for its senior management

- For further details, see "*Issuer Group risk management and internal control – Risk management relating to our financial products and investments business*"

The Issuer Group's investment decision committee is responsible for formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment activities. The Issuer Group's fixed income department is responsible for the operational aspects of proprietary trading in accordance with the limits, strategies and guidelines set by the investment decision committee and shall report regularly to the investment decision committee. Any proposed trades which exceed the authorised limit must first be approved by the investment decision committee. The Issuer Group may decide to hold 100 per cent. of its proprietary assets in cash over a period of time should the investment decision committee deem such strategy to be prudent. Subject to market conditions and its risk assessment, the Issuer Group strives to seek suitable investment opportunities with an aim to achieving stable return on its cash balance while managing risk by implementing its trading and risk management strategies. The Issuer Group is in the process of adopting more comprehensive risk management measures such as establishing quantitative limits, warning levels or other measures based on VaR (value at risk) data. To manage the risk exposure, the Issuer Group has in place a stop-loss mechanism for investment products. For example, the mechanism would be triggered if the weekly accumulated loss exceeds one per cent. of the authorised investment capital, or quarterly accumulated loss exceeds 1.5 per cent. of the authorised investment capital. The Issuer Group also has adopted other risk control measures such as pre-set trading limits and concentration ratio.

The Issuer Group closely monitors its investment portfolio in accordance with various guidelines and risk tolerance indicators set by its investment decision committee. For details of its risk management in relation to this business line, see "*Issuer Group risk management and internal control – Monitoring and management of major risks – Risk management relating to the Issuer Group's financial products and investments business*".

The Issuer Group actively seeks suitable investment opportunities and had acquired and held investments in debt securities and convertible bonds with the total amount of HK$8,375.5 million as at 31 December 2019. Set forth below are the breakdown of the debt securities and convertible bonds investments, which in addition to convertible bonds includes unlisted collateralised loan obligation, unlisted debt-linked notes, unlisted credit-linked notes, unlisted preference share listed notes and unlisted equity-linked notes, held by the Issuer Group under its financial products and investments business as at 31 December 2019:

| | **As at 31 December 2019** | |
|---|---|---|
| | *(HK$ in million)* | *%* |
| **Portfolio by issuer ratings (by international rating agencies)** | | |
| AAA to A- | 628.2 | 7.5 |
| BBB+ to BBB- | 1,792.3 | 21.4 |
| BB+ and below | 460.7 | 5.5 |
| Non-rated[(1)] | 5,494.3 | 65.6 |
| **Total** | **8,375.5** | **100.0** |

*Note:*

(1) Non-rated financial assets mainly represent debts instruments and other financial products issued by special purpose entities, banks and other financial institutions and large corporations in the industries of industrial and construction, real estate, chemicals, metals and mining, transportation, and trade and retail, which are creditworthy issuers in the market.

| | **As at 31 December 2019** | |
|---|---|---|
| | *(HK$ in million)* | *%* |
| **Concentration by sector** | | |
| Banks | 1,391.0 | 16.6 |
| Other financial institutions | 2,033.5 | 24.3 |
| Insurance | 79.7 | 1.0 |
| Corporate | 4,791.0 | 57.2 |
| Retail | 80.3 | 1.0 |
| **Total** | **8,375.5** | **100.0** |

| | **As at 31 December 2019** | |
|---|---|---|
| | *(HK$ in million)* | *%* |
| **Concentration by location** | | |
| China | 3,901.3 | 46.6 |
| Europe | 235.5 | 2.8 |
| Hong Kong | 3,026.9 | 36.1 |
| Asia (excluding China and Hong Kong) | 154.2 | 1.8 |
| Australia | – | – |
| America | 1,057.6 | 12.6 |
| **Total** | **8,375.5** | **100.0** |

## Wealth management business

The Issuer Group commenced its wealth management business in December 2015. Under this business, the Issuer Group recommends and offers insurance, pensions and other wealth management products developed by third parties to its clients based on their financial sophistication and risk-return profile. The wealth management products offered by the Issuer Group currently include life and general insurance policies and pension investment schemes managed by third party institutions such as insurance companies. The Issuer Group normally charges its clients a commission based on a fixed percentage of the premium contribution for the insurance policy or the underlying value and new contribution amounts for the investment products (as the case may be) which is agreed among the Issuer Group, the client and the third party provider of the product.

Similar to its brokerage account executives, the Issuer Group's wealth management account executives are not considered as its employees and are entitled to share with the Issuer Group a pre-determined percentage of commission from successful sales to its clients. The Issuer Group received HK$6.0 million of insurance brokerage commission income for the year ended 31 December 2019 for its wealth management business.

**Overseas Research Centre**

The Issuer Group jointly established its research capability, the Overseas Research Centre, with its parent, Industrial Securities. The Overseas Research Centre is the earliest established and one of the most comprehensive overseas market research teams of any Chinese securities enterprise. The Issuer Group's research team focuses on providing research of China-affiliated enterprises listed in Hong Kong and overseas markets, offering quality research support services to institutional investors both home and abroad and assisting them in embracing various challenges amidst the surging wave of overseas assets allocation. The Issuer Group also closely tracks the business growth of target listed companies and conduct in-depth analyses of their corporate fundamentals.

## ISSUER GROUP MAJOR CLIENTS

The Issuer Group serves a diverse base of clients, including individual, corporate and institutional entities. Major clients of the Issuer Group are mainly high net worth individuals and corporate clients. The Issuer Group's clients are mainly individual investors and based in the PRC. These clients are recruited from other securities and brokerage firms in Hong Kong by the Issuer Group's account executives or its in-house client managers through their established network. There are also clients who opened trading accounts with the Issuer Group in Hong Kong due to the brand recognition associated with the Guarantor in the PRC.

## ISSUER GROUP COMPETITION

The financial service industry in Hong Kong is highly competitive with a large number of participants in the market. Among all these players, international investment banks and large-scale mainland PRC-funded players occupied a comparatively large market share in terms of number of transactions and turnover.

To maintain its market position, the Issuer Group has to compete effectively over competitors in terms of capital resources, pricing, client base, service coverage and quality, talents and brand recognition. Competitors of the Issuer Group may have stronger capital resources, greater brand recognition, more human resources, a wider range of services and longer operating histories than that of the Issuer Group. Apart from large multinational financial institutions, the Issuer Group also faces competition from newly established local medium and small-sized financial services firms which offer a similar range of services. Despite keen competition, the Issuer Group believes that its core competitive advantages, sound business planning and the contributions of its senior management as more particularly set out in "*Description of the Issuer Group – Issuer Group competitive strengths*" and "*Description of the Issuer Group – Issuer Group business strategies*" have allowed the Issuer Group to rapidly stand out as a reputable full-service securities group based in Hong Kong, and to capture further market share as the Issuer Group grows its business.

## ISSUER GROUP INFORMATION TECHNOLOGY

To capture business opportunity from online trading which is becoming increasingly popular as well as to enhance its client's trading experience with the Issuer Group, leveraging on the information technology and software program developed by and acquired from third party vendors, the Issuer Group is able to offer multi-product online electronic trading services, through which clients can easily perform transactions over the web through computers and mobile phones, gain access to the Issuer Group's products which cover Hong Kong stocks, Shanghai-Hong Kong Stock Connect, B shares, United States stocks, Canadian stocks, local futures and global futures. To cope with the increasing use of the internet as the trading platform, the Issuer Group has established a system of risk management tools to identify and monitor risks, precisely to respond to risk in an efficient manner. In terms of information technology infrastructure, the Issuer Group uses VMware which provides rapid upgrading of the system, the use of multi-layer network architecture, Web application firewall, digital security authentication, and intrusion prevention systems, to provide comprehensive security for corporate networks.

## ISSUER GROUP EMPLOYEES AND ACCOUNT EXECUTIVES

The Issuer Group believes that its long-term growth depends on the knowledge, experience and continuing commitment of its employees. The human resources department of the Issuer Group is in charge of the employee recruitment, training, compensation and performance appraisal. As at 31 December 2019, the Issuer Group had 219 employees, including directors.

## ISSUER GROUP INSURANCE

The Issuer Group has taken out insurance for its regulated activities for loss of client assets due to theft by employees or other fraudulent acts as stipulated in the insurance policy as required under the Securities and Futures (Insurance) Rules. The Issuer Group also takes out employee compensation insurance for its employees. As the major aspects of its operation have been covered by insurance, the Issuer Group believes that it has taken out sufficient insurance policies over its assets and employees which are customary policies and in line with industry practice.

## ISSUER GROUP LEGAL AND REGULATORY COMPLIANCE

### Licensing requirements

#### *Regulated activities*

The securities market in Hong Kong is highly regulated. The principal regulatory bodies governing the Issuer Group's business are the SFC and the Hong Kong Stock Exchange. The Issuer Group's principal business and its responsible personnel are subject to a number of legislations and regulations and the respective rules of the SFC, the Hong Kong Stock Exchange and the Listing Rules.

In particular, the Issuer Group is required to be licensed with the SFC and be admitted as a Stock Exchange Participant to carry on its business. Set out below is a summary of the material licences and trading rights currently held by members of the Issuer Group:

(a) Licence under SFO to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities

(b) Stock Exchange Participant (Participant ID: 01938)

(c) Stock Exchange Trading Right (Distinctive No. 1050)

(d) Stock Exchange China Connect Exchange Participant (Participant ID: 01938)

(e) Stock Exchange Options Trading Exchange Participant (HKATS Customer Code: IND)

(f) The SEHK Options Clearing House Limited (SEOCH) Direct Clearing Participant (DCASS Customer Code: CIND)

(g) HKSCC China Connect Clearing Participant (Participant ID: B01938) (h) HKSCC Direct Clearing Participant (Participant ID: B01938)

(h) Futures Exchange Futures Commission Merchant (HKATS Customer Code: IND)

(i) HKFE Clearing Corporation Limited (HKCC) Clearing Participant (DCASS Customer Code: CIND)

According to Part 1 of Schedule 5 of the SFO, Type 8 regulated activity is "securities margin financing". According to Part 2 of Schedule 5 of the SFO, "securities margin financing" means providing a financial accommodation in order to facilitate acquisition of securities and the continued holding of those securities, but does not include, *inter alia*, the provision of financial accommodation by a corporation licensed for Type 1 regulated activity. As the brokerage business of the Issuer Group is licensed to carry on Type 1 regulated activity (dealing in securities), it is excluded from the definition of "securities margin financing" as defined under Part 2 of Schedule 5 of the SFO and is not required to be further licensed to carry on Type 8 regulated activity (securities margin financing).

The above licences and trading rights of the Issuer Group have no expiry date and will remain valid unless they are suspended or revoked by the relevant licence-granting authority.

***Money Lenders Licence***

Hong Kong's money lending industry is regulated, and money lenders are required to be licensed as such under the MLO. The primary regulators of the money lending industry in Hong Kong include the Licensing Court, the Registrar of Money Lenders and the Commissioner of Police as defined under the MLO.

The money lending business of the Issuer Group was licensed under the MLO to carry out money lending activities for a period of 12 months from 11 February 2019 and the licence ceased to have effect on 12 February 2020.

Directors of the Issuer Group have confirmed that the Issuer Group has obtained all material licences, permits or certificates necessary to conduct its business operations from the relevant governmental bodies in Hong Kong.

### Legal proceedings

As at the date of this Offering Circular, neither the Issuer nor any of its subsidiaries is engaged in any legal proceedings or claims of material importance and no legal proceedings or claims of material importance are known to its directors to be pending or threatened against the Issuer or any of its subsidiaries.

## ISSUER GROUP RISK MANAGEMENT AND INTERNAL CONTROL

Under the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission, as issued by the SFC from time to time (the "**Code of Conduct**"), a licensee should have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, clients and other licensed or registered persons from financial loss arising from theft, fraud and other dishonest acts, professional misconduct or omissions.

In general, "internal controls" represent the manner in which a business is structured and operated so that reasonable assurance is provided of:

(a) the ability to carry on the business in an orderly and efficient manner;

(b) the safeguarding of the Issuer Group's and its client's assets;

(c) the maintenance of proper records and the reliability of financial and other information used within and published by the business; and

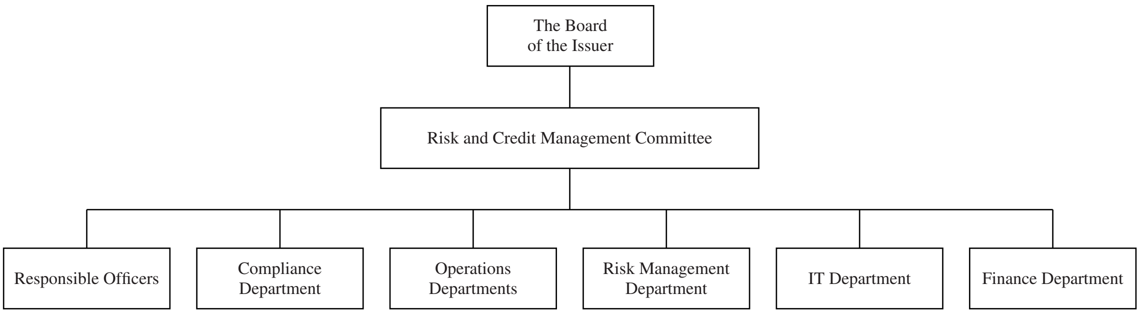
(d) the compliance with all applicable laws and regulatory requirements.

During the ordinary course of its business activities, the Issuer Group is exposed primarily to the following risks: (a) credit risks arising from the default of clients in performing his or its contractual obligations, which mainly exist in the brokerage and loans and financing businesses of the Issuer Group; (b) liquidity risk arising from the Issuer Group's inability to meet its payment obligations when these obligations fall due under normal and stress circumstances; (c) operational risks arising from improper operation or errors in executing transactions; (d) regulatory risks of being subject to legal sanctions, enforcement actions, imposition of penalties arising from non-compliance of the Issuer Group's operations with the applicable rules and regulations; (e) legal risk in respect of illegal or improper use of the Issuer Group's operations by the Issuer Group, its employees or third parties; and (f) market risk arising from the change of market, including the risk of price fluctuation in equity-based assets and interest rate risk resulting in loss of or decrease in income or value of the Issuer Group's trading or investing positions.

As part of the Issuer Group's initiatives to manage these risks, the Issuer Group has in place risk management structure and implemented compliance and operational manuals, which contain credit policies, operating procedures and other internal control measures. A summary of the Issuer Group's risk management structure, key internal control policies and procedures is set out below.

**Risk management structure**

The Issuer Group has established a three-level risk management structure. Set out below is the organisational structure of the Issuer Group's risk management:




***The Board of the Issuer***

The Board of the Issuer is the highest level of the risk management and internal control structure. It is ultimately responsible for establishing an effective risk management environment. Its responsibilities include: (i) developing the overall risk management targets, risk management policies and internal control systems; (ii) optimising the governance structure and authorisation hierarchy; (iii) guiding and defining the limits for specific risk management work; and (iv) authorising responsibilities to other departments.

***Risk and credit management committee***

The Issuer Group established the risk and credit management committee in 2012, which as at the date of this Offering Circular comprises the chief executive officer, both of the deputy chief executive officers, the head of finance, the head of operations, the head of compliance and the head of risk management department. For the relevant qualifications and experiences of other committee members, please refer to the section headed "*Issuer Group directors*".

Organised under the Board of the Issuer, the risk and credit management committee is designed to assist the Board of the Issuer in reviewing and formulating appropriate risk management policies and overseeing the compliance of the Issuer Group with these policies as well as the laws and regulations applicable to the Issuer Group's principal business operations. The risk and credit management committee is mainly responsible for: (i) overseeing the Issuer Group's general risk management and internal control systems for its principal business operations; (ii) reviewing and modifying the Issuer Group's internal control policies; (iii) formulating contingency plan and monitoring the implementation thereof; and (iv) ensuring all risks associated with the Issuer Group's business activities are identified and controlled.

***Responsible Officers***

The Issuer Group's responsible officers have a supervisory and monitoring role in relation to their respective business units which carry out different types of regulated activities. They are responsible for managing and overseeing the daily operations of their respective business units and implementing risk management measures to ensure compliance with the SFC regulations and guidelines. They work closely with the Issuer Group's compliance department and take appropriate remedial actions to rectify any irregularity. For example, the responsible officers of the brokerage and loans and financing businesses are responsible for (i) reviewing daily dealings and transaction records and reports; (ii) day-to-day margin call and all aspects of credit and risk management; (iii) ensuring client orders are executed in a fair, efficient and accurate manner; (iv) ensuring complete and proper business records are kept at all times; (v) supervising the trading behaviour of dealers and traders; and (vi) controlling and monitoring compliance issues and solving dealing problems.

***Compliance department***

The compliance function of the compliance department consists of setting the Issuer Group's internal control standards and regulatory compliance. On internal control, the compliance department sets procedures such as staff dealing policy and reviews control areas such as a Chinese wall, segregation of businesses, conflicts of interests, policies on accounts opening and dealing practices. The compliance department assists the relevant business units in periodically reviewing the internal policies in order to cope with the latest developments of the relevant laws and regulations. Furthermore, the compliance department provides legal support to the Issuer Group's business functions. On regulatory compliance, the compliance department constantly monitors the requirements applicable to the Issuer Group's business and the changes in licensing as well as regulatory requirements of the SFC.

***Risk management department***

The risk management department is mainly responsible for assessing and approving the credit lines granted to clients and monitoring the Issuer Group's credit risk exposure under its loans and financing segment, which includes monitoring the trading activities of its clients. Dedicated personnel from the risk management department discuss and evaluate any need for improvement in the Issuer Group's risk control system with representatives from other departments or at the Issuer Group's risk and credit management committee meetings on a regular basis.

***Operations departments***

The operations departments perform their risk management function by ensuring that client money is deposited and held into the segregated accounts with authorised financial institutions in accordance with the Securities and Futures (Client Money) Rules and that there is no misappropriation of client money, thereby managing the regulatory and legal risks of the Issuer Group in this regard.

***IT department***

The IT department performs its IT risk management functions by implementing policies and procedures to ensure the integrity, security, availability, reliability and thoroughness of all information (including documentation and electronically stored data) relevant to the Issuer Group's business operations to ensure compliance with the various circulars, guidelines and codes on IT management issued by the SFC.

*Finance department*

The finance department is responsible for monitoring the Issuer Group's compliance with the Securities and Futures (Financial Resources) Rules (chapter 571N of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time (the "**FRR**") on an ongoing basis, such as computing liquid capital estimation on a daily basis to ensure that timely information is conveyed to the Issuer Group's management and submitting an FRR report to the SFC on a monthly basis. The finance department also monitors the daily reconciliation of client trust bank accounts and the bank account of the Issuer Group for funding and settlement purposes to ensure compliance with the Securities and Futures (Client Money) Rules, conducts review regularly and takes remedial actions as soon as any discrepancy is noted.

**Monitoring and management of major risks**

***Credit risks***

The Issuer Group manages credit risks primarily through the following measures:

- the Issuer Group has established a risk and credit management committee primarily responsible for designing risk management structure and strategies for its principal business units, reviewing and monitoring the implementation of risk management policies for its principal business units, identifying risks, approving trading limits and credit limits, and updating its risk management policies in response to changes;

- the Issuer Group has implemented "know-your-client" procedures and credit check to ascertain the background of its potential clients;

- the Issuer Group performs credit assessment on potential clients especially in its loans and financing business, and requires its futures brokerage clients and loans and financing clients to provide margin deposits or acceptable collateral (as the case may be) to minimise the Issuer Group's exposure;

- the Issuer Group closely monitors the margin ratio and loan-to-value ratio of the Issuer Group's loans and financing clients and take appropriate action to recover or minimise the Issuer Group's loss where it foresees that its client may default in his/her or its obligation;

- the Issuer Group has a risk management department responsible for the evaluation of the customers' creditworthiness, financial background, value of the collateral provided and repayment abilities in the Issuer Group's daily operation;

- the Issuer Group has credit policy with respect to the trading limits, credit line and credit period granted to the Issuer Group's brokerage and loans and financing clients, which are subject to the Issuer Group's on-going review and revision; and

- the Issuer Group conducts stress tests in respect of its outstanding margin loans to assess its exposure to credit risks.

***Liquidity risks***

The Issuer Group manages liquidity risks primarily through the following measures:

- the Issuer Group has in place a liquidity risk management system to identify, measure, monitor and control potential liquidity risk and to maintain the Issuer Group's liquidity and financial resources requirements as specified under applicable laws and regulations, such as the FRR. Regular financial statement analysis and variance comparison against budget are performed by the management to identify any potential capital shortfall;

- the Issuer Group has established a multi-tier authorisation mechanism and internal policies for the management and approval of the use and allocation of capital. Authorisation limits are set for any commitment or fund outlay, such as procurement, investments, loans, etc. The finance department of the Issuer Group assesses the impact of those transactions on the capital level;

- the Issuer Group meets its funding requirements primarily through bank borrowings from multiple banks. The Issuer Group has also adopted stringent liquidity management measures to ensure the Issuer Group satisfies capital requirements under the applicable laws; and

- the Issuer Group has established limits and controls on margin loans and money lending loans (which after 12 February 2020 were no longer granted) on an aggregate and individual loan basis.

***Operational risks***

The Issuer Group manages operational risks primarily through the following measures:

- the Issuer Group has responsible officers responsible for overseeing its day-to-day operations, controlling and monitoring compliance issues and solving dealing problems;

- the Issuer Group has formulated an operational manual for each business function to standardise its operational procedures and reduce human errors. the Issuer Group has surveillance systems to monitor the trading activities of its business units and staff on a real-time basis;

- the Issuer Group has set an authorisation hierarchy and procedures for its daily operations, such as granting trading limits and credit lines and closing out error trades, to reduce the risk of unauthorised activities;

- the Issuer Group has implemented a policy requiring its dealing staff to follow order taking procedures and report to the responsible officer and compliance department in writing as soon as they are aware of any error trade, and close out error position in accordance with the Issuer Group's internal policy;

- the Issuer Group requires all trading information be uploaded simultaneously to its computer system or recorded in accordance with its paper filing system and be backed up on a daily basis. Records relating to the clients in the Issuer Group's regulated activities shall be kept for at least seven years. Client telephone records shall be kept for at least six months as required by the Code of Conduct; and

- the Issuer Group provides regular training and formulate contingency plans to increase the capability of its staff to manage operational risks in emergency situations, such as system breakdown or power failure.

***Regulatory and legal risks***

The Issuer Group manages regulatory and legal risks primarily through the following measures:

- the department conducts checks and inspections on the Issuer Group's business units and reports irregularities to its senior management and the relevant department head for further action;

- the Issuer Group has formulated compliance and operational manuals for each business function, which is observed by its employees at all levels;

- the finance department monitors the Issuer Group's compliance with the FRR on an ongoing basis. Under the Issuer Group's policy, liquid capital estimation is computed on a daily basis to ensure that timely information is conveyed to the management of the Issuer Group. In addition, the Issuer Group submits a FRR report to the SFC on a monthly basis;

- the Issuer Group requires client money be deposited and held into the segregated accounts with authorised financial institutions in accordance with the Securities and Futures (Client Money) Rules. The finance department monitors the daily reconciliation of client trust bank accounts and the Issuer Group's bank account for funding and settlement purposes to ensure compliance with the Securities and Futures (Client Money) Rules, conducts review regularly and takes remedial actions as soon as the Issuer Group notices any discrepancy;

- the Issuer Group has implemented "know-your-client" procedures across its business functions. For example, the execution team in the corporate finance business conducts due diligence in connection with each transaction, including review of due diligence materials, on-site visits, attendance at meetings, conducting interviews with issuers or listing applicants and their directors, senior management and employees;

- through the Issuer Group's surveillance system, the Issuer Group closely monitors and detects unusual and irregular trading activities, and generates exceptional trade reports for its compliance department and relevant department heads or responsible officers for further action;

- the compliance department closely monitors the licensing status and conditions of the Issuer Group, and arranges for the renewal of licences before expiry. The compliance department is required to notify the regulator in accordance with the notification requirements of the Code of Conduct and/or other applicable laws, rules, regulations and guidelines;

- the Issuer Group has implemented procedures and appointed a complaints officer under the compliance department for handling complaints received from clients in relation to the regulated activities of the Issuer Group; and

- the compliance department arranges for continuous professional training on topics such as anti-money laundering for the Issuer Group's staff from time to time.

***Market risks***

The Issuer Group manages market risks primarily through the following measures:

- the Issuer Group's senior management and head of business units regularly review its balance sheet, profit and loss accounts and credit granted to clients to identify the risk exposure of the Issuer Group, especially during adverse market movements;

- the Issuer Group reviews market risk limits for certain business lines such as the asset management and financial products and investments of the Issuer Group to manage risk and periodically reviews and adjusts market strategies of the Issuer Group in response to changes in the Issuer Group's business performance, risk tolerance levels and variations in market conditions;

- the Issuer Group reviews its trading positions on a daily basis and the general market condition from time to time;

- the investment decision committee is responsible for formulating investment policies and guidelines and the Issuer Group's investment managers are responsible for executing investment decisions;

- business units such as the corporate finance department of the Issuer Group internally discuss and evaluate market risks relating to potential new engagements and new businesses prior to engaging in any such new transaction or launching of any such new business;

- the risk manager of the Issuer Group monitors the Issuer Group's daily asset management activities to ensure that the investment strategy and scope, asset allocation, selection of asset class and concentration level of each asset management product matches its product descriptions and disclosure in marketing materials; and

- the mandate committee and commitment committee under the Issuer Group's corporate finance department makes decisions before acceptance of new engagements and during the process of each IPO transaction and those transactions that have been classified as highly risky.

***Foreign exchange and interest rate risks***

The Issuer Group manages foreign exchange and interest rate risks primarily through the following measures:

- the Issuer Group pays close attention to exchange rate trends and adopt hedging measurements from time to time; and

- the Issuer Group closely monitors its interest rate risk exposure and adopts hedging measurements such as U.S. dollar bond futures from time to time.

**Risk management and internal control measures for the Issuer Group's brokerage business**

The primary risks faced by the Issuer Group's brokerage business include credit risks, operational risks and regulatory and legal risks. The Issuer Group manages these risks through the following measures:

| | |
|---|---|
| *Accounts opening* . . . . . . | The Issuer Group requires its brokerage clients to complete the account opening procedures to verify the identity of the account owner and ultimate beneficial owner. The account opening staff is required to check against the list of politically exposed persons before accepting a new client. |
| *Risk disclosure* . . . . . . . . | Before the Issuer Group signs the client agreement, the Issuer Group's staff explains to the client the terms of the agreement and the risks involved in investing and using the Issuer Group's trading platforms. |
| *Credit assessment* . . . . . . | The Issuer Group assesses a potential client's creditworthiness by reference to his/her or its financial standing, repayment ability and credit history with the Issuer Group (if any). Where necessary, the Issuer Group conducts a credit search with external credit check agencies to obtain background information and the credit history of such client. |
| *Credit policy*. . . . . . . . . . | The Issuer Group may set trading limits for cash account or margin account clients on a case-by-case basis to minimise the Issuer Group's exposure between trade execution and settlement. The Issuer Group has established an approval hierarchy for different tiers of trading limits granted to clients. For futures brokerage clients, the Issuer Group requires them to make deposit and close out the position if such clients fail to replenish the Issuer Group's required deposit. |
| *Order taking*. . . . . . . . . . | Staff of the Issuer Group responsible for handling clients' orders must be registered with the SFC as either a responsible officer or a licensed representative. |

All client orders shall be received from and/or confirmed to clients using the Issuer Group's internal telephone recording system or processed through the Issuer Group's online trading platform. Staff of the Issuer Group must follow the Issuer Group's order taking procedures to ensure client orders are executed promptly and in accordance with the client's instructions. Trading records shall be reviewed after trading hours and recorded and backed up on a daily basis. Trading error shall be promptly reported and rectified in accordance with the Issuer Group's internal policy.

*Transaction monitoring* . . The Issuer Group's surveillance system monitors client transactions on a real-time basis and detects unusual or irregular trading activities. The system adopts pattern recognition for detection of transaction activities that may be intended to manipulate markets in financial instruments. For example, the system generates alerts where a client has placed significant buy and sell trades within a short time period or where a trader has placed large orders in terms of volume or converted value in a specific instrument. For post-trade monitoring, an exceptional trade report is generated for the compliance department and relevant responsible officers or department heads for further analysis and investigation.

*Account executives*. . . . . . The Issuer Group's account executives are responsible for the regulatory compliance of the trading activities of the clients referred by them conducted through the Issuer Group's trading platform. Any instances of non-compliance shall be reported to the Issuer Group as soon as possible. Account executives are required to comply with the same set of internal control rules and measures that governs the Issuer Group's in-house client managers, the Issuer Group's internal policies and any applicable laws and regulations, which include the Issuer Group's order taking procedures detailing the manner and channels of order taking. Trades executed by account executives are monitored by the same surveillance system described in "*Issuer Group risk management and internal control – Risk management and internal control measures for the Issuer Group's brokerage business – Transaction monitoring*" above which also detects unusual or irregular trading activities of the account executives. Monthly reports on the commission generated by the Issuer Group's account executives are generated and reviewed by the head of relevant business units.

**Risk management relating to the Issuer Group's loans and financing business**

The risk and credit management committee and the risk management department of the Issuer Group are primarily responsible for monitoring the risks associated with this business segment. The primary risks faced by the loans and financing business of the Issuer Group include credit risks and regulatory and legal risks. The Issuer Group manages these risks through the following measures:

*Risk management structure* The Issuer Group has a multi-level risk management system to monitor its risks associated with this business line and formulate and revise risk management policies and internal control measures in response to a changing credit environment.

| | |
|---|---|
| *Risk disclosure* . . . . . . . . | For margin financing, before the Issuer Group signs the client agreement, the Issuer Group's staff explains to the client the terms of the agreement and the risks involved in applying for margin financing and consequence for failing to meet the Issuer Group's margin calls. |
| *Credit assessment* . . . . . . | For details, see "*Description of the Issuer Group – Issuer Group business – Loans and financing – Loan management*". Further, the Issuer Group also assesses the market value, type, liquidity and volatility of securities offered as collateral on a regular basis. |
| *Credit policy*. . . . . . . . . . | The Issuer Group approves the credit line for each margin account client on a case-by-case basis with close reference to its credit assessment results as well as the prevailing market conditions. Credit line is the standby loan facility which could be granted to a client. The Issuer Group has in place an approval hierarchy for different tiers of credit line granted to its clients. |
| *Collateral requirement* . . . | For margin financing, the Issuer Group requires the client to provide the Issuer Group sufficient collateral to cover the loan amount when the Issuer Group grants the loan. Normally only securities quoted on the Hong Kong Stock Exchange are eligible as collateral. In addition to listed securities, the Issuer Group also accepts other collateral such as securities listed on overseas stock exchanges and bonds. The market values of overseas securities can be assessed based on the daily trading prices quoted on the relevant stock exchange, whereas the market value of the bonds can be ascertained based on the reference prices quoted on third party information platforms. The Issuer Group's risk management department monitors the market value of securities listed on overseas stock exchanges and bonds based on public market information on a daily basis. Additional collateral or further security may be sought during the term of the loan to manage the Issuer Group's exposure against fluctuation of the value of the collateral received.<br><br>Similar collateral requirements apply to money lending clients of secured loans (which the Issuer Group ceased giving on 12 February 2020). For unsecured loans, which expose the Issuer Group to a higher credit risk, the Issuer Group approved such loans only in circumstances where the Issuer Group was satisfied as to the recoverability of the loan by reference to the evaluation of the financial strength and credibility of the potential client as well as the amount of the loan involved. Further, the Issuer Group set the following limits before it agreed to grant any unsecured loan: (a) the term of such loan shall be no more than 24 months; (b) the size of any single unsecured loan shall not exceed HK$3.0 million; and (c) the total outstanding amount of all unsecured loans already granted shall represent not more than 5.0 per cent. of the total lending limit under the Issuer Group's money lending business, subject to a cap of HK$10 million, in a given period. |
| *Margin ratio/loan-to-value ratio*. . . . . . . . . . . . . | The Issuer Group sets a margin ratio which each of its margin clients is required to maintain.<br><br>The Issuer Group sets a loan-to-value ratio which each of the Issuer Group's money lending clients of secured loans is required to maintain. |

See "*Description of the Issuer Group – Issuer Group business – Loans and financing*" for details of the Issuer Group's loan management.

*Post-lending monitoring* . . The Issuer Group monitors the margin ratio or loan-to-value ratio of clients to whom the Issuer Group has provided lending on a regular basis. A daily report of the Issuer Group's client's outstanding loan amount, value of the collateral and margin ratio/loan-to-value ratio is generated for the Issuer Group's ongoing monitoring and review. For margin financing, the Issuer Group will issue a margin call and is entitled to liquidate the collateral held by the Issuer Group in the event that its client defaults or otherwise fails to meet the approved margin ratio after receiving a margin call from us. For money lending, the Issuer Group has adopted similar procedures to require its client of a secured loan to bring the loan-to-value ratio back to the acceptable level as and when the collateral and security (if any) provided is considered to be insufficient. For unsecured loans, the credit department will conduct annual review on each loan which remains outstanding and during the term of the loan, if the Issuer Group notices that there is a material deterioration in the client's financial position, the Issuer Group may require repayment from client after reporting to the risk and credit management committee. The Issuer Group is entitled to take debt collection actions in accordance with the loan agreement and the Issuer Group's policy and realise the collateral (if any) if its client is unable to fulfil his/her or its payment obligations as the Issuer Group's last resort. For an unsecured loan, the Issuer Group's will take collection action for the overdue amount, negotiate with its client for settlement and initiate legal proceedings against the client as its last resort. See "*Description of the Issuer Group – Issuer Group business – Loans and financing – Post-loan monitoring*" for details.

*Lending limits* . . . . . . . . . Pursuant to the Issuer Group's policy, it has set limits on the overall loan amount extended to margin clients, under which if the actual margin loan balance exceeds 90 per cent. of the limit, the risk management department shall send an alert to the risk and credit management committee. In addition, to manage concentration risks, the Issuer Group has set a limit on margin loans which is solely or primarily secured by a single stock or securities. A prescribed ratio is set for the amount of margin loans secured by a single stock or securities to the limit on total margin loan. The Issuer Group also sets limits on the loan amount extended to any single client (including his/her or its related party) as compared to the total amount of margin loans extended by the Issuer Group. The Issuer Group's risk management department monitors the lending limit on regular basis and any margin lending in excess of such limit is reported to and approved by the risk and credit management committee.

**Risk management relating to the Issuer Group's corporate finance business**

The primary risks faced by the Issuer Group's corporate finance business include market risks and legal and regulatory risks. The Issuer Group manages these risks through the following measures:

- the Issuer Group has an operational manual setting out work procedures and risk management with respect to taking up new appointments, project planning, execution and closing, the reporting lines at different stages of the transactions and the restrictions and supervisions on dealings by the Issuer Group's staff;

- the Issuer Group has established two committees under its corporate finance segment, namely, the mandate committee and the commitment committee, for the purpose of making decisions before acceptance of a new engagement and in the process of each IPO transaction and those transactions that involve financial commitments. These committees which comprise senior personnel of the Issuer Group's corporate finance department, representatives from the management team and compliance department hold meetings to determine whether to proceed with the prospective engagement in a potential transaction, evaluate the risk involved, discuss how to mitigate risks during the engagement and submit their recommendation to the Issuer Group's senior management for approval where required;

- the execution team conducts thorough due diligence in connection with each transaction, including conducting "know-your-client" procedures, reviewing due diligence materials, business, financial and legal matters, conducting on-site visits, conducting interviews with issuers and their directors, senior management and employees; and

- the compliance department and, in some cases, the Issuer Group's external legal counsel are responsible for reviewing agreements relating to the Issuer Group's corporate finance business.

**Risk management relating to the Issuer Group's asset management business**

The primary risks faced by the Issuer Group's asset management business include market risks and legal and regulatory risks. The Issuer Group manages these risks through the following measures:

- the Issuer Group's investment decision committee is responsible for formulating investment policies and guidelines, reviewing asset allocations, making major investment decisions and setting authorisation limits on investment managers in investment activities;

- the Issuer Group's investment decision committee comprises of the head of fixed income, the head of risk management, the head of compliance, the head of finance department and both the deputy chief executive officers. For the relevant qualifications and experiences of other committee members, please refer to the section headed "*Issuer Group directors*";

- the Issuer Group has maintained a carefully selected "securities pool" for its investments based on research recommendations given by the research department. The selected "securities pool" is reviewed on a quarterly basis. The investment managers are allowed to invest only in securities in the pool unless prior written approval is obtained;

- for asset management schemes invested in equity securities, the Issuer Group has mechanisms that sets pre-determined limits to stop profit or loss in relation to any single security or an asset portfolio. The Issuer Group also sets authorised limits on investment in any single security in an asset portfolio and require further approval for any trade beyond such limit;

- the Issuer Group requires its asset management business to be segregated from its brokerage, wealth management and corporate finance businesses in order to prevent insider trading and avoid conflicts of interest;

- the Issuer Group is required to assess the potential client's financial condition, investment experience, investment preferences, risk awareness and risk tolerance level so that the Issuer Group can recommend products or services suitable for the client's risk tolerance level. The Issuer Group also requires its clients to provide assurance on the legality of the source of the assets under management. Further, the Issuer Group requires its client to make acknowledgement of the risks involved in subscribing the relevant investment products;

- the Issuer Group maintains segregated asset management accounts at qualified commercial banks and authorised financial institutions to hold client funds; and

- the Issuer Group monitors transaction activities on a timely basis and unusual trading activities are reported to the relevant responsible officers or department heads and compliance department for review and taking further action.

**Risk management relating to the Issuer Group's financial products and investments business**

The primary risks faced by the Issuer Group's financial products and investments business include market risks, credit risks, operational risks, and legal and regulatory risks. The Issuer Group manages the associated risks through the following measures when it makes any new investment on a proprietary basis:

- The Issuer Group has established a multi-level management system for its financial products and investments business:

  – the Board of the Issuer: the Board of the Issuer determines the overall size of the proprietary investment of the Issuer Group and is the highest decision making body for determining and authorising the Issuer Group's investment strategy;

  – the investment decision committee: the investment decision committee is the highest management body for all classes of proprietary trading. The investment decision committee is responsible for formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. The investment decision committee evaluates and adjusts the Issuer Group's investment strategies from time to time based on research and analysis of the latest changes and developments in the securities market, economic conditions and government policies. It also sets risk control indications related to assets allocation between the Issuer Group's proprietary trading and single security investment product based on the Issuer Group's investment business development needs; and

  – the fixed income department: the fixed income department is responsible for execution of the Issuer Group's proprietary trading in accordance with the strategies and limits set by the Board of the Issuer and the investment decision committee. The head of the department supervises different teams to conduct research on investments, execute trade orders and monitor daily operations to implement effective risk control.

- The investment decision committee leverages the experience of the current members of the investment decision committee, the collaboration between different business units and holding regular and ad hoc committee meetings to ensure that the investment decision committee functions effectively. For the relevant qualifications and experiences of other committee members, please refer to the section headed "*Issuer Group directors*".

- The management and execution teams are required to adhere to a strict decision making and execution process when conducting proprietary trading:

  – the investment research team has established a securities pool based on their research and analysis, and the investment managers make investment portfolio decisions only among those securities for the Issuer Group's proprietary trading;

  – the Issuer Group determines its scale of investment and risk tolerance thresholds and adjust its actual trading activities and portfolio based on prevailing market conditions and the Issuer Group's investment strategies;

  – the investment decision committee holds monthly meeting and ad hoc meetings when appropriate to determine and review the risk management strategies, scale of investment, risk tolerance levels and trading limits;

- the Issuer Group has set trading limits on the ratio of individual stocks, and authorise the Issuer Group's investment managers to make investments within the pre-set limits. The specific ratios are as follows: the cost of each fixed income securities held in any stable interest income securities portfolio shall not be more than 15 per cent. of the total authorised investment amount; the cost of each fixed income securities held in any trading debt securities portfolio shall not be more than 10 per cent. of the total authorised investment amount; the amount of equity securities and derivatives shall not be more than 10 per cent. of the total authorised investment amount; and the cost of each equity securities held shall not be more than five per cent. of the total authorised investment amount;

- investment orders made by investment managers are executed by the Issuer Group's brokerage department and all trades shall be executed in accordance with the trading and risk management guidelines of the Issuer Group and the relevant rules and regulations governing such trades. Approval from the Issuer Group's investment decision committee is required for any investments exceeding its pre-set trading limits or material adjustments in asset allocation; and

- the risk control team is responsible for monitoring the daily operations of the Issuer Group's financial products and investments activities and to ensure compliance with the Issuer Group's trading policies. The team shall prepare daily reports on the settlement and risk control indicators on the Issuer Group's investments.

• The Issuer Group has implemented the following measures in managing risks relating to its financial products and investments business:

  - the Issuer Group may leverage its investment to improve return and the gearing ratio will be strictly maintained at below 50 per cent., as determined by the investment decision committee;

  - the Issuer Group determines its asset allocation by evaluating the future trends of the investment environment and analysing changes in the structure of fund supply and demand in the financial markets, based on domestic and overseas macro-economic directions and changes in interest rate policies;

  - for the asset allocation amongst various types of bonds in its portfolio, the Issuer Group also assesses the spread level, relative investment values, relative yield, shape of yield curve, major risks, degree of liquidity and capability of revenue generation of different types of bonds;

  - the Issuer Group monitors its investments on a timely basis, including its trading positions, unrealised profit or loss, risk exposure and trading activities;

  - the Issuer Group diversifies its investments and limits the size of its investment in relation to any single product, client or type of investment; and

  - the Issuer Group establishes mechanisms that set pre-determined points to stop profit or loss on an overall basis or on each individual stock. For instance, if the floating loss of any single bond reaches a level of more than five per cent. (calculated based on the daily closing price against cost price), the relevant bond will be put under observation; if the floating loss of any single bond reaches a level of more than 10 per cent. (calculated based on the daily closing price against cost price), the relevant bond will be put under a state of alert and the risk management unit of the financial products and investments business of the Issuer Group will inform its head of fixed income department, the compliance department and the relevant investment managers in writing regarding any fluctuations of the relevant bond on a daily basis.

Specifically in respect of the Issuer Group's proprietary trading of debt securities, in addition to the above, the Issuer Group has developed the following measures to manage its risks:

– the Issuer Group has developed investment strategies for its bond portfolio. See "*Description of the Issuer Group – Issuer Group business – Financial products and investments – Investment strategies*" for details;

– to manage the Issuer Group's credit and market risk exposure, the Issuer Group has adopted stringent selection strategies for different types of bonds the Issuer Group will invest;

– the Issuer Group formulates different selection criteria for bonds, limits the investment in industries and enterprises with excess capacity and negative news, and tracks and monitors the trends of the macro economy and investment concentration ratio to optimise its investment strategies;

– on portfolio level, the Issuer Group has a stop-loss mechanism in place. See "*Description of the Issuer Group – Issuer Group business – Financial products and investments – Investment strategies*" for details;

– the Issuer Group diversifies fixed income investment portfolios, and continually tracks the changes on the operation, credit rating and solvency of the issuers; and

– the Issuer Group controls the investment horizon of its debt securities investment. The Issuer Group has set up a "bonds pool" in line with its business needs which will govern its daily investment activities to ensure stable long term gains. Changes in the selected "bonds pool" will be reviewed by the investment decision committee on a monthly basis.

**Conflicts of interest**

The Issuer Group conducts conflict checks on potential clients before accepting a new engagement to provide services. The Issuer Group has to be satisfied as to the identity of the directors and beneficial owners of a potential client and its financial standing and source of funds.

The Issuer Group maintains a restricted list of securities, the trading of which for the Issuer Group's own accounts, accounts for employees and related accounts are restricted. Employees are prohibited from trading in securities on the restricted list. Such list is confidential and shall not be disclosed to persons outside the Issuer Group. The Issuer Group also maintains a watch list which is a confidential list of securities in relation to which the Issuer Group or its employees may have received material information or has been retained to provide advice. Any employee who is related to the issue of such securities is prohibited from trading in the relevant securities.

**Compliance with the Foreign Account Tax Compliance Act ("FATCA")**

To ensure that the Issuer Group complies with FATCA requirements, it has adopted the following measures:

- registering with the United States Internal Revenue Service (the "**IRS**");

- enhancing the Issuer Group's current account opening procedures to ensure compliance with FATCA;

- conducting reviews of the Issuer Group's existing client accounts to identify any accounts held by United States taxpayers; and

- providing training and guidance to the Issuer Group's employees with respect to the new requirements under FATCA.

Given that the Issuer Group has registered with the IRS and implemented enhanced account opening procedures to identify United States accounts and clients in compliance with FATCA, and only an insignificant number of its existing client accounts were held by a United States taxpayer as at 31 December 2019, the Issuer Group's Directors believe that the implementation of FATCA in Hong Kong pursuant to the intergovernmental agreement signed between Hong Kong and the United States for implementation of FATCA (the "**IGA**") has no material impact on the Issuer Group's business operations, its shareholders and clients.

**Staff dealing rules**

Generally, the Issuer Group's employees open a securities account with the Issuer Group for securities trading. Employees who have opened personal investment accounts with other financial institutions prior to commencement of employment shall submit the relevant statements of accounts to the Issuer Group on a monthly basis and inform the compliance department of the Issuer Group of any change in their accounts status within three working days of such change. Employees of the asset management and corporate finance businesses of the Issuer Group, analysts and other specified employees are subject to more stringent rules of dealing.

**Segregation of business**

To minimise the risk of collusion and improper trading activities, the Issuer Group assigns duties and functions to different departments and it is the policy that no employee may work concurrently for two or more departments with conflicts of interests or in situation where it may involve or result in improper dealing. For example, the Issuer Group requires its brokerage business to be segregated from other businesses with conflicts of interest, such as asset management and corporate finance. Under the Issuer Group's policy, key functions, such as customer services, sales, trading, account opening, client money deposit and withdrawal, accepting delegation from clients and clearing and settlement should be properly segregated and separately handled by separate staff members.

The Issuer Group also separately handles and manages its clients' funds from the Issuer Group's own funds.

**Chinese wall**

Employees are required to ensure that all information relating to the Issuer Group's clients, transactions and mandates are kept confidential. Any use of confidential information for personal purpose or for the benefit of any third party is strictly prohibited.

The Issuer Group has adopted a Chinese wall, which is designed to restrict the flow of such information across different business functions. The Issuer Group's Chinese wall operates to separate those areas such as corporate finance that routinely receive non-public and potentially inside information in the ordinary course of the business from those areas that deal in securities or provide investment advice, ensuring that those outside the Chinese wall will have no knowledge of confidential information within the Issuer Group. In case where it is necessary for the Issuer Group's staff to "cross-over-the-wall", such "cross-over-the-wall" shall be strictly monitored and controlled. Prior approval from head of relevant business units and the compliance department shall be obtained, and confidentiality undertaking shall be given by the relevant staff before allowing access to confidential or potentially price sensitive information. The Issuer Group's staff will be given access to the information only to the extent necessary.

**Compliance with the Personal Data (Privacy) Ordinance ("PDPO")**

In the ordinary course of business, the Issuer Group is in possession of private and confidential personal data. As a result, the Issuer Group's operations in relation to such data are regulated by the PDPO. In particular, the Issuer Group falls within the definition of "data user", which is defined in the PDPO as "a person who, either alone or jointly or in common with other persons, controls the collection, holding, processing or use of the data" and hence is subject to the principles set out in the PDPO regarding the collection, use, retention, accuracy and security of and access to personal data. In this regard, the Issuer Group has established policies and procedures to ensure compliance with the PDPO.

**Anti-money laundering**

To mitigate the Issuer Group's money laundering risk, all of its staff members are required to adhere to the requirements set out in the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and the SFC Guideline on Anti-Money Laundering and Counter-Terrorist Financing and any update relating thereto. The Issuer Group has also adopted the "policies, procedures and training" principle as provided in these guidelines by establishing and adopting policies and providing education and training to the Issuer Group's staff on anti-money laundering. The Issuer Group's guidelines on anti-money laundering are provided in the Issuer Group-wide compliance manual and operational manuals provided to the Issuer Group's staff to ensure that they are aware of the possibility of money laundering and their own personal legal obligations in relation thereto. In addition, the Issuer Group has set up an anti-money laundering committee to ensure compliance with the relevant rules and regulations regarding anti-money laundering.

The Issuer Group conducts ongoing monitoring by periodically requesting and reviewing updated information, data and documents relating to clients. The Issuer Group also monitors the activities of its clients and identifies transactions that are large and unusual.

If any suspicious activity is noted in the "ongoing monitoring" phase, the Issuer Group's employees shall notify its money laundering reporting officer. If there exists reasonable grounds to justify that the clients or activity are indeed suspicious, the officer shall file a suspicious activity report ("**SAR**") to the Joint Financial Intelligence Unit. In this respect, the money laundering reporting officer is responsible for:

- reviewing the internal suspicious activity reports submitted by employees and determining whether to file an SAR to the Joint Financial Intelligence Unit;
- maintaining a record of the SARs filed; and
- acting as the main point of contact for matters relating to anti-money laundering.

In respect of the Issuer Group's anti-money laundering efforts, the Issuer Group has adopted the "know your client" principle espoused in the guidelines mentioned above, whereby the Issuer Group requires potential clients to provide it with proof of identity, their occupation, background and contact details for verification.

## ISSUER GROUP IT RISK MANAGEMENT

***Circular on Information Technology Management***

As described in the "Circular to All Licensed Corporations on Information Technology Management" issued by the SFC on 16 March 2010 ("**IT Circular**"), the licensed corporations are required to establish policies and procedures to ensure the integrity, security, availability, reliability and thoroughness of all information, including documentation and electronically stored data, relevant to the firm's business operations. The firm's operating and information management systems should meet the firm's needs and operate in a secure and adequately controlled environment. The IT Circular provides guidance on the control techniques and procedures in respect of the following key areas:

(a) Information security policy;

(b) Access control;

(c) Encryption;

(d) Change management;

(e) User activities monitoring; and

(f) Data backup and continuity planning.

For the year ended 31 December 2019, there was no significant deviation identified in the Issuer Group's current internal control system in relation to the guidance on information technology management as described in the IT Circular issued by the SFC. As at the date of this Offering Circular, the Issuer Group's directors also confirmed that the Issuer Group is in material compliance with the applicable mandatory requirements as stipulated in the various circulars issued by the SFC to licensed corporations (including, but not limited to, the IT Circular and the "Circular to licensed corporations providing online trading services" issued by the SFC). In addition, the Issuer Group regularly reviews its information technology internal control system.

***Access controls***

The Issuer Group has in place information security policy and rules which control over the Issuer Group's information technology infrastructure. Access controls are in place so that all users' (including staff, clients and vendors of the securities/futures trading system and back-office system) access to the system has to be authorised by the Issuer Group. Password policies and standards are formalised to facilitate user authentication and access control. The Issuer Group's computer system and information processing facilities are protected by firewalls, intrusion protection systems and anti-virus software to prevent and detect any potential threats by computer viruses and other malicious software. Encryption is applied to the transmission of sensitive information. The Issuer Group performs a compliance check against the established information technology policies. Daily backup procedures and a business continuity plan are in place to ensure continuity of its operation.

## ISSUER GROUP RELATED PARTY TRANSACTIONS

The Issuer Group currently engages in, and expect from time to time in the future to engage in, financial and commercial transactions with its subsidiaries, associates, and shareholders. All such transactions are conducted on an arm's length and commercial basis and in accordance with the applicable laws and rules.

See note 43 to the 2018 Annual Financial Statements of the Issuer and the 2019 Annual Financial Statements of the Issuer, included elsewhere in this Offering Circular, for more details.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE GUARANTOR

### DIRECTORS

The Guarantor's board of directors (the "**Board of the Guarantor**") consists of nine members. The Board of the Guarantor is responsible and has general powers for the management and conduct of the Guarantor's businesses. The table below sets out certain information in respect of the Guarantor's directors as at the date of this Offering Circular:

| Name | Age | Position |
|---|---|---|
| YANG Huahui (杨华辉) . . . . . | 54 | Chairman of the Board of the Guarantor |
| LIU Zhihui (刘志辉) . . . . . . . . | 51 | Director and president |
| XIA Jinliang (夏锦良) . . . . . . . | 60 | Director, vice president and chief risk officer |
| GENG Yong (耿勇) . . . . . . . . | 44 | Director |
| WANG Fei (王非) . . . . . . . . . | 55 | Director |
| CAI Lvsui (蔡绿水) . . . . . . . . | 60 | Director |
| LIU Hongzhong (刘红忠) . . . . | 56 | Independent director |
| SUN Zheng (孙铮) . . . . . . . . . | 64 | Independent director |
| WU Shinong (吴世农) . . . . . . . | 65 | Independent director |

**Mr. YANG Huahui (杨华辉)**, aged 54, was appointed as the chairman of the Board of the Guarantor on 29 November 2017. Mr. Yang is also the secretary of the Communist Party of China ("**CPC**") Committee of the Guarantor, the chairman of the board of directors of Industrial Securities (Hong Kong) Financial Holding Co., Ltd. (兴证(香港)金融控股有限公司) and China Industrial Securities Financial Holding Co., Ltd. (兴证国际控股有限公司). Mr. Yang was previously a member of the CPC Committee and a deputy director of Industrial Bank Co., Ltd. ("**CIB**"), Shanghai Branch, the secretary of the CPC Committee and the director of CIB, Hangzhou Branch, the secretary of the CPC Committee, the chairman of the board of directors and the standing president of Lianhua International Trust Co., Ltd. (联华国际信托有限公司) and the secretary of the CPC Committee and the chairman of the board of directors of China Industrial International Trust Limited (兴业国际信托有限公司). Mr. Huang obtained a doctor's degree in economics and is a senior economist.

**Mr. LIU Zhihui (刘志辉)**, aged 51, was appointed as a director and president of the Guarantor on 29 October 2008. He is also the deputy secretary of the CPC Committee of the Guarantor and the vice chairman of the board of directors of Industrial Securities (Hong Kong) Financial Holding Co., Ltd. (兴证(香港)金融控股有限公司). Mr. Liu previously served as a staff member, a senior staff member and a principal staff member of the General Office of Fujian Provincial Government (福建省政府办公厅) and principal staff member, deputy division director and the division director of the Listing Division (上市处), Institution Division (机构处) and the Inspection Division (稽查处) of the Securities Regulatory Bureau of Fujian (福建证监局). Mr. Liu obtained a master's degree in economics and is an international business engineer.

**Mr. XIA Jinliang (夏锦良)**, aged 60, was appointed as a director, vice president and chief risk officer of the Guarantor on 26 June 2017, 5 June 2017 and 5 June 2017, respectively. He is also a member of the CPC Committee of the Guarantor, the chairman of the board of supervisors of Aegon - Industrial Fund Management Co., Ltd. (兴证全球基金管理有限公司), a director of Industrial Securities (Hong Kong) Financial Holding Co., Ltd. (兴证(香港)金融控股有限公司) and a supervisor of E-Capital Transfer Co., Ltd. (证通股份有限公司). Mr. Xia was previously a deputy general manager of the assets management department, the general manager of the risk management department, the general manager of the compliance and legal department, the general manager of the compliance and risk management, chief compliance officer of the Guarantor. Also, he was the general manager of China Industrial Securities Futures Co., Ltd. (兴证期货有限公司). Mr. Wang obtained a master's degree and is a senior economist.

**Mr. GENG Yong (耿勇)**, aged 44, was appointed as a director of the Guarantor on 30 December 2015. He was previously a deputy researcher of the Accounting Management Division (会计管理处), a deputy director of the Tax, Policies and Laws Division (税政条法处) and a deputy director and a researcher of the Tax and Policies Division (税政处) of the Department of Finance of Fujian Province (福建省财政厅). Mr. Zeng obtained an associate's degree.

**Mr. WANG Fei (王非)**, aged 55, was appointed as a director of the Guarantor on 23 December 2014. Mr. Wang is also a deputy general manager and a member of the CPC Committee of Fujian Provincial Investment Development Group Co., Ltd. (福建省投资开发集团有限责任公司), a vice chairman of the board of directors of Zhexin Group Co., Ltd. (闽信集团有限公司), a director of Xiamen International Bank Co., Ltd. (厦门国际银行股份有限公司), a vice chairman of the board of directors of Channel Chuangfu Industrial Investment Fund Management Co., Ltd. (海峡汇富产业投资基金管理有限公司), a director of Yongcheng Property Insurance Co., Ltd. (永诚财产保险股份有限公司), the chairman of the board of directors of Fujian Provincial Innovative Investment Management Co., Ltd. (福建省创新创业投资管理有限公司) and the chairman of the board of directors of Fujian Provincial Industrial Investment Fund Co., Ltd. (福建省产业股权投资基金有限公司董事长). Mr. Wang was previously the general manager of the finance and investment management department of Fujian Investment Enterprise Group Co., Ltd. (福建投资企业集团公司), the general manager of the finance and investment operation department of Fujian Investment Group Co., Ltd. (福建投资集团), an assistant to the general manager of Fujian Investment Group Co., Ltd. (福建投资集团) and the chairman of the board of directors of Fujian Provincial Innovative Entrepreneurship Investment Management Co., Ltd. (福建省创新创业投资管理有限公司), Fujian Huaxing Innovative Investment Co., Ltd. (福建华兴创业投资有限公司) and Fujian Provincial Datong Entrepreneurship Investment Co., Ltd. (福建省大同创业投资有限公司). Mr. Wang obtained a doctor's degree in economics and is a senior economist.

**Mr. CAI Lvshui (蔡绿水)**, aged 60, was appointed as a director of the Guarantor on 29 September 2017. He is also a director and the general manager of the finance department of Xiamen Economic Zone Property Development Group Co., Ltd. (厦门经济特区房地产开发集团有限公司) and the chairman of the board of directors of Tefang Jianxin (Xiamen) Equity Investment Fund Management Co., Ltd. (特房建信(厦门)股权投资基金管理有限公司). He was previously a deputy general manager of the account department, a deputy director of the finance management department and the director of the finance management department of Fujian Jiuzhou Group Co., Ltd. (福建九州集团股份有限公司) and a manager of the finance department and a vice deputy chief accountant of Xiamen Municipal Yundang New District Development Construction Co., Ltd. (厦门市篔簹新市区开发建设公司). Mr. Cai obtained a master's degree in business administration.

**Mr. LIU Hongzhong (刘红忠)**, aged 56, was appointed as an independent director of the Guarantor on 19 January 2018. Mr. Liu is also a professor of finance of Fudan University, a deputy director of the finance research centre, a deputy director of the finance history research centre of Fudan University and the director of Fudan University-Durham University Joint Finance Research Centre. He is also a director of China Society for Finance and Banking, a director of China International Society for Finance and Banking, a director of the Financial Conference of China, a standing director of the Investment Association of China and a director of Shanghai Municipal Society for Finance and Banking. Mr. Liu obtained a doctor's degree in economics.

**Mr. SUN Zheng (孙铮)**, aged 64, was appointed as an independent director of the Guarantor on 28 August 2017. He is also a professor of Shanghai University of Finance and Economics, a vice president of China Accounting Association (中国会计学会) and a member of the Accounting Standard Strategic Committee of the MOF (财政部中国会计标准战略委员会). Mr. Sun was previously a vice president of Shanghai University of Finance and Economics, an independent director of Shenneng Co., Ltd. (申能股份有限公司) and an independent director of Shanghai Pudong Development Bank Co., Ltd. Mr. Sun obtained a doctor's degree in economics.

**Mr. WU Shinong (吴世农)**, aged 65, was appointed as an independent director of the Guarantor on 29 November 2017. He is also a professor in accounting of Management School of Xiamen University, an advisor to doctorate students, the vice president of China Enterprises Management Institute (中国企业管理研究会) and the president of accounting and finance division of China Modernised Management Institute (中国管理现代化研究会财务与会计研究分会). Mr. Wu was previously the director of China Canada MBA Education Centre of Xiamen University, the dean of the School of Business Management, a deputy director and the director of the School of Management of Xiamen University, the dean of the Graduate School and the vice president of Xiamen University, a member of the National Natural Science Foundation of China (国家自然科学基金委员会), the promotor and member of the Academic Degrees Committee of the State Council (国务院学位委员会), a member of the Management Study Branch of the Science and Technology Committee of the Ministry of Education (教育部科学技术委员会管理学部), a deputy director of the National MBA Education Guidance Committee (全国MBA教育指导委员会) from 1994 to 2013, a deputy director, a director of the jury panel of the 1$^{st}$-5$^{th}$ China Undergraduate Entrepreneurship Competition (also known as the "Challenge Cup")(第一至第五届中国大学生"挑戰杯"创业大赛) and a vice president of China Modernised Management Institute. Mr. Wu obtained a doctor's degree.

## SUPERVISORS

The board of supervisors of the Guarantor (the "**Supervisory Board**") consists of five members. The Supervisory Board oversees the actions of the Board of the Guarantor. The table below sets out certain information in respect of the members of the Supervisory Board as at the date of this Offering Circular:

| Name | Age | Position |
|---|---|---|
| WANG Renqu (王仁渠). . . . . . | 57 | Chairman of the Supervisory Board |
| CAO Genxing (曹根兴) . . . . . . | 74 | Supervisor |
| ZHUANG Zhanjian (庄占建) . . | 54 | Supervisor |
| ZHANG Xuguang (张绪光) . . . | 54 | Employee representative supervisor |
| YU Zhijun (余志军) . . . . . . . . | 49 | Employee representative supervisor |

**Mr. Wang Renqu (王仁渠)**, aged 57, was appointed as a supervisor of the Guarantor on 29 November 2017. Mr. Wang is also a deputy secretary of CPC Committee, the secretary of the Committee for Discipline Inspection of the Guarantor and the chairman of Industrial Securities Charitable Foundation (兴业证券慈善基金会). He was previously a deputy director of the Budget Division (财政厅) and the director of the Budget Division (预算处) of the Department of Finance of Fujian Province (福建省财政厅), the director of the Budget Making and Review Centre of Fujian Province (福建省预算编审中心), a deputy director of the Treasury Division (国库处), a director of the Office of Government Purchase, Supervisory and Management (政府采购监督管理办公室), the director of the Administrative Affairs and State Assets Management (行政事业单位资产管理处), the director of the Expropriation Management Division (非税收入徵收管理处) and the director of the Education, Science and Culture Division (教科文处) of the Department of Finance of Fujian Province. Mr. Wang obtained a master's degree and is a senior accountant.

**Mr. CAO Genxing (曹根兴)**, aged 74, was appointed as a supervisor of the Guarantor on 26 June 2017. Mr. Cao is also an advisor to the chairman of the board of directors of Shanghai Shenxin (Group) Co., Ltd. (上海申新(集团)有限公司) and a supervisor of Shanghai Fosun Pharmaceutical Co., Ltd. (上海复星医药(集团)股份有限公司). He was previously the head, the secretary of the Youth League and a deputy secretary of the CPC Committee of the Dachang People Society Cultural Station (大场人民公社文化) of Baoshan County of Shanghai, a standing member of the Youth League of Baoshan County, a deputy secretary of the CPC Committee, a vice president of Baoshan County Five-seven Agricultural University (宝山县五七农业大学), the president of Baoshan Agricultural Technology School (宝山县农业技术学校), the president of Central Agricultural Broadcast School, Baoshan Branch (中央农业广播学校宝山分校), the director and secretary of the CPC Committee of Baoshan County Agricultural Technology Promotion Centre (宝山县农业技术推广中心), the head of the seed management station of

Baoshan District, Shanghai (上海市宝山区种子管理站), the secretary of the chairman of the board of directors of Dahua (Group) Co., Ltd. (大华(集团)有限公司) and an in-house legal counsel and a staff member responsible for cultural promotion of Shanghai Shenxin (Group) Co., Ltd. (上海申新(集团)有限公司). Mr. Cao obtained an associate's degree and is an agronomist.

**Mr. ZHUANG Zhanjian (庄占建)**, aged 54, was appointed as a supervisor of the Guarantor on 20 April 2016. Mr. Zhuang is also the general manager of Fujian Financing Guarantee Co. Ltd. (福建省融资担保有限责任公司) and a director of Quanzhou Guangyi Property Development Co., Ltd. (泉州广益房地产发展有限公司). Mr. Zhuang was previously a teacher of Fujian Province Farmland School (福建省农垦学校), a staff member of the investment sector of the general office of Fujian Huaxing Trust Investment Co., Ltd. (福建华兴信托投资公司办公室投资部), a department manager of Fujian Province Investment Guarantee Co., Ltd. (福建省投资担保公司) and a deputy general manager of Fujian Channel Financing Lease Co., Ltd. (福建海峡融资租赁有限责任公司). Mr. Zhuang obtained a master's degree and is an accountant.

**Mr. ZHANG Xuguang (张绪光)**, aged 54, was appointed as an employee representative supervisor of the Guarantor on 24 June 2008. He is also a securities affair representative of the Guarantor, the director of the office of the Board of the Guarantor and the Supervisory Board and a supervisor of China Industrial Securities Innovative Capital Management Co., Ltd. (兴证创新资本管理有限公司). Mr. Zhang was previously a deputy section chief, a deputy director and the director of the law and regulation department of China Construction Bank, Fujian Branch, a deputy general manager of the risk management department, the director of the Supervisory Board office, the director of the compliance and legal department and the general manager of the legal affairs department of Guarantor. Mr. Zhang obtained a bachelor's degree and is a senior economist.

**Mr. YU Zhijun (余志军)**, aged 49, was appointed as an employee representative supervisor of the Guarantor on 24 October 2020. Mr. Yu is also the standing deputy general manager of the audit department of the Guarantor. Mr. Yu was previously an assistant to the general manager and a deputy general manager of the supervisory department, a deputy general manager of the accounting department, a deputy general manager of the capital operation and management department, a deputy general manager of the planning and finance department of the Guarantor. Mr. Yu obtained a bachelor's degree.

**SENIOR MANAGEMENT**

The senior management is led by the Guarantor's president, who is responsible for overseeing the day-to-day management of the Guarantor's business and operations. The table below sets out certain information in respect of the members of the Guarantor's senior management as at the date of this Offering Circular:

| Name | Age | Position |
|---|---|---|
| LIU Zhihui (刘志辉) | 51 | Director and president |
| XIA Jinliang (夏锦良) | 60 | Director, vice president and chief risk officer |
| HU Pingsheng (胡平生) | 56 | Vice president |
| ZHENG Chengmei (郑城美) | 46 | Vice president, Board of the Guarantor secretary and chief compliance officer |
| HUANG Yilin (黄奕林) | 52 | Vice president |
| KONG Xianglin (孔祥杰) | 49 | Vice president |
| LIN Hongzhen (林红珍) | 51 | Chief financial officer |
| LI Yutao (李予涛) | 45 | Chief information officer |

**Mr. LIU Zhihui (刘志辉)**, aged 51, was appointed as a president of the Guarantor on 29 October 2008. For Mr. Liu's biography, see "– *Directors*" above.

**Mr. XIA Jinliang** (夏锦良), aged 60, was appointed as a vice president and the chief risk officer of the Guarantor on 5 June 2017. For Mr. Xia's biography, see "– *Directors*" above.

**Mr. HU Pingsheng** (胡平生), aged 56, was appointed as a vice president of the Guarantor on 29 October 2008. Mr. Hu is also a member of the CPC Committee of the Guarantor, the president of the investment banking business general department of the Guarantor, the chairman of the board of directors of Channel Equity Trade Centre (Fujian) Co., Ltd. (海峡股权交易中心(福建)有限公司) and a supervisor of Zhongzheng Credit Enhancement Co., Ltd. (中证信用增进股份有限公司). Mr. Hu was previously a deputy general manager of the research and development centre, a deputy general manager of the investment banking business general department, the general manager of the secretariat of the Board of the Guarantor, the director of the general office and the board secretary of the Guarantor. Mr. Hu obtained a doctor's degree and is an assistant professor.

**Mr. ZHENG Chengmei** (郑城美), aged 46, was appointed as a vice president, the Board of the Guarantor secretary and the chief compliance officer of the Guarantor on 19 August 2012, 13 May 2016 and 5 June 2017, respectively. Mr. Zheng is also a member of the CPC Committee of the Guarantor, a director of Industrial Securities (Hong Kong) Finance Holding Co., Ltd. and the chairman of the board of supervisors of Industrial Securities Charity Foundation (兴业证券慈善基金会). Mr. Zheng was previously the head of the Binjiang Road, Nanping branch of the Guarantor, the general manager of the planning and finance department, the general manager of the secretariat of the Board of the Guarantor, the Board of the Guarantor secretary and the chief risk officer of the Guarantor. He obtained a master's degree in business administration.

**Mr. HUANG Yilin** (黄奕林), aged 52, was appointed as a vice president of the Guarantor on 7 April 2017. He is also a member of the CPC Committee of the Guarantor, the general manager of securities trading department, Shanghai Branch of the Guarantor, a director of Industrial Securities (Hong Kong) Finance Holding Co., Ltd., a supervisor and chief supervisor of Aegon-Industrial Fund Management Co., Ltd. (兴证全球基金管理有限公司), the chairman of the board of directors and a non-executive director of the Issuer. Mr. Huang was the general manager of the research centre, the general manager of the client assets management, an assistant to the president and the general manager of the investment banking general department, and the general manager of the fixed income and derivatives department of the Guarantor. Mr. Huang obtained a doctor's degree.

**Mr. KONG Xianglin** (孔祥杰), aged 49, was appointed as a vice president of the Guarantor on 10 September 2019. He was previously an assistant to the general manager of the Linhua office, the head of the Jinhui branch, the head of the direct operation department, the head of branch management office, the general manager of the Hudong operation department, the general manager of the Fuzhou marketing centre, an assistant to the president and the head of the private banking general department of the Guarantor, a director, the general manager, the chairman of the board of directors of Industrial Securities Future Co., Ltd., the general manager of the brokerage department of the Guarantor, an assistant to the president and the head of the wealth management general department of the Guarantor. Mr. Kong obtained a master's degree.

**Ms. LIN Hongzhen** (林红珍), aged 51, was appointed as the chief financial officer of the Guarantor on 24 September 2019. She is also a supervisor of South Funds Management Co., Ltd. (南方基金管理股份有限公司). She was previously the general manager of the risk management department, the finance department and the capital management department of the Guarantor. Ms. Lin obtained a master's degree.

**Mr. LI Hongtao** (李予涛), aged 45, was appointed as the chief information officer of the Guarantor on 13 October 2019. Mr. Li was the head of the information technology development team of United Airlines, Inc., the head of the trade architecture system team of Chicago Board of Trade, a manager of the trade architecture system team of Northern Trust Corporation, an assistant manager and chief technology officer of the Zhengzhou Commodity Exchange (郑州商品交易所), a senior vice president and a managing director of the Hong Kong Stock Exchange, the chief information officer of Shenzhen Qianhai Mercantile Exchange Co., Ltd. (深圳前海联合交易中心有限公司) and the legal representative and the general manager of Gangsheng Technology Service (Shenzhen) Co., Ltd. (港胜技术服务(深圳)有限公司). Mr. Li obtained a master's degree.

## BOARD OF THE GUARANTOR COMMITTEES

### Strategy Committee

The primary duties of the Strategy Committee are to (i) study the feasibility of the Guarantor's middle to long term development plan and make proposals with respect to such plans and make reports to the Board of the Guarantor, (ii)to research, make policies and supervise the implementation of policies in relation to corporate social responsibility and substantiable development, (iii) advise on the implementation of the plans and policies made by the Board of the Guarantor, (iv) supervise the implementation of the Board of the Guarantor resolutions, (v) review the material decisions made by the Board of the Guarantor and provide advice, (vi) review the corporate governance of the Guarantor and (vii) perform other duties and responsibilities delegated by the Board of the Guarantor and the articles of association of the Guarantor.

### Audit Committee

The primary duties of the Audit Committee are to (i) nominate and monitor the Group's external auditors, (ii) coordinate between the internal auditing team and the external auditors (iii) review and supervise the Group's financial reporting process, (iv) oversee the risk management and internal control procedures of the Guarantor and its subsidiaries, (v) review related-party transactions of the Group and (vi) perform other duties and responsibilities delegated by the Board of the Guarantor and the articles of association of the Guarantor.

### Risk Control Committee

The primary duties of the Risk Control Committee are to (i) review and advise on the general goals, policies and systems in relation to risk management and compliance of the Guarantor, (ii) advise on the risk appetite and risk tolerance of the Guarantor, (iii) review and advise on the plans in relation to capital at risk of the Guarantor, (iv) review and advise on institution establishment and its responsibilities in relation to compliance management and risk management, (v) evaluate and advise on the solutions in relation to material decisions and material risks, (vi) review and advise on the compliance report and risk evaluation reports to be reviewed by the Board of the Guarantor, (vii) manage the risks in relation to the anti-money laundering and (vi) perform other duties and responsibilities delegated by the Board of the Guarantor and the articles of association of the Guarantor.

### Remuneration and Review Committee

The primary duties of the Remuneration and Review Committee are to (i) make recommendations to the Board of the Guarantor on its composition, (ii) advise on the selection procedure and standards of the Board of the Guarantor and the senior management, (iii) search candidates for the Board of the Guarantor and senior management positions, (iv) propose and supervise the implementation of the remuneration plans and policies for the Board of the Guarantor and senior management, (v) consider, propose and implement the review standards for the Board of the Guarantor and senior management, (vi) perform other duties and responsibilities delegated by the Board of the Guarantor and the articles of association of the Guarantor.

## INTERESTS IN SECURITIES OF THE DIRECTORS OF THE GUARANTOR

As at 31 December 2019, the directors of the Guarantor did not hold any shares of the Guarantor.

## EMOLUMENT POLICY

The directors of the Guarantor receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of the directors of the Guarantor, as well as the performance of the Group.

The Group regularly reviews and determines the remuneration and compensation packages of the directors of the Guarantor by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the directors the Guarantor and the performance of the Group.

The Board of the Guarantor reviews and determines the remuneration and compensation packages of the directors of the Guarantor with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group.

## REMUNERATION OF DIRECTORS OF THE GUARANTOR

For the years ended 31 December 2017, 2018 and 2019, the aggregate director's fee, salaries and allowances and retirement benefits scheme contribution, other benefits in kind and/or discretionary bonuses paid by the Guarantor to the directors were approximately RMB19.8 million, RMB23.2 million and RMB25.3 million, respectively.

# DIRECTORS OF THE ISSUER

## DIRECTORS

The Issuer's board of directors (the "**Board of the Issuer**") consists of eight members, of which four are executive directors, one is a non-executive director and three are independent non-executive directors. The Board of the Issuer is responsible and has general powers for the management and conduct of the Issuer's businesses. The table below sets out certain information in respect of the Issuer's directors as at the date of this Offering Circular:

| Name | Age | Position |
|---|---|---|
| HUANG Yilin (黃奕林) . . . . . . | 52 | Chairman and non-executive director of the Issuer |
| LI Baochen (李宝臣) . . . . . . . . | 43 | Executive director and chief executive officer of the Issuer |
| WANG Xiang (汪詳) . . . . . . . | 41 | Executive director and a deputy chief executive officer of the Issuer |
| ZENG Yanxia (曾艷霞) . . . . . . | 44 | Executive director and a deputy chief executive officer of the Issuer |
| ZHANG Chunjuan (張春娟) . . . | 36 | Executive director, a deputy chief executive officer and chief financial officer of the Issuer |
| HONG Ying (洪瑛) . . . . . . . . . | 70 | Independent non-executive director |
| TIAN Li (田力) . . . . . . . . . . . | 52 | Independent non-executive director |
| QIN Shuo (秦朔) . . . . . . . . . . | 51 | Independent non-executive director |

### Non-executive Director

**Mr. HUANG Yilin (黃奕林)**, aged 52, was appointed as a non-executive director on 12 July 2017 and a member of the audit committee (the "**Audit Committee**") under the Board of the Issuer. He was appointed as the chairman of the Board of the Issuer, the chairman of the nomination committee (the "**Nomination Committee**") and a member of the remuneration committee (the "**Remuneration Committee**") under the Board of the Issuer on 6 August 2019. Mr. Huang was also appointed as a director of Industrial Securities (Hong Kong), which is the controlling shareholder of the Issuer. Mr. Huang has over 19 years of experience in the financial services industry.

Mr. Huang is currently the vice president of the Guarantor and supervisor and chief supervisor of Aegon-Industrial Fund Management Co., Ltd. He was the general manager of R&D Centre, the general manager of customers of asset management, the assistant to the president and the general manager of investment bank headquarters, the general manager of fixed income and derivatives product department, and the general manager of fixed income business headquarter of Industrial Securities.

Mr. Huang obtained a doctor's degree in western economics from Wuhan University, the PRC in July 1998.

### Executive Directors

**Mr. LI Baochen (李宝臣),** aged 43, was appointed as an executive director and chief executive officer of the Issuer on 13 January 2020. Mr. Li is also a director of various subsidiaries of the Group. Mr. Li was also appointed as a director and chief executive officer of Industrial Securities (Hong Kong) on 31 July 2019, which is the controlling shareholder of the Issuer (as defined in the Listing Rules). Currently, he is a director and vice chairman of Chinese Securities Association of Hong Kong Company Limited. Mr. Li has over 16 years of experience in the financial services industry.

Mr. Li was the product manager of personal banking of Industrial and Commercial Bank of China, Shenzhen Branch; the general manager of the market research and development department of China Lianhe Credit Rating Co., Ltd.; and the managing director, deputy general manager and general manager of the fixed income business headquarter of Industrial Securities.

Mr. Li obtained a master's degree in economics from Nankai University, the PRC in July 2003.

**Mr. WANG Xiang**（汪詳）, aged 41, was appointed as an executive director on 1 June 2016 and a deputy chief executive officer of the Issuer on 8 June 2016. Mr. Wang is also a director of various subsidiaries of the Group. Mr. Wang has over 11 years of experience in the financial services industry.

Mr. Wang joined Industrial Securities Group as a research analyst of its securities investment department in March 2008. From August 2010 to December 2011, Mr. Wang served as a manager of the securities investment department of Industrial Securities Group, and from January 2012 to May 2015, Mr. Wang served as the assistant chief executive officer of Industrial Securities (Hong Kong). From May 2015 to September 2016, Mr. Wang was the deputy chief executive officer of Industrial Securities (Hong Kong).

Mr. Wang obtained a master's degree in accounting and financial management from the University of Hertfordshire, the United Kingdom, in March 2006.

**Ms. ZENG Yanxia**（曾艷霞）, aged 44, was appointed as an executive director on 1 June 2016 and a deputy chief executive officer of the Issuer on 8 June 2016 and was the chief financial officer of the Issuer from 8 June 2016 to 17 July 2019. Ms. Zeng is also a director of various subsidiaries of the Group. Ms. Zeng has over 13 years of experience in the financial services industry.

Ms. Zeng joined the accounting and finance department of Industrial Securities Group in October 2006, following which she served successively as a manager of its internal division, assistant to the general manager, deputy director and deputy general manager. From August 2013 to March 2016, Ms. Zeng served as a deputy general manager of the strategy development department of the Industrial Securities Group, and from March 2016 to September 2016, Ms. Zeng was the deputy chief executive officer and chief financial officer of Industrial Securities (Hong Kong).

Ms. Zeng graduated from Zhongnan University of Finance and Economics (as it was then known), the PRC, with a bachelor's degree in accountancy in June 1998. She further obtained a master's degree in finance from Wuhan University, the PRC, in June 2003, and a doctor's degree in accounting from Xiamen University, the PRC, in July 2006. She is also a senior accountant and certified public accountant of the PRC.

**Ms. ZHANG Chunjuan**（張春娟）, aged 36, was appointed as a deputy chief executive officer and chief financial officer of the Issuer on 17 July 2019 and an executive director on 2 August 2019. Ms. Zhang is also a director of various subsidiaries of the Group. Ms. Zhang has over 11 years of experience in financial services industry.

From July 2008 to September 2013, Ms. Zhang served as the manager of information management and analysis department of the integrated business planning department of planning and finance department of Industrial Securities. From October 2013 to April 2015, Ms. Zhang served as the manager and senior manager of tax planning and accounting internal control department of the finance department of Industrial Securities. From May 2015 to May 2017, Ms. Zhang served as the manager and senior manager of financial management and analysis department financial management division of finance department of Industrial Securities. From May 2017 to December 2017, Ms. Zhang served as the assistant general manager of finance department and manager of financial management analysis department. From January 2018 to October 2018, Ms. Zhang served as the director of planning and analysis department of planning and finance department of Industrial Securities. From October 2018 to March 2019, Ms. Zhang served as the assistant general manager of planning and finance department and the director of planning and analysis department of Industrial Securities. Ms. Zhang obtained a master's degree in accounting from Shanghai University of Finance and Economics in July 2008. She is also a certified public accountant and intermediate accountant of the PRC.

**Independent Non-executive Directors**

**Ms. HONG Ying (洪瑛)**, aged 70, was appointed as an independent non-executive director on 27 July 2016 and as the chairman of the Audit Committee on 30 September 2016. Ms. Hong has over 41 years of experience in the accounting industry. Ms. Hong is also qualified as a fellow certified public accountant and senior accountant in the PRC and a fellow certified public accountant of CPA Australia, and international associate member of Hong Kong CPA. Currently, Ms. Hong is the chairlady and legal representative of Beijing Fortune C.P.A Limited, a firm engaged in enterprise audit and accounting and consulting services, which is based in the PRC. Ms. Hong is also the chairlady and legal representative of Beijing Fortune International Enterprise Management Consulting Limited, and the chairlady of Fortune International (Asia) Limited and a director and council member of The Hong Kong Independent Non-Executive Director Association. Ms. Hong was appointed as an independent director of Hangzhou Wanshili Silk Culture Co., Ltd. (杭州萬事利絲綢文化股份有限公司) on 19 December 2018 and an independent director of Jilin Jinguan Electric Co., Ltd. (吉林金冠電氣股份有限公司) on 16 October 2019.

Ms. Hong completed the Finance CEO programme jointly offered by the Cheung Kong Graduate School of Business, Columbia Business School and London Business School in January 2009, and obtained a certificate in Executive Management from Golden Gate University, the United States, in August 1993.

**Mr. TIAN Li (田力)**, aged 52, was appointed as an independent non-executive director on 27 July 2016 and the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee on 30 September 2016. Mr. Tian has over 19 years of experience in the financial services industry. Mr. Tian is a director of Shanghai Tuhong Investment Management Company Limited (上海圖鴻投資管理有限公司), a company primarily engaged in strategic investment, asset management, and the provision of corporate advisory services, and he also currently serves as the independent director of the Bank of Chang Cheng Hua Xi (formerly known as Bank of De Yang) and of China Industrial International Trust Limited, respectively. For the avoidance of doubt, China Industrial International Trust Limited is a subsidiary of Industrial Bank Co. Ltd (興業銀行股份有限公司), which like Industrial Securities, is partially owned by Fujian Provincial Department of Finance (福建省財政廳). He is also an executive director of New York Institute of Finance Inc., an executive director and chief executive officer of NYIF International Holding LLC, a legal representative of NYIF Information Technology Development Co., Ltd., and a managing director of Shanghai Li Ding Information Technology Development Limited (上海力鼎信息科技發展有限公司) and Shanghai Hui Sheng Equity Investment Management Limited (上海惠盛股權投資管理有限公司), respectively. Mr. Tian's previous experiences include employment with Bank of China International Limited as group executive director and head of financial institutions from January 2002 to October 2004.

Mr. Tian graduated with a bachelor's degree in engineering from the People's Liberation Army University of Science and Technology (previously known as the People's Liberation Army Institute of Engineering Corps), the PRC, in July 1990. He then obtained a master's degree in civil engineering from Cleveland State University, the United States, in August 1996, and a further master's degree in business administration from Duke University, the United States, in May 1999.

**Mr. QIN Shuo (秦朔)**, aged 51, was appointed as an independent non-executive director on 27 July 2016 and a member of the Remuneration Committee and the Nomination Committee on 30 September 2016. Mr. Qin was the chief editor of China Business News (第一財經日報), from June 2004 to October 2015 and was an independent director of Shenzhen Bosun Institute of Management Science Co. Ltd (深圳市博商管理科學研究院股份有限公司), a consulting company trading on the National Equities Exchange and Quotations system in the PRC. Currently, Mr. Qin is a director of Guangzhou Microdream Media Co., Ltd. (廣州市匯志文化傳播股份有限公司). Mr. Qin was appointed as an independent director of Oppein Home Group Inc. (歐派家居集團股份有限公司), whose shares are listed on the Shanghai Stock Exchange (stock code: 603833.SS) on 16 May 2018.

Mr. Qin graduated with a bachelor's degree in journalism from Fudan University, the PRC, in July 1990, a master's degree in public administration from California State University (Northridge), the United States, in June 2001 and further obtained his doctor's degree in business administration from Sun Yat-sen University, the PRC, in June 2009.

## EMOLUMENT POLICY

The directors of the Issuer receive compensation in the form of fees, salaries, contributions to pension schemes, other allowances, other benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and performance of the directors, as well as the performance of the Group.

The Group regularly reviews and determines the remuneration and compensation packages of the directors by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the directors and the performance of the Group.

The Remuneration Committee reviews and determines the remuneration and compensation packages of the directors with reference to their experience, responsibilities, workload and time devoted to the Group and performance of the Group.

## REMUNERATION OF DIRECTORS OF THE ISSUER

For the years ended 31 December 2017, 2018 and 2019, the aggregate director's fee, salaries and allowances and retirement benefits scheme contribution, other benefits in kind and/or discretionary bonuses paid by the Issuer to the directors were approximately HK$12.9 million, HK$13.5 million and HK$16.4 million, respectively.

For the years ended 31 December 2017, 2018 and 2019, the aggregate salaries and allowances, other benefits in kind, discretionary bonuses and retirement benefits scheme contribution paid by the Issuer to the five highest paid individuals was approximately HK$19.7 million, HK$20.2 million and HK$23.3 million, respectively.

Save as disclosed above, no other emoluments have been paid, or are payable, by the Issuer to the directors and the five highest paid individuals for the years ended 31 December 2017, 2018 and 2019, respectively.

## BOARD OF THE ISSUER COMMITTEES

## AUDIT COMMITTEE

The Audit Committee consists of three members, namely Ms. Hong Ying, Mr. Huang Yilin and Mr. Tian Li. Ms. Hong Ying is the chairlady of the Audit Committee. Written terms of reference for the Audit Committee were adopted in accordance with the Listing Rules and the code provisions under the Corporate Governance Code (the "**CG Code**").

The primary duties of the Audit Committee are to review and supervise the financial reporting process, to nominate and monitor the external auditor and to oversee the risk management and internal control procedures of the Issuer.

## REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, namely Mr. Tian Li, Mr. Huang Yilin and Mr. Qin Shuo. Mr. Tian Li is the chairman of the Remuneration Committee. Written terms of reference for the Remuneration Committee were adopted in accordance with the Listing Rules and the code provisions under the CG Code.

The primary duties of the Remuneration Committee are to make recommendation to the Board of the Issuer on the overall remuneration policy and structure relating to all directors and senior management of the Issuer, and to ensure that none of the directors determine their own remuneration.

**NOMINATION COMMITTEE**

The Nomination Committee consists of three members, namely Mr. Huang Yilin, Mr. Tian Li and Mr. Qin Shuo. Mr. Huang Yilin is the chairman of the Nomination Committee. Written terms of reference for the Nomination Committee were adopted in accordance with the Listing Rules and the code provisions under the CG Code.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board of the Issuer annually, to formulate the nomination policy and implement the nomination policy, to identify individuals suitably qualified to become members of the Board of the Issuer, to assess the independence of the independent non-executive directors, and to make recommendations to the Board of the Issuer on relevant matters relating to appointments of directors.

## INTERESTS IN SECURITIES OF THE DIRECTORS OF THE ISSUER

As at 31 December 2019, according to the register maintained by the Issuer pursuant to section 352 of the SFO, or as otherwise have been notified to the Issuer and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "**Model Code**"), the interests of the directors in the shares and underlying shares of the Issuer were as follows:

| Name of Director | Capacity/Nature | No. of Shares held | Approximate percentage |
|---|---|---|---|
| Huang Yilin | Beneficial owner | 2,264,384 | 0.06% |
| Huang Jinguang (resigned on 6 February 2020) | Beneficial owner | 9,263,389 | 0.23% |
| Wang Xiang | Beneficial owner | 8,131,197 | 0.20% |
| Zeng Yanxia | Beneficial owner | 7,204,858 | 0.18% |

## SUBSTANTIAL SHAREHOLDERS OF THE ISSUER

The register of substantial shareholders maintained by the Issuer pursuant to section 336 of the SFO shows that, as at 31 December 2019, the following shareholders, other than those disclosed in the section headed "*Interests in Securities of the Directors of the Issuer*", had notified the Issuer of their relevant interests in the shares and underlying shares of the Issuer as follows:

| **Name** | **Nature of Interest** | **No. of Shares held** | **Approximate percentage of Shareholding** |
|---|---|---|---|
| Industrial Securities (Hong Kong) Financial Holdings Limited . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | Beneficial owner | 2,077,337,644 | 51.93% |
| China Industrial Securities Co., Ltd.[(1)] . . . . . . . . . . . | Interest of controlled corporation | 2,077,337,644 | 51.93% |
| Harvest Capital Management Co., Ltd[(2)] . . . . . . . . . . | Investment manager | 293,232,000 | 7.33% |
| Harvest Fund Management Co., Ltd.[(2)] . . . . . . . . . . . | Interest of controlled corporation | 293,232,000 | 7.33% |
| China Credit Trust Co., Ltd[(2)] . . . . . . . . . . . . . . . . . | Interest of controlled corporation | 293,232,000 | 7.33% |
| Hao Kang Financial Holdings (Group) Limited . . . . . | Beneficial owner | 205,853,089 | 5.15% |
| Apex Trade Holdings Limited . . . . . . . . . . . . . . . . . | Interest of controlled corporation | 205,853,089 | 5.15% |
| Chen Jiaquan[(3)] . . . . . . . . . . . . . . . . . . . . . . . . . . . | Interest of controlled corporation | 205,853,089 | 5.15% |
| Yang Zhiying[(4)] . . . . . . . . . . . . . . . . . . . . . . . . . . . | Interest of spouse | 205,853,089 | 5.15% |

*Notes:*

(1) China Industrial Securities Co., Ltd. holds the entire issued share capital of Industrial Securities (Hong Kong) Financial Holdings Limited. Therefore, China Industrial Securities Co., Ltd. is deemed or taken to be interested in all the shares of the Issuer held by Industrial Securities (Hong Kong) Financial Holdings Limited for the purposes of the SFO.

(2) China Credit Trust Co., Ltd holds 40 per cent. of the entire issued share capital of Harvest Fund Management Co., Ltd., and Harvest Fund Management Co., Ltd. holds 75 per cent. of the entire issued share capital of Harvest Capital Management Co., Ltd. Therefore, China Credit Trust Co., Ltd and Harvest Fund Management Co., Ltd. are deemed or taken to be interested in all the shares of the Issuer held by Harvest Capital Management Co., Ltd for the purposes of the SFO.

(3) Chen Jiaquan holds 70 per cent. of the total issued share capital of Apex Trade Holdings Limited and is the sole director of Hao Kang Financial Holdings (Group) Limited and therefore is deemed or taken to be interested in all the shares of the Issuer held by Apex Trade Holdings Limited and Hao Kang Financial Holdings (Group) Limited for the purpose of the SFO.

(4) Yang Zhiying is the spouse of Chen Jiaquan. Under the SFO, Yang Zhiying is deemed, or is taken to be, interested in all the shares of the Issuer in which Chen Jiaquan is interested.

# TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.*

## Cayman Islands

The Cayman Islands currently have no exchange control restrictions and no income, corporate or capital gains tax, estate duty, inheritance tax, gift tax or withholding tax applicable to the Issuer or any holder of Bonds.

Accordingly, payment of principal of (including any premium) and interest on, and any transfer of, the Bonds will not be subject to taxation in the Cayman Islands, no Cayman Islands withholding tax will be required on such payments to any holder of the Bonds and gains derived from the sale of the Bonds will not be subject to Cayman Islands capital gains tax.

No stamp duty is payable under the laws of the Cayman Islands in respect of the execution and issue of the Bonds. However, an instrument of transfer in respect of the Bonds is stampable if executed in or brought into the Cayman Islands.

## Hong Kong

### *Withholding tax*

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

### *Profits tax*

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap.112) of Hong Kong (the Inland Revenue Ordinance), as it is currently applied in the Inland Revenue Department, interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong; or

(b) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong; or

(c) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person (other than a corporation) carrying on a trade, profession or business in Hong Kong and such interest is derived from Hong Kong and is in respect of the funds of the trade, profession or business; or

(d) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the Inland Revenue Ordinance), even if the moneys in respect of which the interest is received or accrues are made available outside Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to profits tax.

Sums derived from the sale, disposal or redemption of the Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired or disposed of. Sums received by or accrued to a corporation (other than a financial institution) by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (as defined in section 16(3) of the Inland Revenue Ordinance) from the sale, disposal or redemption of the Bonds will be subject to profits tax.

***Stamp duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

**PRC**

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC holders of Bonds, non-resident holders of Bonds or holders of the Bonds who are located outside of the PRC in this "*Taxation – PRC*" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

***Enterprise Income Tax***

Pursuant to the EIT Law and its implementation regulations and the IIT Law and its implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC enterprises to non-PRC Bondholders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 10 per cent. for non-PRC resident enterprises and 20 per cent. for non-PRC resident individuals.

If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the actual management organ of the Issuer is within the territory of PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to EIT at the rate of 25 per cent. in respect of its income sourced from both within and outside PRC. If the Issuer is regarded as a PRC tax resident enterprise, such income tax charged on interests paid on the Bonds to non-PRC Bondholders shall be withheld by the Issuer that is acting as the obligatory withholder and such PRC enterprise shall withhold the tax amount from each payment due.

If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the actual management organ of the Issuer is within the territory of PRC, capital gain realised by a non-resident enterprise holder or non-resident individual holder from the transfer of the Bonds may be regarded as being derived from sources within the PRC and, accordingly, may be subject to a PRC enterprise income tax or PRC individual income tax. There remains uncertainty as to whether the gains realised from the transfer of the Bonds between entities or individuals located outside of the PRC would be treated as incomes derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law, IIT Law and their respective implementation rules. If such gains are subject to PRC income tax, the 10 per cent. EIT rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income.

According to the Arrangement which was promulgated on 21 August 2006, as amended, the tax so charged on interests paid on the Bonds to non-PRC Bondholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) will be 7 per cent. of the gross amount of the interest pursuant to the Arrangement and relevant interpretation of the Arrangement formulated by the SAT. Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, may be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds if such capital gains are not connected with an office or establishment that the Bondholders have in the PRC and all the other relevant conditions are satisfied. To enjoy such preferential tax rate of 7 per cent. or the exemption of the tax, the Issuer could apply, on behalf of the Bondholders, to the SAT in accordance with the Arrangement on the interest payable in respect of the Bonds.

***Value-add Tax (“VAT”)***

On 23 March 2016, the MOF and the SAT issued the Circular of Full Implementation of Business Tax to VAT Reform (關於全面推開營業稅改徵增值稅試點的通知)(Caishui [2016] No. 36) as supplemented by the Notice on Clarification of VAT Policies for Finance, Real Estate Development, Education Support Services etc (財政部、國家稅務總局關於明確金融房地產開發教育輔助服務等增值稅政策的通知) jointly issued by the MOF and the SAT on 21 December 2016 and effective retroactively (excluding Article 17 thereof) as of 1 May 2016 and other related rules and regulations (together, the “**Circular 36**”) which confirms that business tax will be completely replaced by VAT from 1 May 2016. Since then, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in China. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the definition of “loans” under Circular 36, the issuance of Bonds is likely to be treated as the holders of the Bonds providing loans to the Issuer, which thus shall be regarded as financial services subject to VAT. VAT is unlikely to apply to the Issuer’s payments of interest and other amounts on the Bonds to investors who are located outside of the PRC but there is uncertainty as to the applicability of VAT as this will depend on how the PRC tax authorities interpret, apply or enforce the Circular 36 and its implementation rules. In addition, pursuant to the Interim Regulation of the PRC on City Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例(2011修訂)), Interim Provisions on the Collection of Educational Surcharges (徵收教育費附加的暫行規定(2011 修訂)), Notice of the MOF on the Relevant Matters regarding Unifying the Policies on Local Education Surcharges (財政部關於統一地方教育附加政策有關問題的通知), certain surcharges on VAT may also be applicable and will be required to be withheld by the Issuer, if the Issuer is required to withhold VAT from interest payments made to the holders of the Bonds who are located outside of the PRC.

Where a holder of the Bonds who is an entity or individual located outside of the PRC resells the Bonds to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

Circular 36 has been issued quite recently, the above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36 as this will depend on how the PRC tax authorities interpret, apply or enforce the Circular 36 and its implementation rules.

Pursuant to the EIT Law and the VAT reform detailed above, the Issuer may be required under the EIT Law, IIT Law or Circular 36 and other related PRC tax laws to withhold PRC income tax or VAT or related surcharges on VAT from the payments of interest in respect of the Bonds for any Bondholders who are "non-resident enterprises" or who are located outside of the PRC. However, in the event that the Issuer is required to make such a deduction or withholding (whether by way of EIT, IIT, VAT or otherwise), the Issuer has agreed to pay additional amounts to holders of Bonds, subject to certain exceptions, so that the holders of Bonds would receive the full amount of the scheduled payment, as further set out in "*Terms and Conditions of the Bonds*".

***Stamp Duty***

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Bonds is maintained outside the PRC and the issuance and the sale of the Bonds is made outside of the PRC.

***The proposed financial transaction tax ("FTT")***

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

# PRC REGULATIONS

## Overview

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

## Major Regulatory Authorities and Self-Regulatory Organisations

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

### *CSRC*

The CSRC is the major regulatory authority in the securities and futures industry, which is responsible for the unified supervision and management of the securities and futures markets of the PRC and for maintaining the market order thereof, and to secure their lawful operations in accordance with the laws, regulations and within the authorisation of the State Council. According to the Securities Law (《證券法》)(amended on 28 December 2019 and became effective on 1 March 2020) and the Administrative Regulations on Futures Trading (amended on 1 March 2017)(《期貨交易管理條例》), the main duties of the CSRC include: to formulate the regulations and rules in relation to the supervision and regulation of the securities and futures markets and to conduct approval, verification, registration and record-filing in accordance with the law; to supervise and regulate the issuance, listing, trading, registration, deposit and settlement of securities and other securities related activities and the listing, trading, settlement and delivery of futures and related activities; to supervise and regulate the securities activities of securities issuers, securities companies, securities service organisations, stock exchanges and securities registration and settlement organisations, as well as futures activities of market participants, including futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository management companies, futures margin depository banks, settlement houses and so forth; to formulate the codes of conduct for securities business personnel and supervise the implementation of the same, and to formulate the standards for accrediting and measures for regulating the qualifications of futures practitioners and supervise the implementation of those standards and measures; to legally supervise the disclosure of information in relation to the issuance, listing and trading of securities and information on futures trading; to legally guide and supervise the self-regulatory activities of the SAC and the CFA; to monitor, prevent and dispose of risks in the securities market in accordance the law; to provide education for investors in accordance the law; to investigate activities in violation of laws and administrative regulations in relation to the securities and futures markets; to conduct external and international cooperative transactions in relation to the supervision and management of the securities and futures industries; and to perform other duties stipulated by the relevant laws and administrative regulations.

### *Stock Exchanges*

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

### *Futures Exchanges*

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

***SAC***

According to the relevant provisions of the Securities Law, the SAC is a self-regulatory organisation of the securities industry and is a non-profit public legal entity. Securities companies shall join the SAC. The main duties of the SAC include: to educate and organise its members and practitioners to observe securities laws and administrative regulations; to organise the credit development of the securities industry, and urge the securities industry to perform its social responsibilities; to safeguard the legitimate rights and interests of its members and report suggestions and requirements of its members to the securities regulatory body; to urge members to carry out investor education and protection activities, and safeguard the legitimate rights and interests of investors; to formulate and implement self-regulatory rules in the securities industry, supervise and inspect the conduct of members and their practitioners, and carry out disciplinary actions or impose other self-regulatory measures in accordance with provisions for violations of laws, administrative regulations, self-regulatory rules or the articles of association of the SAC; to formulate business norms for the securities industry and organise business training for practitioners; to organise its members to carry out research on the development and operation of the securities industry and relevant content, to collect, sort and release securities-related information, to provide membership services, to organise industry exchanges and to guide the innovative development of the industry; to mediate any dispute relating to securities operations that arises between members or between members and their clients; and to perform any other responsibility specified in the articles of association of the SAC.

***CFA***

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

***AMAC***

Pursuant to the relevant provisions of the Law of the People's Republic of China on Securities Investment Fund (《中華人民共和國證券投資基金法》)(the ''Securities Investment Fund Law'') (amended on 24 April 2015 with immediate effect), AMAC is a self-regulatory organisation of the securities investment fund industry and is a public legal entity. Fund managers and fund custodians shall join AMAC, and fund service organisations may join AMAC. The main duties of AMAC include: to educate and advise its members to comply with the laws and administrative rules governing securities investments and to protect the lawful rights and interests of the investors; to protect the lawful rights and interests of its members and to submit their proposals and requests; to formulate and implement self-regulatory rules, to supervise and investigate the practices of its members and practitioners, and to take disciplinary actions against the violation of the self-regulatory rules and its articles of association in accordance with relevant provisions; to formulate practice standards and business rules and to organise the qualification examinations, qualification management and professional training for fund practitioners; to provide membership service, organise seminars, promote innovation and launch propaganda and investor education activities in the securities industry; to mediate disputes arising from fund business between members or between members and their clients; to handle the registration and filing of non-publicly offered funds in accordance with the law; and to perform other duties stipulated in its articles of association.

### *Other Industry Organisations*

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

## Intra-Group Lending

On 19 August 2020, the Supreme People's Court issued the Regulations on Application of Laws to Certain Issues For Hearing of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定)("**Regulations**"), which became effective on 20 August 2020. Pursuant to the Regulations, subject to certain exceptions, an intra-group lending entered into for production or operating purposes is valid and recognised by the PRC courts. However, the validity of such lending may still be challenged if the lender (not being a financial institution) regularly conducts lending business or its lending activities become its primary business, as such loans would no longer be made for production or business operation purposes. The PRC courts shall identify a private lending contract as void where the lender provides loans for an unspecified number of individuals for profit without legally obtaining the relevant lending qualification.

## External Security Regime

### *Cross-Border Guarantee Laws*

On 12 May 2014, the SAFE promulgated the Provisions on the Foreign Exchange Administration Rules on Cross-border Security (《跨境擔保外匯管理規定》)(the "**SAFE Provisions**"). The Guarantor is required by the SAFE Measures to register the Guarantee with SAFE within 15 working days of the date of execution of the Guarantee. Although the non-registration does not render the Guarantee ineffective or invalid under PRC law, SAFE may impose penalties on the Guarantor if the Guarantor fails to complete the SAFE registration. Further, there may be hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of SAFE registration in connection with the Guarantee in order to effect such remittance. In case of any change in the major clauses of the Deed of Guarantee, the Guarantor shall apply for the amendment registration.

### *Foreign Debt Laws*

SAFE issued the Administrative Measures for Foreign Debt Registration and its operating guidelines (the "**SAFE Measures**") on 28 April 2013, which came into effect on 13 May 2013. According to the SAFE Measures, the debtor shall submit foreign debt registration when borrowing foreign debts in accordance with laws and regulations. Domestic debtors other than financial institutions and banks (the "**Non-Bank Debtors**") shall submit filing or registration procedures of foreign debts with the local counterparts of the SAFE. According to the Operation Guidelines for Administration of Foreign Debt Registration promulgated together with the SAFE Measures and the Operating Guidelines for Foreign Exchange Business under the Capital Account (2017 Version), Non-Bank Debtors shall apply for foreign debt registration procedure within five working days after execution of related deeds of foreign debts. In addition, the PBOC issued the Circular of the People's Bank of China on Matters relating to the Macro-prudential Management of Full-covered Cross-border Financing (《中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知》) (the "**PBOC Circular**") on 12 January 2017 which came into effect on the same date. According to the PBOC Circular, the Guarantor is also required to file the issue of the Bonds with SAFE within the timeframe prescribed in the PBOC Circular. If the Guarantor fails to report or update the cross-border financing information in time, the PBOC and the SAFE may circulate the criticism on the securities issuer after verification, order a rectification, and impose sanctions according to the Law of the People's Republic of China on People's Bank of China and the Law of the People's Republic of China on Foreign Exchange Control. The aforementioned circular and guidelines will be applicable to the issue of the Bonds, and the Guarantor is required to complete the filing with the SAFE within five PRC business days after the delivery of the Bonds. Before such registration of the Bonds is completed, it is uncertain whether the Bonds are enforceable as a matter of PRC law and it may be difficult for Noteholders to recover amounts due from the Guarantor, and the Guarantor may not be able to remit the proceeds of the issue of the Bonds into the PRC or remit money out of the PRC in order to meet its payment obligations under the Bonds. In the unlikely event that the Guarantor is unable to complete such registration within the relevant time period, Noteholders will have the right to require the Issue to redeem their holding of Bonds. However, notwithstanding such right, if the Guarantor fails to complete the registration with the local branch of SAFE, the Guarantor may have difficulty in remitting funds offshore to service payments in respect of the Bonds and investors may encounter difficulties in enforcing judgements obtained in the Hong Kong courts with respect to the Bonds and the Trust Deed in the PRC. In such circumstances, the value and secondary market price of the Bonds may be materially and adversely affected.

**Regulation on the Issuance of Foreign Notes**

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Corporates (《國家發展改革委員會關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)), which was promulgated by the NDRC and became effective on 14 September 2015, where domestic enterprises, overseas enterprises controlled by them or their overseas branches issue foreign debts, which are debt instruments of no less than one year of tenor that are denominated in domestic currency or foreign currency with the capital repaid and interest paid as agreed, including notes issued overseas and long and medium-term international commercial loans, the enterprises shall apply to the NDRC for dealing with the formalities of record-filing and registration before issuance. The NDRC shall decide to accept it or not within five working days upon the receipt of the application and provide the Enterprise Foreign Debt Filing Registration Certification (企業發行外債備案登記證明) within seven working days after acceptance. The enterprises shall submit the issuance information to the NDRC within 10 working days after the end of issuance each time.

**Industry Entry Requirements**

***Industry Entry Requirements of Securities Companies***

*Establishment*

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

- its articles of association shall comply with the laws and administrative regulations;
- its major shareholders shall have sustainable profitability, good reputation and no record of major violation of laws or regulations in the last three years and shall have net assets not less than RMB200 million;

- it shall have the necessary registered capital required by the Securities Law; for a securities company operating securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million; for companies operating one of the areas at securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB 100 million; for companies operating two or more of the areas at securities underwriting and sponsorship, proprietary securities trading, securities asset management or other securities businesses, the minimum registered capital shall be RMB500 million. The registered capital of a securities company shall be paid-in capital;

- its directors, supervisors and senior management shall have the required qualifications, while other personnel involved in the securities business shall possess proper professional qualifications, and no less than three of the senior officers shall have served as senior officers for no less than two years in the securities industry; and

- it shall have effective risk management and internal control systems; it shall have proper premises and facilities for operation; and it shall fulfil other conditions stipulated by laws, administrative rules and the CSRC.

According to the Administrative Provisions on Equities of Securities Companies (《證券公司股權管理規定》)(effective from 5 July 2019), the CSRC shall examine and approve its registered capital and equity structure at the time of establishment of a securities company, and various types of stakeholders of the securities companies shall satisfy the relevant criteria.

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

- it holds less than 5% (excluding 5%) of the shares of listed securities companies through securities trading on any stock exchange;

- it controls a securities company via investment relationship, agreement(s) or other arrangements, while such securities company holds equity or controlling interests in other securities companies in accordance with law;

- it is a subsidiary established by a securities company in accordance with law upon approval of the CSRC and engages in securities business; and

- other circumstances as identified by the CSRC.

According to the Administrative Measures on Foreign-funded Securities Companies (《外商投資證券公司管理辦法》) promulgated by the CSRC (amended on 20 March 2020 with immediate effect) which stipulates the conditions and procedures for the formation of foreign-invested securities companies, foreign investors who lawfully hold 5% or more of the shares in a listed domestically funded securities company through securities trading on a stock exchange or who jointly hold 5% or more of the shares in a listed domestically funded securities company with others by agreement or other arrangements shall comply with the Securities Law and the relevant provisions of the CSRC on examination and approval for acquisition of a listed company and change in securities company.

Establishment of a foreign-funded securities company shall, in addition to compliance with the Company Law, the Securities Law, the Administrative Regulations on Supervision and Administration of Securities Companies and the criteria for establishment of securities company stipulated by the CSRC with approval by the State Council, satisfy the following criteria:

- the overseas shareholder(s) satisfy(ies) the qualification criteria stipulated in Administrative Measures on Foreign-funded Securities Companies, and its/their capital contribution ratio and capital contribution method comply with the relevant provisions of these Measures;

- the preliminary scope of business is compatible with the securities business experience of the controlling shareholder or the largest shareholder; and

- any other prudential criteria stipulated by the CSRC.

The following conditions shall be met for a foreign shareholder of a foreign-invested securities company:

- the country or region in which the foreign shareholder is based has complete securities laws and regulation system, of which the relevant financial regulatory authorities have entered into a memorandum of understanding with the CSRC or institutions recognised by the CSRC in respect of securities regulation cooperation, and the regulation cooperation relationship has been maintained in an effective way;

- the shareholder is a financial institution legally incorporated in the country or region in which it is based, and the respective financial indicators of the shareholder for the last three years satisfy the requirements of the national or regional laws and of the regulatory authorities in that country or region;

- the shareholder is engaged in securities business for over five years, receives no material punishment during the last three years from the regulatory authorities, administrative or legal authorities of the country or region in which it is based, and not being investigated by relevant authorities due to involvement in material violation of laws and regulations;

- the shareholder has well-established internal control system;

- the shareholder enjoys good international reputation and operating results, with its business scale, revenue and profit for the last three years ranking in advanced position in international market and with its long-term credit for the last three years maintained at a high level; and

- other prudent requirements stipulated by the CSRC.

According to the Measures for Further Opening up the Financial Sector (《關於進一步擴大金融業對外開放的有關舉措》) promulgated by the State Council's Financial Stability and Development Committee on 20 July 2019, the foreign shareholding limit on securities companies, fund management companies and futures companies was removed in 2020.

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

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

*Business scope*

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

According to the provisions of the Regulations on the Examination and Approval of the Scope of Business of Securities Companies (Provisional)(《證券公司業務範圍審批暫行規定》)(effective from 1 December 2008 and amended on 7 December 2017 and 30 October 2020), securities companies under common control of an entity or individual or securities companies with control relationship shall not engage in the same business, unless effective measures are in place for division of operation regions or client bases and there is no competition between the companies. Unless otherwise specified by the CSRC, the scope of business of a securities company shall be approved by the CSRC upon its establishment in accordance with the statutory requirements, and no more than four types of new businesses shall be approved. A securities company shall obtain approval from the CSRC for any change in its scope of business. Changing business scope includes increasing business types and reducing business types. No more than two additional types of business can be applied for increasing business types at once. Subject to approval by the CSRC, a securities company may operate businesses not prohibited by the Securities Law, the Regulations on Supervision and Administration of Securities Companies and the rules and regulations and normative documents of the CSRC.

*Material changes*

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

- establishment, acquisition or de-registration of a branch of a securities company;
- change of the scope of business or registered capital;
- change of any shareholder(s) directly or indirectly holding more than 5% of the shares;
- change of important provisions of the articles of association of a securities company;
- merger, division, change of incorporation, cessation, dissolution and bankruptcy; or

- the establishment, acquisition or equity participation in securities institutions overseas by securities companies.

According to the Administrative Provisions on Equities of Securities Companies (《證券公司股權管理規定》)(effective from 5 July 2019), when a securities company increases its registered capital and there is a significant equity structure adjustment, or it reduces its registered capital, or there is a change in shareholders holding 5% or more of its equity or a change of actual controlling party, the securities company shall apply to the CSRC for approval pursuant to the law. Where the change in registered capital or equity of a securities company does not fall under the circumstances set out in the preceding statement, the securities companies shall complete change registration formalities with the company registration authority within five working days and file records with the CSRC branch at its locality. This provision shall not apply to equity changes of securities companies which occur on a stock exchange or the NEEQ.

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

According to the provisions of the Decision of the State Council on Cancellation and Delegation of Certain Administrative Examination and Approval Items (《國務院關於取消和下放一批行政審批項目的決定》)(issued on 28 January 2014 with immediate effect), the CSRC cancelled the approval requirements for the following three matters: the borrowing of subordinated debts by securities companies, annual foreign exchange risk exposure of licensed overseas futures companies, and special investment of securities companies.

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

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

*Establishment of subsidiaries, branches and securities business units*

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

Pursuant to the provisions of the Regulatory Requirements on Branches of Securities Companies (《證券公司分支機構監管規定》)(effective from 15 March 2013 and amended on 30 October 2020), branches of a securities company refer to branches and securities business units established by such securities company in the PRC for business operation. The establishment, acquisition and de-registration of branches of securities companies are subject to filing with local securities regulatory authorities. Securities companies shall meet the following requirements in order to establish or acquire branches: having a sound governance structure and effective internal management and being able to control the risks of their existing branches and the branches to be established; having risk control indicators in compliance with relevant rules for the previous year and those indicators remaining in compliance after the additional branches are established; having not received any administrative or criminal penalties for any material breach of rules or regulations for the past two years and having not had any material regulatory measures imposed on them for the previous year, and not being subject to any investigation for any branch-related activities based on any alleged material breach of rules or regulations; having a secure and stable information technology system and no material information technology incident having occurred during the previous year; and other prudent requirements stipulated by the CSRC.

***Entry Requirements for Futures Companies***

*Establishment*

According to the Administrative Regulations on Futures Trading (《期貨交易管理條例》) and the Administrative Regulations on Futures Trading and the Administrative Measures for Futures Companies (《期貨公司監督管理辦法》)(effective from 29 October 2014, subsequently amended on 7 December 2017 and 4 June 2019), the establishment of futures companies shall be approved by the CSRC, subject to the following conditions:

- the minimum registered capital shall be RMB100 million;
- directors, supervisors and senior management shall be qualified for their positions, while practitioners shall have futures practice qualifications;
- the number of staff with futures practice qualifications shall not be less than 15, and the number of senior management staff with practice qualifications shall not be less than three;
- the articles of association of the company shall comply with the requirements of laws and administrative regulations;
- major shareholders and the de facto controller shall have sustainable profitability, good reputation, and shall not have a record of material violation of laws or regulations in the past three years;
- premises and operation facilities shall be in compliance with requirements;
- sound risk management and internal control systems; and
- other conditions as stipulated by the CSRC.

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

*Material changes*

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

According to the Negative List (Edition 2019), the proportion of foreign capital invested in a futures company shall be less than 51%, and according to the Interim Administrative Measures, in the case of incorporation or a change in a foreign-invested enterprise subject to the Negative List (Edition 2019), the approval procedures shall be handled in accordance with the relevant laws and regulations on foreign investment. According to the Measures for Further Opening Up the Financial Sector (《關於進一步擴大金融業對外開放的有關舉措》) promulgated by the State Council's Financial Stability and Development Committee on 20 July 2019, this limit on the foreign shareholding proportion with respect to futures companies will be removed in 2020.

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

In accordance with the State Council Decisions on the Cancellation and Adjustment of Various Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (issued on 24 February 2015 with immediate effect), the appointment of directors, supervisors and senior management of futures companies is no longer subject to qualifications approval of a local branch of the CSRC.

**Regulation of operations of Securities Companies**

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

***Securities Brokerage***

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

- it shall have a sound management system for its securities brokerage business;

- it shall objectively indicate its business qualifications, service responsibility, scope and other information of its securities brokerage business;

- it shall have a sound client management and service system for its securities brokerage business and strengthen the education of investors and protect the legitimate rights and interests of clients;

- it shall have a sound management system and rational performance appraisal system for securities brokers to regulate their behaviour;

- it shall have a sound management system for its securities business department to ensure law-abiding, stable and safe operation;

- it shall establish and manage the information systems for client account management, client deposits, agent trading, agent clearing and settlement, securities depository, transaction risk monitoring, etc., and shall establish a central storage for the above business data;

- if the securities business unit or a practitioner of a securities company violates laws, administrative regulations, provisions stipulated by regulatory agencies and other administrative department self-regulatory rules or regulations stipulated by securities companies for securities brokerage business, the securities company shall hold the department or practitioner accountable; and

- if it or its securities business unit violates the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》), the CSRC and its local branch office will take such measures as requiring rectification, regulatory interviews, issuance of caution letters, temporary suspension of license-related approvals, punishment of related personnel, suspension of new business approval, imposing limitations on business activities, and other regulatory measures. Any violation of laws and regulations will be punished in accordance with the law. If it constitutes a crime, the responsible parties will be transferred to the proper judicial organisation for prosecution.

***Futures Brokerage***

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

***Futures Intermediary Business***

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

***Distribution of Financial Products***

According to the Administrative Provisions on the Distribution of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》)(promulgated on 12 November 2012 and amended on 20 March 2020), a securities company engaging in the distribution of financial products shall obtain relevant qualifications to carry out the distribution of financial products. Its personnel engaging in the distribution of financial products shall meet the specified requirements and observe the regulations for securities practitioners. A securities company shall centralise the regulation of distribution of financial products and assess the eligibility of the client. The information given on the financial products shall be comprehensive, fair and accurate. A securities company is also required to set up a client feedback system.

***Sales of Securities Investment Funds***

According to the Measures for the Supervision and Administration of Publicly-Offered Securities Investment Fund Distributors (《公開募集證券投資基金銷售機構監督管理辦法》)(promulgated on 28 August 2020 and effective from 1 October 2020), a securities company intending to engage in fund distribution business shall apply for registration of its fund distribution business qualification to the local office of the CSRC at the place of its domicile and apply for the Business License for Securities or Futures Operator. A securities company shall have a department responsible for fund distribution business and the persons thereof shall be qualified to carry out such activities. It shall establish and effectively implement a sound internal control and risk management system for fund distribution business; designate special compliance risk control personnel to examine, supervise and inspect the operation of its fund distribution business; and carry out prudent investigation and risk assessment of fund managers and fund products. It shall also establish a sound system for the management of investors' fund trading accounts and capital accounts, a disaster backup system and a contingency plan in compliance with relevant requirements, a sound mechanism for internal appraisal of its fund distribution business, a sound system for control of the scope of business and a sound archive management system.

***Securities Investment Consultation***

According to the provisions of the Provisional Measures on Management of Investment Consultations on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》)(effective from 25 December 1997), a company which engages in securities investment consultation business shall obtain the required qualifications and a business license from the CSRC; practitioners of securities investment consultation shall obtain the relevant securities investment consultation qualifications and work under a qualified securities investment consulting institution before engagement in securities investment consultation business.

According to the Regulations on the Securities Investment Advisor Business (Provisional)(《證券投資顧問業務暫行規定》)(effective from 1 January 2011 and amended on 20 March 2020 and 30 October 2020), a securities company and its investment advisors shall provide securities investment advisory service in good faith and shall not jeopardise the interests of clients by acting in favor of the securities company and its associates, investment advisors and their related parties, or other particular clients.

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

### *Margin Financing and Securities Lending*

According to the provisions of the Management Measures on Margin Financing and Securities Lending of Securities Companies (《證券公司融資融券業務管理辦法》)(effective from 1 July 2015 and amended on 20 March 2020), a securities company that applies for the qualification to engage in margin financing and securities lending business must satisfy the following conditions:

- it shall have the qualification to engage in the securities brokerage business;

- it shall have a sound system of corporate governance and effective internal controls in place to identify, control and prevent any potential operational risks and internal management risks;

- it shall have not been subject to any investigation or rectification for any breach of rules or regulations by the CSRC during the past two years;

- it shall have a sound financial position, with each of its risk control indicators in compliance with the relevant requirements for the recent two years and its registered capital and net capital are also in compliance with the requirements subsequent to the commencement of the margin financing and securities lending business;

- its clients' assets remain secured and intact with effective measures in place for clients' third-party fund depository, and clients' particulars remain true and intact;

- it shall maintain a comprehensive feedback mechanism that ensures the prompt and proper resolution of any disputes with its clients;

- it shall maintain a client eligibility evaluation system in compliance with the regulations and self-regulatory requirements to ensure that the client is qualified to invest in the relevant products;

- it shall maintain a resilient information security system, with no material incidents during the past year due to any management issues, and the systems designed for the margin financing and securities lending business shall have passed the tests of stock exchanges and securities registration and clearing institutions;

- it shall have an appropriate number of senior management and professionals who are responsible for the margin financing and securities lending business; and

- any other conditions stipulated by the CSRC.

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

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

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

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

***Collateralised Stock Repurchase***

According to the Measures on Collateralised Stock Repurchase and Registration and Settlement Business (《股票質押式回購交易及登記結算業務辦法》)(effective from 30 June 2017, and amended in 2018) promulgated jointly by CSDC and the Shanghai Stock Exchange and the Shenzhen Stock Exchange as amended and in effect as at 12 March 2018, respectively, the Shanghai Stock Exchange and the Shenzhen Stock Exchange shall implement the trading permissions management of securities companies that participate in collateralised stock repurchase. Securities companies shall establish client qualification examination systems and perform due diligence with respect to their clients. Examination contents shall include identity, financial status, business status, credit status, guarantee status, usage of funds, risk tolerance and cognition of the securities market. Securities companies shall provide to their clients a comprehensive introduction of the business rules and a full disclosure of the risks, and shall require the clients to sign the risk disclosure statement.

***Securities Repurchase***

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

***Secondary Offering Business***

Pursuant to the provisions of the Trial Measures on Supervision and Administration of the Secondary Offering Business (《轉融通業務監督管理試行辦法》)(implemented on 26 October 2011 and amended on 7 December 2017 and 30 October 2020), a secondary offering business refers to a business in which a securities finance company lends its funds or securities owned by itself or legally raised and its securities to a securities company for conducting margin financing and securities lending activities. To conduct a secondary offering business, a securities finance company shall, in its own name, open a securities account, a guaranteed securities account and a securities settlement account specific for a secondary offering business with the securities registration and settlement authority. A securities finance company shall also set up a client credit assessment mechanism to evaluate the credit of securities companies and determine and adjust the credit line based on the evaluation. Furthermore, a securities finance company shall charge deposits at a certain rate from securities companies for the secondary offering business.

*Proprietary Securities Trading*

Provisions of the Regulations on Supervision and Management of Securities Companies and the Guidelines on Proprietary Business of Securities Companies (《證券公司證券自營業務指引》)(effective from 23 November 2005) and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》)(effective from 29 July 2014) stipulate that securities companies engaged in proprietary securities trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of the State Council. A securities company engaged in a proprietary securities trading business shall be registered under the name of the proprietary securities account holder. Risk control indicators, such as the proportion of the total value of proprietary securities to the net capital of the securities company, the proportion of the value of a single security to the net capital of the securities company, and the proportion of the amount of a single security to the total amount of issued securities, shall each comply with the regulations of the CSRC.

According to the List of Securities Investment Products for the Proprietary Business of Securities Companies (《證券公司證券自營投資品種清單》), which is the Appendix to Regulations on Investment Scopes of Proprietary Business of Securities Companies and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》)(effective from 1 June 2011 and amended on 16 November 2012 and 20 March 2020), securities companies engaged in proprietary securities trading business are permitted to invest in the following securities:

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

- securities that have been listed and transferred on the NEEQ;

- private placement notes that have been or may be legally listed and transferred on qualified regional equity trading markets, and stocks that have been listed and transferred on qualified regional equity trading markets;

- securities that have been or may be legally traded on the domestic interbank market; and

- securities issued with the approval of the national financial regulatory authority or its authorised bodies or after filing with the national financial regulatory authority or its authorised bodies and traded over the counter at domestic financial institutions.

**Securities Asset Management**

According to the Administrative Measures on Private Offering Asset Management Business of Securities and Futures Business Organisations (《證券期貨經營機構私募資產管理業務管理辦法》), which be implemented with effect from 22 October 2018, and the Circular on Strengthening Supervision on Asset Management Business of Securities Companies (《關於加強證券公司資產管理業務監管的通知》)(effective from 14 March 2013), securities and futures business organisation engaging in private offering asset management business shall be subject to approval by the CSRC pursuant to the law, unless otherwise stipulated by laws, administrative regulations and the CSRC. Securities companies may set up a single asset management plan for a single investor, or set up a collective asset management plan for multiple investors. The number of investors of a collective asset management plan shall not be less than two, and shall not exceed 200.

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

Pursuant to the Interim Provisions on Operation and Management of Private Asset Management Business of Securities and Futures Operation Institutions (《證券期貨經營機構私募資產管理業務運作管理暫行規定》)(promulgated on 14 July 2016 with effect from 18 July 2016), securities companies (i) shall neither sell asset management plans in breach of rules, nor engage in such acts as inappropriate publicity, misleading or deceiving investors, or in any means guaranteeing to the investors that their principal will not suffer any loss or promising a minimum return, (ii) shall establish a structured asset management plan and shall not violate the principle of "sharing of interests and risks and matching risks with returns", (iii) shall not entrust any individual or unqualified third party with the provisions of investment advice, and managers shall not be exempted from legal liability on the grounds of such entrustment, and (iv) shall not engage in or participate in private asset management business with a "cash-pooling feature".

***Management of Publicly Offered Securities Investment Funds***

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

- it has over three years' management experience in securities assets, with good performance in securities products during the past three years;
- it shall have comprehensive corporate governance, sound internal control and effective risk management;
- its operations shall have been in good condition during the past three years, with robust finance;
- it shall act honestly and in compliance with relevant requirements, without any material breach of laws and regulations as filed by regulatory authorities during the past three years, and shall not be subject to any current investigation or rectification for any material breach of laws and regulations;
- it is a member of the AMAC;
- its total AUM shall not be less than RMB20 billion or its AUM or CAM business shall not be less than RMB2 billion;
- during the past 12 months, every risk control indicator has met the specified criteria continuously; and
- it shall meet other requirements of the CSRC.

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

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

The Administrative Measures on Operations of Publicly Offered Securities Investment Funds (《公開募集證券投資基金運作管理辦法》) which came into effect on 8 August 2014 has set out provisions on public fund offering, the subscription, redemption and trading of fund units, the investment of fund assets, the distribution of fund earnings, the convening of meetings of unitholders, and other fund operational activities.

The Administrative Measures on Information Disclosure for Publicly Offered Securities Investment Funds (《公開募集證券投資基金信息披露管理辦法》)(which came into effect on 1 September 2019, and amended on 20 March 2020) regulates the category of the information that the fund information disclosure obligors of a publicly offered fund should disclose, and the format, media, methods and timeliness requirements thereto.

***Private Equity Fund Business***

Pursuant to the Provisions of Management Practices for Private Equity Fund Subsidiaries of Securities Companies (《證券公司私募投資基金子公司管理規範》)(as promulgated on 30 December 2016 with immediate effect) issued by the SAC, securities companies which engage in private equity fund business shall establish a private equity fund subsidiary in accordance with the requirements of the relevant regulatory authorities. If a private equity fund subsidiary needs special purpose vehicles ("SPVs") for purposes such as fund management, it shall hold 35% or more equity interests or capital investment in, and have management control in, such SPY; a fund management SPY established under the private equity fund subsidiary shall only manage the private equity funds for which the fund management SPY was established. Business of each affiliated SPY shall be explicit and non-repetitive.

The private equity fund subsidiary and the fund management SPYs under it shall invest their own funds in the private equity fund established by the fund management SPY. The amount of investment in respect of each of the funds shall not exceed 20% of the total amount of such fund.

***Alternative Investment***

According to the Regulations on Investment Scopes of Securities Investment and Trading Business of Securities Companies and Relevant Matters (《關於證券公司證券自營業務投資範圍及有關事項的規定》) and the Management Criteria for Alternate Investment Subsidiaries of a Securities Firm (《證券公司另類投資子公司管理規範》)(promulgated on 30 December 2016 with immediate effect) securities companies may establish alternative investment subsidiaries to engage in investment on financial products which are excluded on the List of Securities Investment Products for the Securities Investment and Trading of Securities Companies (《證券公司證券自營投資品種清單》). Alternative subsidiaries shall not engage in businesses other than investment businesses; securities companies shall explicitly separate the business scopes of alternative subsidiaries and other subsidiaries to avoid conflicts of interests and transfer of benefits; alternative subsidiaries shall not be financed, shall not provide guarantees and loans, and shall not act as a contributory which bears joint liability of an investee enterprise.

***Securities Underwriting and Sponsorship***

According to the regulations of the Administrative Measures for the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》)(effective from 12 June 2020), securities companies shall apply for the sponsoring institution qualification from the CSRC to sponsor the offering and listing business of securities. In order to fulfil sponsorship responsibilities, sponsoring institutions shall designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties. Issuers shall employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters: initial public offerings and listings, issuance of new shares or convertible corporate notes by listing companies, and other conditions identified by the CSRC.

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

- its registered capital shall be no less than RMB 100 million and its net capital shall be no less than RMB50 million;

- it shall have comprehensive systems of corporate governance and internal control and indicators of risk control in line with relevant regulations;

- its sponsor business shall have sound mechanisms of business procedures, internal risk assessment and control, as well as a reasonable internal structure, proper research and sales capabilities, and other background support;

- it shall have a strong sponsor business team, with reasonable professional structure, and the number of professionals shall not be less than 35, among which, the number of personnel who have engaged in sponsor-related businesses during the past three years shall not be less than 20;

- the number of its professionals who have qualified as sponsor representatives shall not be less than four;

- it has not been subject to any administrative penalties for any material breach of laws and regulations during the past three years; and

- it shall meet other requirements of the CSRC.

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

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

***Lead Brokerage in the National Equities Exchanges and Quotations***

According to the Administrative Measures on National Equities Exchange and Quotations Company Limited (Provisional) (《全國中小企業股份轉讓系統有限責任公司管理暫行辦法》)(effective from 31 January 2013 and amended on 7 December 2017), securities companies may act as lead broker in the NEEQ. The lead brokerage business includes recommending the listing of shares of joint stock companies, continuously supervising listed companies, trading shares of joint stock companies on behalf of investors, providing market-making service for the transfer of shares, and other businesses as specified by the National Equities Exchange and Quotations Company Limited.

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

***Over-the-Counter Market Business***

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

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS

The 2018 Annual Financial Statements of the Guarantor and 2019 Annual Financial Statements of the Guarantor included in this Offering Circular were prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with IFRS, except for certain modifications between PRC GAAP and IFRS. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Group. The Guarantor is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the financial information and related footnote disclosure between PRC GAAP and IFRS and no attempt has been made to quantify such differences. Had any such quantification or reconciliation been undertaken by the Guarantor, other potentially significant accounting and disclosure differences may have required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future. As a result, no assurance is provided that the following summary is complete. In making an investment decision, each investor must rely upon its own examination of the Group, the terms of the offering and other disclosure contained herein. Each investor should consult its own professional advisers for an understanding the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

### GOVERNMENT GRANT

Prior to 1 January 2017, under PRC GAAP, an assets-related government grant was only required to be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. However, under IFRS, such assets-related government grants are allowed to be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. From 1 January 2017, the treatment of an assets-related government grant under the PRC GAAP has changed and is the same as that under IFRS.

Under PRC GAAP, the relocation compensation for public interest is required to be recognised as special payables. The income from compensation attributable to losses of fixed assets and intangible assets, related expenses, losses from production suspension incurred during the relocation and reconstruction period and purchases of assets after the relocation are transferred from special payables to deferred income and accounted for in accordance with the government grants standard. The surplus reached after deducting the amount transferred to deferred income shall be recognised in capital reserve.

Under IFRS, if an entity relocates for reasons of public interest, the compensation received shall be recognised in profit or loss.

### REVERSAL OF AN IMPAIRMENT LOSS

Under PRC GAAP, once an impairment loss is recognised for a long-term asset (including investment property valued under the cost model, long-term equity investments, fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period.

Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill may be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

## FIXED ASSETS AND INTANGIBLE ASSETS

Under PRC GAAP, only the cost model is allowed.

Under IFRS, an entity can choose either the cost model or the revaluation model as its accounting policy.

## SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with China Industrial Securities International Brokerage Limited, Bank of China Limited, Industrial Bank Co., Ltd. Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CMB International Capital Limited, CMB Wing Lung Bank Limited, CMBC Securities Company Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited, Bank of China (Hong Kong) Limited, BOCOM International Securities Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Chiyu Banking Corporation Limited, China Everbright Securities (HK) Limited, Guotai Junan Securities (Hong Kong) Limited, Guosen Securities (HK) Capital Company Limited, Guoyuan Capital (Hong Kong) Limited and Zhongtai International Securities Limited (the "**Joint Lead Managers**") dated 2 February 2021 (the "**Subscription Agreement**") pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to issue, the Guarantor has agreed to guarantee and the Joint Lead Managers have severally and not jointly agreed with the Issuer and the Guarantor to subscribe for the principal amount of the Bonds as set forth opposite their names in the following table.

| **Joint Lead Managers** | **Principal amount of the Bonds** |
|---|---|
| | *(U.S.$)* |
| China Industrial Securities International Brokerage Limited | 19,000,000 |
| Bank of China Limited | 19,000,000 |
| Industrial Bank Co., Ltd. Hong Kong Branch | 19,000,000 |
| China International Capital Corporation Hong Kong Securities Limited | 19,000,000 |
| China Minsheng Banking Corp., Ltd., Hong Kong Branch | 19,000,000 |
| CMB International Capital Limited | 19,000,000 |
| CMB Wing Lung Bank Limited | 19,000,000 |
| CMBC Securities Company Limited | 19,000,000 |
| Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch | 19,000,000 |
| SPDB International Capital Limited | 19,000,000 |
| Bank of China (Hong Kong) Limited | 10,000,000 |
| BOCOM International Securities Limited | 10,000,000 |
| China CITIC Bank International Limited | 10,000,000 |
| China Everbright Bank Co., Ltd., Hong Kong Branch | 10,000,000 |
| CEB International Capital Corporation Limited | 10,000,000 |
| Chiyu Banking Corporation Limited | 10,000,000 |
| China Everbright Securities (HK) Limited | 10,000,000 |
| Guotai Junan Securities (Hong Kong) Limited | 10,000,000 |
| Guosen Securities (HK) Capital Company Limited | 10,000,000 |
| Guoyuan Capital (Hong Kong) Limited | 10,000,000 |
| Zhongtai International Securities Limited | 10,000,000 |
| **Total** | **300,000,000** |

The Joint Lead Managers are offering the Bonds in accordance with the terms of the Subscription Agreement and subject to certain conditions contained in the Subscription Agreement, including, *inter alia*, the receipt by the Joint Lead Managers of documentation related to the issuance and sale of the Bonds and legal opinions. The Subscription Agreement provides that the Issuer and the Guarantor will indemnify the Joint Lead Manager against certain liabilities in connection with the subscription and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to the proceeds of the offering have been received and the Bonds being issued.

The Issuer, and as the case may be, the Guarantor will pay the Joint Lead Managers' customary fees and commissions in connection with the offering and will reimburse the Joint Lead Managers for certain fees and expenses incurred in connection with the offering.

**New Issue of the Bonds**

The Bonds are a new issuance of securities with no established trading market. However, no assurance can be given as to the liquidity of any trading market for the Bonds. A liquid or active public trading market for the Bonds may not develop. If an active trading market for the Bonds does not develop, the market price and liquidity of the Bonds may be adversely affected. If the Bonds are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the performance of the Issuer and the Guarantor and other factors.

**Price Stabilisation and Short Positions**

In connection with the offering, any Joint Lead Manager or any person acting on its behalf may, to the extent permitted by applicable laws and directives, engage in transactions that stabilise or otherwise affect the market price of the Bonds. These transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Bonds. If any Joint Lead Manager or its agent create a short position in the Bonds in connection with the offering (i.e. if any Joint Lead Manager or its agent sells more Bonds than are set forth on the cover page of this Offering Circular), that Joint Lead Manager or its agent may reduce that short position by purchasing Bonds in the open market. In general, purchases of a Bond for the purpose of stabilisation or to reduce a short position could cause the price of the Bonds to be higher than it might be in the absence of such purchases. Stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may cease at any time and must be brought to an end after a limited period.

Neither, the Guarantor the Issuer nor the Joint Lead Managers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds. In addition, neither the Issuer, the Guarantor nor the Joint Lead Managers make any representation that any Joint Lead Manager or its agent will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

**Other Relationships**

Each of the Joint Lead Managers or its affiliates may purchase the Bonds for its or their own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Bonds or the securities of the Issuer, the Guarantor and their respective subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchaser of the Bonds). Each Joint Lead Manager and/or its affiliate(s) may purchase Bonds and be allocated Bonds for asset management and/or proprietary purposes, acting as investor for their own accounts and not with a view to distribution, and may in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or the Guarantor or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the Bonds being offered should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective subsidiaries, jointly controlled entities or associates from time to time. They have received, and may in the future receive, customary fees and commissions for these transactions. In addition to the transactions noted above, the Joint Lead Managers and their affiliates may, from time to time, engage in other transactions with, and perform services for, the Issuer, the Guarantor or their respective subsidiaries, jointly controlled entities or associates in the ordinary course of their business. In addition, the Joint Lead Managers and certain of their respective subsidiaries and affiliates may hold shares or other securities in the Issuer or the Guarantor as beneficial owners, on behalf of clients or in the capacity of investment advisors.

**General**

None of the Issuer, the Guarantor nor the Joint Lead Managers make any representation that any action has been or will be taken in any jurisdiction by such Joint Lead Manager, the Issuer or the Guarantor that would permit a public offering of the Bonds, or possession or distribution of the Preliminary Offering Circular or the Final Offering Circular (in proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Joint Lead Managers will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes the Preliminary Offering Circular or the Final Offering Circular (in proof or final form) or any such other material, in all cases at its own expense. The Issuer, the Guarantor and the Joint Lead Managers will have no responsibility for, and the Joint Lead Managers will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery of the Bonds. The Joint Lead Managers are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in, or which is consistent with, the Preliminary Offering Circular or the Final Offering Circular (in final form) or any amendment or supplement thereto.

**United States**

The Bonds and the Guarantee have not been and will not be registered under the Securities Act or any state securities law and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds are being offered and sold outside of the United States in reliance on Regulation S. Each Joint Lead Manager represents that it has not offered or sold, and agrees that it will not offer, sell or deliver, any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any "directed selling efforts" (as defined in Regulation S under the Securities Act) with respect to the Bonds or the Guarantee. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

**Prohibition of Sales to European Economic Area Retail Investors**

In relation to each Member State of the European Economic Area, each Joint Lead Manager has represented and agreed that it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to the public in that Member State except that it may make an offer of Bonds to the public in that Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

**provided that** no such offer of Bonds referred to in (a) to (c) above shall require the Issuer, the Guarantor or any of the Joint Lead Managers to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129, as amended.

**United Kingdom**

*Prohibition of sales to UK Retail Investors*

Each Joint Lead Manager has represented and agreed that it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular to the public in the United Kingdom except that it may make an offer of such Bonds to the public in the United Kingdom:

(a) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within section 86 of the FSMA,

**provided that** no such offer of Bonds referred to in (a) to (c) above shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision:

- the expression "**an offer of Bonds to the public**" in relation to any Bonds means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds; and

- the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

*Other regulatory restrictions*

Each Joint Lead Manager has represented, warranted and agreed

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

### Hong Kong

Each Joint Lead Manager has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

### Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**Japan**

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and each Joint Lead Manager has represented and agreed that it will not offer or sell any Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

**Cayman Islands**

Each Joint Lead Manager has represented, warranted and agreed that it has not made and will not make any invitation, whether directly or indirectly, to the public in the Cayman Islands to offer or sell the Bonds.

**The PRC**

Each Joint Lead Manager has represented and agreed that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Bonds, directly or indirectly, in the PRC as part of the initial distribution of the Bonds except as permitted by the securities laws of the PRC.

## GENERAL INFORMATION

1. **Clearing Systems**: The Bonds will be lodged and cleared through the Euroclear and Clearstream with Common Code of 227046325 and ISIN of XS2270463255. The Legal Entity Identifier Code of the Issuer is 549300TA9JLZ5CGW8A68.

2. **Listing of the Bonds**: Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 10 February 2021.

3. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the execution, issue and performance of its obligations under the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by resolutions of the board of directors of the Issuer on 20 January 2021. The Guarantor has received an Enterprise Foreign Debt Filing Registration Certificate dated 9 December 2020 (amended 28 January 2021) from NDRC in connection with the Pre-issuance Registration and the Reply on the Relevant Opinions concerning Providing Guarantees for Overseas Subsidiary by China Industrial Securities Co., Ltd. dated 18 January 2021. Save for the registration of the Guarantee with SAFE and the post-issuance filing with the NDRC, the Guarantor has obtained all necessary consents, approvals, registrations and authorisations in connection with the giving and performance of the Guarantee and the entry into the Subscription Agreement, the Deed of Guarantee, the Trust Deed and the Agency Agreement. The execution of the Subscription Agreement, the Deed of Guarantee, the Trust Deed, the Agency Agreement, and the giving of the Guarantee was authorised by the resolution of the Board of Directors of the Guarantor on 30 March 2020 and shareholders' resolution of the Guarantor on 15 April 2020.

4. **No Material Adverse Change**: Save as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Issuer, the Guarantor and the Group since 31 December 2019.

5. **Litigation**: Save as disclosed in this Offering Circular, none of the Issuer, the Guarantor or any other member of the Group is involved in any litigation or arbitration proceedings that the Issuer or the Guarantor believes are material in the context of the Bonds, nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened.

6. **Available Documents**: So long as any of the Bonds is outstanding, copies of the following documents will be available for inspection from the Issue Date during normal business hours at the specified office of the Trustee (currently at 20th Floor, Citi Tower, One Bay East, 83 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong) and the registered office of the Issuer:

   (1) the Trust Deed;

   (2) the Agency Agreement;

   (3) the Deed of Guarantee;

   (4) copies of the Financial Statements Translation;

   (5) copies of the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2018 and 2019;

   (6) the Articles of Association of the Guarantor; and

   (7) the Memorandum and Articles of Association of the Issuer.

7. **Independent Auditors**: The 2019 Annual Financial Statements of the Guarantor, which are included elsewhere in this Offering Circular, have been audited by KPMG Huazhen, the independent auditors of the Guarantor for the year ended 31 December 2019, as stated in its report appearing herein. The 2018 Annual Financial Statements of the Guarantor, which are included elsewhere in this Offering Circular, have been audited by Deloitte CPA LLP, the independent auditors of the Guarantor for the year ended 31 December 2018, as stated in its report appearing herein. The 2019 Annual Financial Statements of the Guarantor and the 2018 Annual Financial Statements of the Guarantor are in the Chinese language and have been translated into English for the purposes of inclusion in this Offering Circular for reference purposes only. Should there be any inconsistency between the Chinese Financial Statements and the Financial Statements Translation, the Chinese Financial Statements shall prevail. The Financial Statements Translation does not itself constitute audited or reviewed financial statements, and is qualified in its entirety by, and is subject to, the financial information set out or referred to in, the Chinese Financial Statements. The Chinese Financial Statements are available at the following website: http://www.sse.com.cn. Nothing else in the Shanghai Stock Exchange's website, other than the Guarantor's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 (together with the auditor's reports and the notes thereto), is incorporated by reference into, or made a part of, this Offering Circular. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers has independently verified or checked the accuracy of the Financial Statements Translation and can give no assurance that the information contained therein is accurate, truthful or complete. The 2019 Annual Financial Statements of the Issuer, which are included elsewhere in this Offering Circular, have been audited by KPMG, the independent auditors of the Issuer for the year ended 31 December 2019, as stated in its report appearing herein. The 2018 Annual Financial Statements of the Issuer, which are included elsewhere in this Offering Circular, have been audited by Deloitte HK, the independent auditors of the Issuer for the year ended 31 December 2018, as stated in its report appearing herein.

## INDEX TO FINANCIAL STATEMENTS



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*Notes:*

(1) The English translation of the audited consolidated financial statements of the Guarantor set out herein have been translated based on the Guarantor's annual reports as at and for the years ended 31 December 2018 and 2019 which are prepared in Chinese. The Guarantor's Chinese auditors' reports, financial statements notes to financial statements shall prevail if there is a conflict or inconsistency between information contained in the English translation and the Chinese version. Page references used in this Offering Circular are different from pages references set forth in such financial statements.

(2) The audited consolidated financial statements set out herein have been reproduced from the Issuer's annual report for the year ended 31 December 2019 and page references are references to pages set forth in such report.

(3) The audited consolidated financial statements set out herein have been reproduced from the Issuer's annual report for the year ended 31 December 2018 and page references are references to pages set forth in such report.

CHINA INDUSTRIAL SECURITIES CO., LTD.

ENGLISH TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND THE ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

# AUDITOR'S REPORT

毕马威华振审字第 2000966 号

The Shareholders of China Industrial Securities Co., Ltd.:

## Opinion

We have audited the accompanying financial statements of China Industrial Securities Co., Ltd. ("Industrial Securities"), which comprise the consolidated balance sheet and balance sheet as at 31 December 2019, the consolidated income statement and income statement, the consolidated cash flow statement and cash flow statement, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and financial position of Industrial Securities as at 31 December 2019, and the consolidated and financial performance and cash flows of Industrial Securities for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

## Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants ("CSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of Industrial Securities in accordance with the China Code of Ethics for Certified Public Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**AUDITOR'S REPORT (continued)**

毕马威华振审字第 2000966 号

**Key Audit Matters (continued)**

| **Assessment of fair value of financial instruments** | |
|---|---|
| Refer to the accounting policies set out in the notes to the financial statements *III. Significant accounting policies and accounting estimates 18* and *XIV. Fair Value of Financial Assets and Liabilities*. | |
| **Key audit matters** | **How the matter was addressed in our audit** |
| The valuation of China Industrial Securities Co., Ltd. and its subsidiaries' ("Industrial Securities") financial instruments measured at fair value is based on a combination of market data and valuation models which often require a considerable number of inputs.<br><br>Many of these inputs are obtained from readily available data, especially level 1 and level 2 fair value measurement financial instruments, which inputs used in the valuation model are quoted market price and observable inputs. Where such observable data is not readily available, as in the case of certain level 3 financial instruments, estimates need to be developed which can involve significant management judgement.<br><br>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the significant degree of judgement exercised by management in determining the inputs used in the valuation models. | Our audit procedures to assess the fair value of financial instruments included the following:<br>• understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the valuation, independent price verification and valuation model approval for financial instruments;<br>• assessing the fair values of level 1 fair value measurement financial instruments by comparing the fair values applied by Industrial Securities with publicly available market data on a sample basis;<br>• engaging our internal valuation specialists to evaluate the valuation models used by Industrial Securities to value certain level 2 and level 3 financial instruments and to perform, on a sample basis, independent valuations of level 2 and level 3 financial instruments and compare these valuations with Industrial Securities' valuations. This included comparing Industrial Securities' valuation models with our knowledge of current market practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations; and<br>• assessing whether the disclosures in the financial statements reflected the Industrial Securities' exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards. |

## AUDITOR'S REPORT (continued)

毕马威华振审字第 2000966 号

### Key Audit Matters (continued)

<table>
<tr><td colspan="2">Consolidation of structured entities</td></tr>
<tr><td colspan="2">Refer to the accounting policies set out in the notes to the financial statements III. Significant accounting policies and accounting estimates 5 and VII. Interests in other entities.</td></tr>
<tr><td>Key audit matters</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities. Industrial Securities may acquire or retain an ownership interest in, or act as a sponsor of, a structured entity through issuing or acquiring a fund, a wealth management product, an asset management scheme and a trust scheme.<br><br>If the management determined that Industrial Securities has power over, has exposure to variable returns from its involvement with, and has ability to use its power to affect the amount of its returns from the structured entities, it will include the structured entities in the consolidated financial statement as Industrial Securities has control over the structured entities.<br><br>The factors which management needs to consider when determining whether a structured entity should be consolidated or not are not purely quantitative and need to be considered collectively.</td><td>Our audit procedures to assess the consolidation of structured entities included the following:<br><br>• Enquiring the management and inspecting files related to process of the management's judgement of whether consolidation is required for the structured entities to evaluate the completeness of procedures set up in this regard;<br>• selecting structured entities, on a sample basis, for each key product type and performing the following procedures for each item selected:<br>- inspecting the related contracts and internal documents to understand the purpose of the establishment of the structured entity and the involvement Industrial Securities has with the structured entity and to assess management's judgement over whether Industrial Securities has the ability to exercise power over the structured entity;<br>- evaluating the risk and reward structure of the structured entity including any capital or return guarantee, commission paid and distribution of the returns to assess management's judgement as to exposure and to variable returns from Industrial Securities' involvement in such an entity;</td></tr>
</table>

## AUDITOR'S REPORT (continued)

毕马威华振审字第 2000966 号

### Key Audit Matters (continued)

| **Consolidation of structured entities (continued)** | |
|---|---|
| Refer to the accounting policies set out in the notes to the financial statements *III. Significant accounting policies and accounting estimates 5* and *VII. Interests in other entities*. | |
| **Key audit matters** | **How the matter was addressed in our audit** |
| We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement in determining whether a structured entity is required to be consolidated by Industrial Securities or not and because the impact of consolidating structured entities on the financial statements could be significant. | - evaluating management's analysis of the structured entity including qualitative analysis and calculations of the magnitude and variability associated with Industrial Securities' economic interests in the structured entity to assess management's judgement over Industrial Securities' ability to influence its variable returns from the structured entity;<br>- evaluating management's judgement over whether the structured entity should be consolidated or not.<br>• assessing the disclosures in the financial statements in relation to structured entities with reference to the requirements of the Accounting Standards for Business Enterprises. |

## AUDITOR'S REPORT (continued)

毕马威华振审字第 2000966 号

### Key Audit Matters (continued)

| **Loss allowances of financial assets measured at amortised cost** | |
|---|---|
| Refer to the accounting policies set out in the notes to the financial statements *III. Significant accounting policies and accounting estimates 9*. | |
| **Key audit matters** | **How the matter was addressed in our audit** |
| Industrial Securities has applied the *Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments* since 1 January 2019 and provision for impairment losses is measured according to expected credit loss ("ECL") model.<br><br>Determining impairment provision for financial assets at amortised cost with the ECL model involves application of certain key parameters and assumptions, including stage classification of credit impairment and estimation of probability of default, loss given default, exposure at default, discount rate and other parameters, as well as consideration of forward-looking adjustment and other adjustment factors, so a considerable level of management judgement is required in the selection and assumption of these parameters. | Our audit procedures to assess loss allowances of financial assets measured at amortised cost included the following:<br>• understanding and assessing the design and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of financial assets measured at amortised cost, the credit grading, classification, transfer process and the measurement of loss allowances;<br>• for significant financial asset transfer amortised cost, we compared information with the underlying agreements and other related documentation to assess whether the terms of agreement meet the criteria for financial assets derecognition, and we send confirmation letters the counterparty to confirm the completeness and accuracy of relevant trading data.<br>• assessing the reliability of the ECL model and parameters used in impairment provision by management, including stage classification, probability of default, loss given default, exposure at default, discount rate, forward-looking adjustment and management's adjustment, and assessing the reasonableness of key management judgement involved, with the help of our financial risk management subject matter experts. |

**AUDITOR'S REPORT (continued)**

毕马威华振审字第 2000966 号

**Key Audit Matters (continued)**

| **Loss allowances of financial assets measured at amortised cost (continued)** | |
|---|---|
| Refer to the accounting policies set out in the notes to the financial statements *III. Significant accounting policies and accounting estimates 9*. | |
| **Key audit matters** | **How the matter was addressed in our audit** |
| In particular, the determination of the loss allowances is heavily dependent on the external macro environment and Industrial Securities' internal credit risk management strategy. In assessing the above key parameters and assumptions, Industrial Securities considers historical loss experience, internal credit rating, external credit rating and other adjustment factors.<br><br>Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include credit conditions of borrowers and contract period. When listed stocks are involved as collateral, the sector of the guarantee coupon, the liquidity, restriction on sales, the stock holding concentration of the borrower, price volatility of the stock, the performance guarantee and the operation of the issuer will also be taken into account in the judgement.<br><br>We identified loss allowances of financial assets measured at amortised cost as a key audit matter because of the inherent uncertainty and management judgment involved and because of its significance to the financial results and capital of Industrial Securities. | • assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original agreements, we compared the total balance of the financial asset list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the asset list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;<br>• for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to Industrial Securities' internal records. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development. |

**AUDITOR'S REPORT (continued)**

毕马威华振审字第 2000966 号

**Key Audit Matters (continued)**

| **Loss allowances of financial assets measured at amortised cost (continued)** | |
|---|---|
| Refer to the accounting policies set out in the notes to the financial statements *III. Significant accounting policies and accounting estimates 9*. | |
| **Key audit matters** | **How the matter was addressed in our audit** |
| | • evaluating the validity of management's assessment on whether the credit risk of the financial assets has, or has not, increased significantly since initial recognition and whether the financial assets is credit-impaired by selecting risk-based samples. On a sample basis, we checked the financial assets overdue information, understanding the credit situation of the borrowers, the sector of the guarantee coupon, the liquidity, price volatility of the stock, performance guarantee and the operation of the stock issuer etc.<br>• on a sample basis, assess the appropriateness of loss given default of credit-impaired financial assets. We also evaluated the forecast cash flows of the collaterals and other credit enhancements, and challenged the viability of Industrial Securities' recovery plan. |

**AUDITOR'S REPORT (continued)**

毕马威华振审字第 2000966 号

**Key Audit Matters (continued)**

| **Loss allowances of financial assets measured at amortised cost (continued)** | |
|---|---|
| Refer to the accounting policies set out in the notes to the financial statements *III. Significant accounting policies and accounting estimates 9*. | |
| **Key audit matters** | **How the matter was addressed in our audit** |
| | • based on the above work, we selected samples and used the expected credit loss model to re-examine the calculation accuracy of the impairment allowances of financial assets measured at amortised cost.<br>• evaluating whether the information disclosure of financial statements related to the loss allowances for impairment of financial assets measured at amortised cost meets the disclosure requirements of *CAS No.37 - Presentation of Financial Instruments (Trial)*. |

**AUDITOR’S REPORT (continued)**

毕马威华振审字第 2000966 号

**Other Information**

Industrial Securities’ management is responsible for the other information. The other information comprises all the information included in 2019 Annual Report of Industrial Securities, other than the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Industrial Securities’ management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable the preparation of the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Industrial Securities’ management is responsible for assessing Industrial Securities’ ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Industrial Securities’ management either intends to liquidate Industrial Securities or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Industrial Securities’ financial reporting process.

**AUDITOR’S REPORT (continued)**

毕马威华振审字第 2000966 号

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(4) Conclude on the appropriateness of the management’s use of the going concern basis of accounting and, basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Industrial Securities’ ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause Industrial Securities to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Industrial Securities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## AUDITOR'S REPORT (continued)

毕马威华振审字第 2000966 号

### Auditor's Responsibilities for the Audit of the Financial Statement (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG Huazhen LLP

Certified Public Accountants
Registered in the People's Republic of China

Huang Xiaoyi (Engagement Partner)

Beijing, China

Wang Guobei

China Industrial Securities Co., Ltd.
Consolidated balance sheets and balance sheets
As at 31 December 2019
(Expressed in Renminbi Yuan)

| | *Note* | *The Group* | | *The Company* | |
|---|---|---|---|---|---|
| | *6* | *2019* | *2018* | *2019* | *2018* |
| Assets | | | | | |
| Cash at bank and on hand | 1 | 47,637,137,011.81 | 27,313,400,415.02 | 29,376,368,537.32 | 13,974,349,848.46 |
| Including: customer deposits | | 25,536,800,242.34 | 20,256,135,192.40 | 17,927,631,186.62 | 10,393,113,900.12 |
| Clearing settlement funds | 2 | 6,640,493,386.17 | 6,027,321,671.10 | 5,964,877,877.20 | 5,488,493,919.37 |
| Including: customer deposits | | 5,817,385,083.44 | 4,332,630,174.55 | 5,333,171,848.86 | 3,851,666,094.03 |
| Margin accounts | 3 | 20,735,063,327.66 | 17,492,122,392.09 | 17,389,429,854.40 | 12,412,916,345.75 |
| Derivative financial assets | 4 | 15,379,993.11 | 4,738,721.96 | 10,794,013.76 | 296,149.53 |
| Refundable deposits | 5 | 4,174,674,771.44 | 3,016,807,850.88 | 453,887,210.89 | 474,266,298.65 |
| Accounts receivable | 6 | 2,412,086,360.68 | 2,258,413,112.06 | 261,137,875.50 | 536,476,696.33 |
| Financial assets held under resale agreements | 7 | 8,627,869,455.01 | 21,135,207,051.97 | 6,318,582,237.65 | 20,956,505,501.97 |
| Financial assets held for trading | 8 | - | 40,474,266,480.47 | - | 24,495,261,369.69 |
| Available-for-sale financial assets | 9 | - | 31,142,420,975.29 | - | 33,895,782,110.65 |
| **Financial investments:** | | | | | |
| Financial assets at fair value through profit or loss | 10 | 48,549,780,285.64 | - | 35,668,971,277.50 | - |
| Debt securities at fair value through other comprehensive income | 11 | 22,996,386,469.82 | - | 22,996,386,469.82 | - |
| Equity securities not held for trading | 12 | 2,495,987,365.42 | - | 2,495,987,365.42 | - |
| Long-term equity investments | 14 | 1,773,261,294.00 | 1,711,928,961.78 | 5,985,464,452.68 | 5,685,392,398.87 |
| Investment properties | 15 | 151,880,668.98 | 244,057,825.35 | 151,880,668.98 | 244,057,825.35 |
| Fixed assets | 16 | 606,697,731.54 | 533,096,766.35 | 559,297,502.73 | 488,773,236.48 |
| Construction in progress | | - | 731,853.81 | - | 731,853.81 |
| Intangible assets | 17 | 200,171,764.85 | 122,136,230.78 | 170,660,755.26 | 96,821,718.89 |
| Goodwill | 18 | 12,264,149.78 | 12,264,149.78 | - | - |
| Deferred tax assets | 19 | 1,036,594,700.16 | 1,299,854,541.44 | 687,001,125.97 | 1,079,377,514.23 |
| Other assets | 20 | 2,509,226,494.07 | 2,349,046,880.49 | 2,397,226,630.81 | 2,428,865,331.59 |
| Total assets | | 170,574,955,230.14 | 155,137,815,880.62 | 130,887,953,855.89 | 122,258,368,119.62 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated balance sheets and balance sheets (continued)
As at 31 December 2019
(Expressed in Renminbi Yuan)

| | | *The Group* | | *The Company* | |
|---|---|---|---|---|---|
| | *Note 6* | *2019* | *2018* | *2019* | *2018* |
| Liabilities and shareholders' equity | | | | | |
| Liabilities: | | | | | |
| Short-term loans | 22 | 5,883,211,119.82 | 6,237,585,757.76 | - | - |
| Short-term financing payables | 23 | 6,365,189,163.47 | 642,692,157.48 | 4,390,017,262.12 | 587,797,877.00 |
| Placements from banks and other financial institutions | 24 | 505,444,444.43 | 1,000,000,000.00 | 505,444,444.43 | 1,000,000,000.00 |
| Financial liabilities at fair value through profit or loss | 25 | 3,993,399,431.59 | - | - | - |
| Financial liabilities held for trading | 26 | - | 1,414,669,869.66 | - | - |
| Derivative financial liabilities | 4 | 18,023,444.60 | 10,849,807.14 | 9,857,251.84 | 296,149.53 |
| Financial assets sold under repurchase agreements | 27 | 25,756,432,946.93 | 24,888,048,019.11 | 22,673,279,354.66 | 23,488,231,035.89 |
| Accounts payable to brokerage and margin clients | 28 | 34,604,898,441.09 | 26,393,764,961.34 | 22,843,591,645.16 | 13,636,993,806.23 |
| Employee benefits payable | 29 | 4,343,811,031.95 | 3,223,861,458.12 | 3,279,217,258.73 | 2,270,626,830.25 |
| Taxes payable | 30 | 903,660,728.25 | 597,651,101.13 | 566,772,749.52 | 292,668,322.43 |
| Accounts payables | 31 | 2,133,791,582.74 | 963,705,331.55 | 599,166,326.19 | 472,021,750.94 |
| Long-term loans | 32 | 2,999,186,930.04 | 2,961,556,000.00 | - | - |
| Bonds payable | 33 | 45,375,193,660.59 | 48,501,477,143.04 | 43,324,663,833.19 | 48,501,477,143.04 |
| Deferred tax liabilities | 19 | 10,805,777.24 | 27,878,385.34 | - | - |
| Provisions | 34 | 3,400,000.00 | 4,461,811.81 | 3,400,000.00 | 4,461,811.81 |
| Other liabilities | 35 | 634,819,545.89 | 2,961,783,979.11 | 214,786,942.48 | 1,490,816,674.47 |
| Total liabilities | | 133,531,268,248.63 | 119,829,985,782.59 | 98,410,197,068.32 | 91,745,391,401.59 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated balance sheets and balance sheets (continued)
As at 31 December 2019
(Expressed in Renminbi Yuan)

| | | *The Group* | | *The Company* | |
|---|---|---|---|---|---|
| | *Note 6* | *2019* | *2018* | *2019* | *2018* |
| Liabilities and shareholders' equity (continued) | | | | | |
| Shareholders' equity: | | | | | |
| Share capital | 36 | 6,696,671,674.00 | 6,696,671,674.00 | 6,696,671,674.00 | 6,696,671,674.00 |
| Capital reserve | 37 | 14,374,587,738.15 | 14,372,689,029.26 | 14,234,115,813.82 | 14,234,115,813.82 |
| Other comprehensive income | 38 | 498,725,163.41 | 130,209,693.76 | 354,307,051.92 | (375,345,259.70) |
| Surplus reserve | 39 | 1,716,990,955.34 | 1,559,994,821.18 | 1,716,990,955.34 | 1,559,994,821.18 |
| General risk reserve | 40 | 4,166,681,950.93 | 2,901,223,752.96 | 3,215,216,021.28 | 2,901,223,752.96 |
| Retained earnings | 41 | 6,978,612,569.58 | 6,844,659,423.43 | 6,260,455,271.21 | 5,496,315,915.77 |
| Total equity attributable to shareholders of the Company | | 34,432,270,051.41 | 32,505,448,394.59 | 32,477,756,787.57 | 30,512,976,718.03 |
| Non-controlling interests | | 2,611,416,930.10 | 2,802,381,703.44 | - | - |
| Total | | 37,043,686,981.51 | 35,307,830,098.03 | 32,477,756,787.57 | 30,512,976,718.03 |
| Total liabilities and shareholders' equity | | 170,574,955,230.14 | 155,137,815,880.62 | 130,887,953,855.89 | 122,258,368,119.62 |

These financial statements were approved by the Board of Directors of the Company on 23 April 2020 and were signed by the responsible persons below:

| | | | |
|---|---|---|---|
| Yang Huahui<br>Legal Representative | Lin Hongzhen<br>The person in charge of accounting affairs | Zheng Hong<br>The head of the accounting department | (Company stamp) |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated income statement and income statement
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

| | | | *The Group* | | *The Company* | |
|---|---|---|---|---|---|---|
| | | *Note 6* | *2019* | *2018* | *2019* | *2018* |
| I. | Operating income | | 14,249,535,861.49 | 6,499,373,437.14 | 6,948,468,228.08 | 4,456,460,950.73 |
| | Net fee and commission income | 42 | 4,393,815,286.12 | 4,322,309,322.49 | 2,185,436,806.79 | 1,976,276,197.15 |
| | Including: | | | | | |
| | Net income from brokerage business | | 1,563,258,798.86 | 1,349,236,180.21 | 1,441,958,796.11 | 1,215,574,549.68 |
| | Net income from investment banking business | | 743,916,590.94 | 835,766,179.80 | 636,263,346.80 | 678,674,304.29 |
| | Net income from asset management business | | 295,267,614.75 | 285,687,262.44 | - | - |
| | Net interest income/(expense) | 43 | 750,523,398.12 | (333,744,552.70) | 623,413,089.36 | (713,841,595.77) |
| | Including: | | | | | |
| | Interest income | | 4,176,707,936.10 | 3,723,665,217.33 | 3,547,278,171.49 | 3,009,705,768.26 |
| | Interest expense | | (3,426,184,537.98) | (4,057,409,770.03) | (2,923,865,082.13) | (3,723,547,364.03) |
| | Investment gains | 44 | 2,600,764,747.20 | 2,860,080,736.32 | 2,148,500,957.22 | 3,696,285,916.53 |
| | Including: | | | | | |
| | income from investment in associates and joint ventures | | 62,659,898.99 | 85,634,636.20 | 664,418.44 | (3,168,768.33) |
| | Other revenue | 45 | 230,365,172.10 | 201,739,554.80 | 93,293,588.13 | 96,838,665.94 |
| | Gains/(losses) from changes in fair value | 46 | 1,556,529,557.29 | (1,071,298,543.25) | 1,885,895,853.13 | (619,691,729.65) |
| | Exchange (losses)/gains | | (25,834,417.85) | 6,005,333.05 | 187,603.35 | 562,090.54 |
| | Other business income | 47 | 4,743,753,712.55 | 513,839,479.45 | 12,147,675.52 | 19,298,506.86 |
| | (Losses)/gains from of property and equipment | | (381,594.04) | 442,106.98 | (407,345.42) | 732,899.13 |
| II. | Operating expenses | | (11,588,892,969.57) | (5,833,283,780.30) | (4,644,706,779.66) | (3,550,728,580.49) |
| | Taxes and surcharges | 48 | (59,575,467.11) | (61,871,424.00) | (43,577,443.55) | (44,871,519.05) |
| | General and administrative expenses | 49 | (6,029,349,102.18) | (4,568,394,053.08) | (4,410,213,938.29) | (2,849,371,986.10) |
| | Assets impairment losses | 50 | - | (689,713,027.28) | - | (644,457,434.95) |
| | Credit impairment loss | 51 | (748,950,306.64) | - | (184,525,855.62) | - |
| | Reversal of impairment losses on other assets | 52 | 2,016,638.57 | - | - | - |
| | Other business costs | 53 | (4,753,034,732.21) | (513,305,275.94) | (6,389,542.20) | (12,027,640.39) |
| III. | Operating profit | | 2,660,642,891.92 | 666,089,656.84 | 2,303,761,448.42 | 905,732,370.24 |
| | Add: Non-operating income | 54 | 2,501,685.77 | 9,041,037.10 | 853,861.92 | 8,183,619.63 |
| | Less: Non-operating expenses | 54 | (33,601,446.87) | (21,861,621.30) | (27,721,346.78) | (10,226,571.26) |
| IV. | Profit before income tax | | 2,629,543,130.82 | 653,269,072.64 | 2,276,893,963.56 | 903,689,418.61 |
| | Less: Income tax expense | 55 | (714,250,716.06) | (77,875,448.22) | (469,638,557.42) | 140,238,106.77 |
| V. | Net profit for the year | | 1,915,292,414.76 | 575,393,624.42 | 1,807,255,406.14 | 1,043,927,525.38 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated income statement and income statement (continued)
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

| | Note 6 | The Group 2019 | The Group 2018 | The Company 2019 | The Company 2018 |
|---|---|---|---|---|---|
| V. Net profit for the year (continued) | | | | | |
| (1) Net profit classified by ownership: | | | | | |
| Shareholders of the Company | | 1,762,537,169.01 | 135,348,071.20 | 1,807,255,406.14 | 1,043,927,525.38 |
| Non-controlling interests | | 152,755,245.75 | 440,045,553.22 | - | - |
| (2) Net profit classified by continuity of operations: | | | | | |
| Net profit from continuing operations | | 1,915,292,414.76 | 575,393,624.42 | 1,807,255,406.14 | 1,043,927,525.38 |
| VI. Other comprehensive income, net of tax | 38 | 396,017,162.58 | (24,087,713.67) | 303,793,332.57 | (420,792,173.70) |
| Other comprehensive income (net of tax) attributable to shareholders of the Company | | 353,425,374.57 | (56,726,966.77) | 303,793,332.57 | (420,792,173.70) |
| (1) Items that will not be reclassified to profit or loss | | 88,908,045.54 | - | 88,908,045.54 | - |
| 1. Equity investment at fair value through other comprehensive income | | 88,908,045.54 | - | 88,908,045.54 | - |
| (2) Items that may be subsequently reclassified to profit or loss | | 264,517,329.03 | (56,726,966.77) | 214,885,287.03 | (420,792,173.70) |
| 1. Share of other comprehensive income of associates | | (118,907.53) | 118,907.53 | - | - |
| 2. Changes in fair value of available-for-sale financial assets | | - | (156,038,295.70) | - | (420,792,173.70) |
| 3. Changes in fair value of debt securities at fair value through other comprehensive income | | 214,726,373.45 | - | 214,726,373.45 | - |
| 4. Credit impairment provisions of debt securities at fair value through other comprehensive income | | 158,913.58 | - | 158,913.58 | - |
| 5. Exchange differences on translation of financial statements in foreign currencies | | 49,750,949.53 | 99,192,421.40 | - | - |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated income statement and income statement (continued)
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

| | Note 6 | *The Group* 2019 | *The Group* 2018 | *The Company* 2019 | *The Company* 2018 |
|---|---|---|---|---|---|
| Other comprehensive income (net of tax) attributable to non-controlling interests | | 42,591,788.01 | 32,639,253.10 | - | - |
| VII. Total comprehensive income for the year | | 2,311,309,577.34 | 551,305,910.75 | 2,111,048,738.71 | 623,135,351.68 |
| Attributable to shareholders of the Company | | 2,115,962,543.58 | 78,621,104.43 | 2,111,048,738.71 | 623,135,351.68 |
| Attributable to non-controlling interests | | 195,347,033.76 | 472,684,806.32 | - | - |
| VIII. Earnings per share: | | | | | |
| (1) Basic earnings per share | 56 | 0.26 | 0.02 | NA | NA |
| (2) Diluted earnings per share | 56 | 0.26 | 0.02 | NA | NA |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated cash flow statement and cash flow statement
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

| | Note 6 | The Group 2019 | The Group 2018 | The Company 2019 | The Company 2018 |
|---|---|---|---|---|---|
| **I. Cash flows from operating activities:** | | | | | |
| Net increase in repurchases businesses | | 12,943,482,681.27 | 18,545,911,961.01 | 13,390,963,100.41 | 18,300,020,114.21 |
| Net cash from accounts payable to brokerage clients | | 10,111,154,523.53 | 3,331,055,742.60 | 10,532,973,983.98 | 1,170,209,704.49 |
| Proceeds from interest, fee and commission income | | 8,923,992,775.51 | 9,412,012,609.97 | 5,276,634,109.21 | 5,562,317,422.51 |
| Net decrease in margin accounts | | - | 582,570,792.92 | - | 2,147,346,683.85 |
| Net decrease in financial instruments held for trading | | 2,019,606,655.70 | 1,302,354,229.79 | - | 3,504,992,688.11 |
| Proceeds from other operating activities | 57(1) | 5,676,121,741.53 | 978,733,051.05 | 289,066,658.97 | 166,770,762.03 |
| Sub-total of cash inflows from operating activities | | 39,674,358,377.54 | 34,152,638,387.34 | 29,489,637,852.57 | 30,851,657,375.20 |
| Net increase in margin accounts | | (4,524,318,628.46) | - | (4,758,878,447.46) | - |
| Payment of employee benefits | | (3,348,995,541.57) | (3,431,572,283.28) | (2,378,842,969.72) | (2,288,196,602.41) |
| Payment of various taxes | | (2,872,310,692.00) | (2,110,990,432.67) | (1,754,942,587.23) | (1,493,991,323.77) |
| Payment for interest, fee and commission expenses | | (1,653,730,142.73) | (1,930,448,248.66) | (1,154,809,554.85) | (1,223,553,201.87) |
| Net decrease in placements from other financial institutions | | (500,000,000.00) | - | (500,000,000.00) | - |
| Net increase in acquisition of available-for-sale financial assets | | - | (6,519,692,076.00) | - | (8,800,166,837.47) |
| Net increase in financial instruments held for trading | | - | - | (255,407,819.03) | - |
| Payment for other operating activities | 57(2) | (8,431,254,859.47) | (2,552,899,228.09) | (1,950,725,798.70) | (1,443,281,988.37) |
| Sub-total of cash outflow from operating activities | | (21,330,609,864.23) | (16,545,602,268.70) | (12,753,607,176.99) | (15,249,189,953.89) |
| Net cash flow from operating activities | 58 (1) | 18,343,748,513.31 | 17,607,036,118.64 | 16,736,030,675.58 | 15,602,467,421.31 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated cash flow statement and cash flow statement
for the year ended 31 December 2019 (continued)
(Expressed in Renminbi Yuan)

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *2019* | *2018* | *2019* | *2018* |
| II. Cash flows from investing activities: | | | | |
| Investment returns received | 3,183,216,424.86 | 127,353,797.08 | 2,911,883,540.81 | - |
| Net investment gains | 1,464,832,263.21 | 391,565,833.40 | 1,568,433,390.90 | 1,251,151,150.48 |
| Net proceeds from disposal of fixed assets, intangible assets and other long-term assets | 4,481,718.75 | 3,227,778.59 | 2,862,246.69 | 3,052,522.53 |
| Sub-total of cash inflow from investing activities | 4,652,530,406.82 | 522,147,409.07 | 4,483,179,178.40 | 1,254,203,673.01 |
| Payment for acquisition of fixed assets, intangible assets and other long-term assets | (282,873,629.26) | (252,698,835.19) | (253,463,103.47) | (198,001,340.67) |
| Payment for acquisition of investments | - | (1,462,130,826.55) | - | (686,247,112.94) |
| Payment for other investing activities | - | (86,181,922.26) | - | - |
| Sub-total of cash outflow from investing activities | (282,873,629.26) | (1,801,011,584.00) | (253,463,103.47) | (884,248,453.61) |
| Net cash generated from/(used in) investing activities | 4,369,656,777.56 | (1,278,864,174.93) | 4,229,716,074.93 | 369,955,219.40 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated cash flow statement and cash flow statement
for the year ended 31 December 2019 (continued)
(Expressed in Renminbi Yuan)

| | *The Group* | | *The Company* | |
|---|---|---|---|---|
| | *2019* | *2018* | *2019* | *2018* |
| III. Cash flows from financing activities: | | | | |
| Proceeds from issuance of bonds and short-term debt instruments | 24,351,150,827.31 | 16,368,038,762.48 | 20,353,488,979.00 | 16,313,144,482.00 |
| Proceeds from loans and borrowings | 16,146,421,600.64 | 36,300,230,978.94 | - | - |
| Proceeds from investors | - | 3,001,500.06 | - | - |
| Including: Proceeds from non-controlling shareholders of subsidiaries | - | 3,001,500.06 | - | - |
| Proceeds from other financing activities | - | 179,200,000.00 | - | - |
| Sub-total of cash inflow from financing activities | 40,497,572,427.95 | 52,850,471,241.48 | 20,353,488,979.00 | 16,313,144,482.00 |
| Repayments of loans and borrowings | (39,216,605,731.56) | (58,967,637,030.71) | (22,710,608,608.00) | (26,231,662,747.00) |
| Payment for dividends, profit distributions or interest | (3,345,205,168.83) | (4,410,340,684.70) | (2,751,456,702.77) | (3,747,318,818.72) |
| Including: Dividends and profits paid to non-controlling interests | (106,080,299.67) | (217,320,208.57) | - | - |
| Payment for other financing activities | - | (308,673,992.37) | - | - |
| Sub-total of cash outflow from financing activities | (42,561,810,900.39) | (63,686,651,707.78) | (25,462,065,310.77) | (29,978,981,565.72) |
| Net cash (used in) financing activities | (2,064,238,472.44) | (10,836,180,466.30) | (5,108,576,331.77) | (13,665,837,083.72) |
| IV. Effect of foreign exchange rate changes | (25,834,417.85) | 105,202,379.62 | 187,603.35 | 562,090.54 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated cash flow statement and cash flow statement
for the year ended 31 December 2019 (continued)
(Expressed in Renminbi Yuan)

| | | *The Group* | | *The Company* | |
|---|---|---|---|---|---|
| | *Note 6* | *2019* | *2018* | *2019* | *2018* |
| V. Net increase in cash and cash equivalents | 58(1)(c) | 20,623,332,400.58 | 5,597,193,857.03 | 15,857,358,022.09 | 2,307,147,647.53 |
| Add: Cash and cash equivalents at the beginning of the year | | 32,286,006,031.06 | 26,688,812,174.03 | 19,462,057,769.99 | 17,154,910,122.46 |
| VI. Cash and cash equivalents at the end of the year | 58(3) | 52,909,338,431.64 | 32,286,006,031.06 | 35,319,415,792.08 | 19,462,057,769.99 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

| | | *Equity attributable to shareholders of the Company* | | | | | | | *Non-controlling interests* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | *Share capital* | *Capital reserve* | *Other comprehensive income* | *Surplus reserve* | *General risk reserve* | *Retained earnings* | *Sub-total* | | |
| I. Balance at the end of the previous year | | 6,696,671,674.00 | 14,372,689,029.26 | 130,209,693.76 | 1,559,994,821.18 | 2,901,223,752.96 | 6,844,659,423.43 | 32,505,448,394.59 | 2,802,381,703.44 | 35,307,830,098.03 |
| Add: Changes in accounting policies | III.33 | - | - | 15,090,095.08 | (23,729,406.45) | 748,266,329.42 | (595,833,030.00) | 143,793,988.05 | (8,782,077.43) | 135,011,910.62 |
| Balance at the beginning of the year | | 6,696,671,674.00 | 14,372,689,029.26 | 145,299,788.84 | 1,536,265,414.73 | 3,649,490,082.38 | 6,248,826,393.43 | 32,649,242,382.64 | 2,793,599,626.01 | 35,442,842,008.65 |
| II. Changes in equity during the year | | - | 1,898,708.89 | 353,425,374.57 | 180,725,540.61 | 517,191,868.55 | 729,786,176.15 | 1,783,027,668.77 | (182,182,695.91) | 1,600,844,972.86 |
| (1) Total comprehensive income | | - | - | 353,425,374.57 | - | - | 1,762,537,169.01 | 2,115,962,543.58 | 195,347,033.76 | 2,311,309,577.34 |
| (2) Shareholders' contributions of capital | | - | 1,898,708.89 | - | - | - | - | 1,898,708.89 | (1,949,430.00) | (50,721.11) |
| 1. Others | VI. 37 | - | 1,898,708.89 | - | - | - | - | 1,898,708.89 | (1,949,430.00) | (50,721.11) |
| (3) Appropriation of profits | VI. 41 | - | - | - | 180,725,540.61 | 517,191,868.55 | (1,032,750,992.86) | (334,833,583.70) | (375,580,299.67) | (710,413,883.37) |
| 1. Appropriation to surplus reserve | | - | - | - | 180,725,540.61 | - | (180,725,540.61) | - | - | - |
| 2. Appropriation to general risk reserve | | - | - | - | - | 517,191,868.55 | (517,191,868.55) | - | - | - |
| 3. Distributions to shareholders | | - | - | - | - | - | (334,833,583.70) | (334,833,583.70) | (375,580,299.67) | (710,413,883.37) |
| III. Balance at the end of the year | | 6,696,671,674.00 | 14,374,587,738.15 | 498,725,163.41 | 1,716,990,955.34 | 4,166,681,950.93 | 6,978,612,569.58 | 34,432,270,051.41 | 2,611,416,930.10 | 37,043,686,981.51 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Consolidated statement of changes in shareholders' equity
for the year ended 31 December 2018 (continued)
(Expressed in Renminbi Yuan)

| | | Equity attributable to shareholders of the Company | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Note* | *Share capital* | *Capital reserve* | *Other comprehensive income* | *Surplus reserve* | *General risk reserve* | *Retained earnings* | *Sub-total* | | |
| I. Balance at the beginning of the year | | 6,696,671,674.00 | 14,370,248,578.67 | 186,936,660.53 | 1,455,602,068.64 | 2,692,438,247.88 | 8,026,990,360.95 | 33,428,887,590.67 | 2,449,404,735.12 | 35,878,292,325.79 |
| 2. Changes in equity during the year | | - | 2,440,450.59 | (56,726,966.77) | 104,392,752.54 | 208,785,505.08 | (1,182,330,937.52) | (923,439,196.08) | 352,976,968.32 | (570,462,227.76) |
| (1) Total comprehensive income | | - | - | (56,726,966.77) | - | - | 135,348,071.20 | 78,621,104.43 | 472,684,806.32 | 551,305,910.75 |
| (2) Shareholders' contributions of capital | | - | 2,440,450.59 | - | - | - | - | 2,440,450.59 | (46,937,629.43) | (44,497,178.84) |
| 1. Others | VI. 37 | - | 2,440,450.59 | - | - | - | - | 2,440,450.59 | (46,937,629.43) | (44,497,178.84) |
| (3) Appropriation of profits | VI. 41 | - | - | - | 104,392,752.54 | 208,785,505.08 | (1,317,679,008.72) | (1,004,500,751.10) | (72,770,208.57) | (1,077,270,959.67) |
| 1. Appropriation to surplus reserve | | - | - | - | 104,392,752.54 | - | (104,392,752.54) | - | - | - |
| 2. Appropriation to general risk reserve | | - | - | - | - | 208,785,505.08 | (208,785,505.08) | - | - | - |
| 3. Distributions to shareholders | | - | - | - | - | - | (1,004,500,751.10) | (1,004,500,751.10) | (72,770,208.57) | (1,077,270,959.67) |
| III. Balance at the end of the year | | 6,696,671,674.00 | 14,372,689,029.26 | 130,209,693.76 | 1,559,994,821.18 | 2,901,223,752.96 | 6,844,659,423.43 | 32,505,448,394.59 | 2,802,381,703.44 | 35,307,830,098.03 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Company statement of changes in shareholders' equity
for the year ended 31 December 2019
(Expressed in Renminbi Yuan)

| | *Note* | *Share capital* | *Capital reserve* | *Other comprehensive income* | *Surplus reserve* | *General risk reserve* | *Retained earnings* | *Total* |
|---|---|---|---|---|---|---|---|---|
| I. Balance at the end of the previous year | | 6,696,671,674.00 | 14,234,115,813.82 | (375,345,259.70) | 1,559,994,821.18 | 2,901,223,752.96 | 5,496,315,915.77 | 30,512,976,718.03 |
| Add: Changes in accounting policies | III. 33 | - | - | 425,858,979.05 | (23,729,406.45) | (47,458,812.90) | (166,105,845.17) | 188,564,914.53 |
| Balance at the beginning of the year | | 6,696,671,674.00 | 14,234,115,813.82 | 50,513,719.35 | 1,536,265,414.73 | 2,853,764,940.06 | 5,330,210,070.60 | 30,701,541,632.56 |
| II. Changes in equity during the year | | - | - | 303,793,332.57 | 180,725,540.61 | 361,451,081.22 | 930,245,200.61 | 1,776,215,155.01 |
| (1) Total comprehensive income | | - | - | 303,793,332.57 | - | - | 1,807,255,406.14 | 2,111,048,738.71 |
| (2) Shareholders' contributions of capital | | - | - | - | - | - | - | - |
| (3) Appropriation of profits | | - | - | - | 180,725,540.61 | 361,451,081.22 | (877,010,205.53) | (334,833,583.70) |
| 1. Appropriation to surplus reserve | | - | - | - | 180,725,540.61 | - | (180,725,540.61) | - |
| 2. Appropriation to general risk reserve | | - | - | - | - | 361,451,081.22 | (361,451,081.22) | - |
| 3. Distributions to shareholders | | - | - | - | - | - | (334,833,583.70) | (334,833,583.70) |
| III. Balance at the end of the year | | 6,696,671,674.00 | 14,234,115,813.82 | 354,307,051.92 | 1,716,990,955.34 | 3,215,216,021.28 | 6,260,455,271.21 | 32,477,756,787.57 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Company statement of changes in shareholders' equity
for the year ended 31 December 2018 (continued)
(Expressed in Renminbi Yuan)

| | *Share capital* | *Capital reserve* | *Other comprehensive income* | *Surplus reserve* | *General risk reserve* | *Retained earnings* | *Total* |
|---|---|---|---|---|---|---|---|
| I. Balance at the beginning of the year | 6,696,671,674.00 | 14,234,115,813.82 | 45,446,914.00 | 1,455,602,068.64 | 2,692,438,247.88 | 5,770,067,399.11 | 30,894,342,117.45 |
| II. Changes in equity during the year | - | - | (420,792,173.70) | 104,392,752.54 | 208,785,505.08 | (273,751,483.34) | (381,365,399.42) |
| (1) Total comprehensive income | - | - | (420,792,173.70) | - | - | 1,043,927,525.38 | 623,135,351.68 |
| (2) Appropriation of profits | - | - | - | 104,392,752.54 | 208,785,505.08 | (1,317,679,008.72) | (1,004,500,751.10) |
| 1. Appropriation to surplus reserve | - | - | - | 104,392,752.54 | - | (104,392,752.54) | - |
| 2. Appropriation to general risk reserve | - | - | - | - | 208,785,505.08 | (208,785,505.08) | - |
| 3. Distributions to shareholders | - | - | - | - | - | (1,004,500,751.10) | (1,004,500,751.10) |
| III. Balance at the end of the year | 6,696,671,674.00 | 14,234,115,813.82 | (375,345,259.70) | 1,559,994,821.18 | 2,901,223,752.96 | 5,496,315,915.77 | 30,512,976,718.03 |

The accompanying notes form part of these financial statements.

China Industrial Securities Co., Ltd.
Notes to the financial statements
(Expressed in Renminbi Yuan unless otherwise indicated)

I. Company status

1. Historical evolution and restructuring

The predecessor of China Industrial Securities Co., Ltd. (the “Company”) was Fujian Industrial Securities Company 福建兴业证券公司. In October 1991, Fujian Industrial Bank established a securities business department. As approved by the "Reply on the Establishment of Fujian Industrial Securities Company" (Yin Fu [1994] No.160) from the People’s Bank of China on 29 April 1994, Fujian Industrial Securities Company was reorganised and established as a wholly-owned professional securities subsidiary of Fujian Industrial Bank on the basis of the securities business department of Fujian Industrial Bank, with a registered capital of RMB100 million.

On 9 August 1999, as approved by the "Reply on the Decoupling of Fujian Industrial Securities Company and Fujian Industrial Bank and the Capital Increase and Share Expansion Program” (Zhen Jian Ji Gou Zi [1999] No.73) from China Securities Regulatory Commission (hereinafter referred to as "CSRC"), Fujian Industrial Securities Company decoupled from Fujian Industrial Bank for restructuring, capital increase and share expansion. On 19 December 1999, the founding meeting of China Industrial Securities Co., Ltd. was held. On 15 March 2000, pursuant to the "Reply on the Approval of the Capital Increase, Restructuring and Rename of Fujian Industrial Securities Company” (Zheng Jian Ji Gou Zi [2000] No.52) from CSRC, Fujian Industrial Securities Company became a comprehensive securities company. Also, as approved by the "Reply on Agreeing the Establishment of China Industrial Securities Co., Ltd.” (Min Ti Gai [1999] No.125) by the Fujian Commission for the Restructuring of the Economic System, the Company was approved and registered as China Industrial Securities Co., Ltd. by Administration for Industry and Commerce of Fujian Province with a registered capital of RMB908 million.

On 28 September 2007, pursuant to the “Reply on Capital Increase and Share Expansion of China Industrial Securities Co., Ltd.” (Zheng Jian Ji Gou Zi [2007] No.246) from CSRC, the Company increased its registered capital by RMB582 million, and the registered capital after the change was RMB1.49 billion.

On 24 December 2008, pursuant to the “Reply on the Approval of the Change of Registered Capital of China Industrial Securities Co., Ltd.” (Zheng Jian Xu Ke [2008] No.1441) from CSRC, the Company offered 447 million shares with a par value of RMB1 each to all shareholders by the way of transferring undistributed profits to capital. The total registered capital was increased by RMB447 million and the registered capital after the change was RMB1.937 billion.

On 9 September 2010, with the approval of the "Reply on the Approval for the Initial Public Offering of China Industrial Securities Co., Ltd.” (Zheng Jian Xu Ke [2010] No.1240) from CSRC, the Company issued 263 million RMB ordinary shares to the public. The total registered capital of the Company after the issuance was RMB2.2 billion. On 13 October 2010, the Company's stock was listed on the Shanghai Stock Exchange and abbreviated as "兴业证券” with a stock code of "601377".

On 16 February 2013, CSRC approved the Company's non-public issuance of no more than 400 million RMB ordinary shares (A shares) with the "Reply on the Approval of Non-Public Issuance of Shares by China Industrial Securities Co., Ltd." (Zheng Jian Xu Ke [2013] No.161) from CSRC. On 26 April 2013, the Company completed a non-public offering of 400 million RMB ordinary shares (A shares), and the total registered capital increased to RMB2.6 billion.

On 5 September 2014, pursuant to the "Proposal on the Company's Half-Yearly Capitalisation of Capital Reserve in 2014" approved by the second extraordinary general meeting of shareholders in 2014, the Company will increase capital by ten shares for every ten shares. The capital reserve transferred shares to all shareholders, increasing the share capital by RMB2.6 billion. On 22 September 2014, the Company completed the capitalisation of capital reserves and the total registered capital was increased to RMB5.2 billion.

On 13 July 2015, CSRC approved the Company's allotment of shares to shareholders of A shares at the ratio of three shares for every ten shares pursuant to the "Reply on the Approval of the Share Allotment of China Industrial Securities Co., Ltd." (Zheng Jian Xu Ke [2015] No.1631) from CSRC. On 7 January 2016, the Company completed the allotment and effectively allotted 1,496,671,674 RMB ordinary shares (A shares) to the original shareholders. After the completion of the allotment, the total registered capital of the Company increased to RMB6,696,671,674.00.

On 18 February 2016, the Company held the first extraordinary general meeting of shareholders in 2016. It reviewed and approved the "Proposal of Share Repurchase of 兴业证券" and intended to implement a share repurchase plan. The repurchased shares will be used as the source of shares of the Company's employee shareholding plan. The Company has repurchased a total of 68,000,243 shares. On 17 August 2017, the Company completed the stock transfer procedures for the employee shareholding plan.

On 31 December 2019, Department of Finance of Fujian Province was the Company's largest shareholder. The total number of employees in the Company was 7,214, including nine senior management members.

2. Place of registration, form of organisation and address of headquarters

On 31 December 2019, the Company established a total of 83 branches, 136 sales departments and several subsidiaries. For information about the subsidiaries of the Company, please refer to Note V.

The Company's unified social credit code is 91350000158159898D. Its registration place is "268 Hudong Road, Fuzhou City, Fujian Province". The Company's headquarters is located at 268 Hudong Road, Fuzhou City, Fujian Province. Its legal representative is Yang Huahui.

3. The Company and its subsidiaries (the "Group") are mainly engaged in:

   Securities brokerage; securities investment advisory; financial advisory related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary; margin financing and securities lending; agency sales of securities investment fund; agency sales of financial products; custody business of securities investment fund; provision of intermediary business for futures companies; internet information services (excluding news, publishing, education, healthcare, drugs and medical equipment) and electronic announcement services; securities asset management; commodity futures brokerage, financial futures brokerage; fund raising, fund sales, asset management, asset management business of specific clients; private equity investment fund business; property management services; lending business; corporate management advisory, business information advisory, market information advisory and investigation services; financial product investment, equity investment, project investment, investment management; investment advisory etc. (Projects that are subject to approval in accordance with the law can be operated only after being approved by relevant departments.)

## II. Basis of preparation

The financial statements have been prepared on the going concern basis.

Since 1 January 2019, the Company has adopted new financial instrument standards revised by MOF in 2017, including CAS 22 — Recognition and Measurement of Financial Instruments (See Note III. 33(1)).

The Group has not adopted CAS No.14 — Revenue and CAS No. 22 — Lease revised in 2017 and 2018 respectively.

## III. Significant accounting policies and accounting estimates

### 1 Statement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises or referred to as China Accounting Standards (“CAS”) issued by the Ministry of Finance (“MOF”) of the People’s Republic of China. These financial statements present truly and completely the consolidated financial position and financial position of the Company as at 31 December 2019, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Company for the year then ended.

These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports” as revised by the China Securities Regulatory Commission (“CSRC”) in 2014.

### 2 Accounting period

The accounting period is from 1 January to 31 December.

### 3 Operating cycle

The Company is a financial institution of which the operating cycle is not clearly identifiable.

4 Functional currency

The Company's functional currency is Renminbi and these financial statements are presented in Renminbi. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled. Some of the Company's subsidiaries have functional currencies that are different from the Company's functional currency. Their financial statements have been translated based on the accounting policy set out in Note III. 8.

5 Accounting treatments for business combinations involving entities under common control and not under common control

(1) Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted against share premium in the capital reserve, with any excess adjusted against retained earnings. Any costs directly attributable to the combination are recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

(2) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition-date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition-date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note III.15). If (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of issuing equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable assets, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination involving entities not under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its acquisition-date fair value and recognises any resulting difference between the fair value and the carrying amount as investment income or other comprehensive income for the current period. In addition, any amount recognised in other comprehensive income and other changes in the owners' equity under equity accounting in prior reporting periods relating to the previously-held equity interest that may be reclassified to profit or loss are transferred to investment income at the date of acquisition (see Note III.10(2)(b)); Any previously-held equity interest that is designated as equity investment at fair value through other comprehensive income, the other comprehensive income recognised in prior reporting periods is transferred to retained earnings and surplus reserve at the date of acquisition.

6 Consolidated financial statements

(1) General principles

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries. Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Company, the Company makes necessary adjustments to the financial statements of the subsidiary based on the Company's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

(2) Subsidiaries acquired through a business combination

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements based on the carrying amounts of the assets and liabilities of the subsidiary in the financial statements of the ultimate controlling party as if the combination had occurred at the date that the ultimate controlling party first obtained control. The opening balances and the comparative figures of the consolidated financial statements are also restated.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets and liabilities of the acquired subsidiaries are included in the scope of consolidation from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

(3) Disposal of subsidiaries

When the Group loses control over a subsidiary, any resulting disposal gains or losses are recognised as investment income for the current period. The remaining equity interests is re-measured at its fair value at the date when control is lost, any resulting gains or losses are also recognised as investment income for the current period.

When the Group loses control of a subsidiary in multiple transactions in which it disposes of its long-term equity investment in the subsidiary in stages, the following are considered to determine whether the Group should account for the multiple transactions as a bundled transaction:

- arrangements are entered into at the same time or in contemplation of each other;
- arrangements work together to achieve an overall commercial effect;
- the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement;
- one arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements.

If each of the multiple transactions does not form part of a bundled transaction, the transactions conducted before the loss of control of the subsidiary are accounted for in accordance with the accounting policy for partial disposal of equity investment in subsidiaries where control is retained (see Note III.6(4)).

If each of the multiple transactions forms part of a bundled transaction which eventually results in the loss of control in the subsidiary, these multiple transactions are accounted for as a single transaction. In the consolidated financial statements, the difference between the consideration received and the corresponding proportion of the subsidiary's net assets (calculated continuously from the acquisition date) in each transaction prior to the loss of control shall be recognised in other comprehensive income and transferred to profit or loss when the parent eventually loses control of the subsidiary.

(4) Changes in non-controlling interests

Where the Company acquires a non-controlling interest from a subsidiary's non-controlling shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the proportion interests of the subsidiary's net assets being acquired or disposed and the amount of the consideration paid or received is adjusted to the capital reserve (share premium) in the consolidated balance sheet, with any excess adjusted to retained earnings.

7 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily withdraw on demand, and short-term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

8 Foreign currency transactions and translation of foreign currency financial statements

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

The spot exchange rate is the rate of RMB quoted by the People's Bank of China. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, such as the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the acquisition and construction of qualifying assets. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of equity investments at fair value through other comprehensive income, which are recognised in other comprehensive income.

In translating the financial statements of a foreign operation, assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding retained earnings and the translation differences in other comprehensive income, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operations are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in other comprehensive income with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

9 Financial instruments

Financial instruments include cash at bank and on hand, investments in debt and equity securities other than those classified as long-term equity investments (see Note III.10), receivables, payables, loans and borrowings, debentures payable and share capital.

(1) Recognition and initial measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

A financial asset (unless it is a trade receivable without a significant financing component) and financial liabilities is measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. A trade receivable without a significant financing component is initially measured at the transaction price according to Note III. 23.

(2) Classification and subsequent measurement of financial assets

(a) Classification of financial assets

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. On initial recognition, a financial asset is classified as measured at amortised cost, at fair value through other comprehensive income ("FVOCI"), or at fair value through profit or loss ("FVTPL").

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. The instrument meets the definition of equity from the perspective of the issuer.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. The Group determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the Group's key management personnel.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The Group also assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

(b) Subsequent measurement of financial assets

- Financial assets at FVTPL

  These financial assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss unless the financial assets are part of a hedging relationship.

- Financial assets at amortised cost

  These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

- Debt investments at FVOCI

  These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, impairment and foreign exchange gains and losses are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

- Equity investments at FVOCI

  These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

(3) Classification and subsequent measurement of financial liabilities

The Group classifies financial liabilities into financial liabilities at FVTPL, financial guarantee liabilities, and financial liabilities measured at amortised cost.

- Financial liabilities at FVTPL

  A financial liability is classified as at FVTPL if it is classified as held-for-trading (including derivative financial liability) or it is designated as such on initial recognition.

  Financial liabilities at FVTPL are subsequently measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss, unless the financial liabilities are part of a hedging relationship.

- Financial guarantee liabilities

  Financial guarantees are contracts that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

  After initial recognition, relevant income from financial guarantee contracts is allocated and recognised in profit or loss according to the accounting policy in Note III. 23. A financial guarantee liability is measured at the higher of:
  • the amount of the loss allowance determined in accordance with impairment policies of financial instruments (see Notes III.9(6)); and
  • the amount initially recognised less the cumulative amount of income.

- Financial liabilities at amortised cost

  These financial liabilities are subsequently measured at amortised cost using the effective interest method.

(4) Offsetting

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- The Group currently has a legally enforceable right to set off the recognised amounts;
- The Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(5) Derecognition of financial assets and financial liabilities

Financial asset is derecognised when one of the following conditions is met:

- the Group’s contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or ;
- the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred measured at the date of derecognition;
- the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

(6) Impairment of financial assets

The Group recognises loss allowances for expected credit loss (ECL) on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI ;
- financial guarantee contracts issued, which are not measured at FVTPL.

Financial assets measured at fair value, including debt investments or equity securities at FVTPL, equity securities designated at FVOCI and derivative financial assets, are not subject to the ECL assessment.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.
Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

For accounts receivable, loss allowance always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

For assets other than accounts receivable that meet one of the following conditions, loss allowances are measured at an amount equal to 12-month ECLs. For all other financial instruments, the Group recognises a loss allowance equal to lifetime ECLs:

- If the financial instrument is determined to have low credit risk at the balance sheet date;
- If the credit risk on a financial instrument has not increased significantly since initial recognition.

*Financial instruments that have low credit risk*

The credit risk on a financial instrument is considered low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the balance sheet date with that assessed at the date of initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort, including forward-looking information. In particular, the following information is taken into account:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

*Credit-impaired financial assets*

At each balance sheet date, the Group assesses whether financial assets carried at amortised cost and debt investments at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- for economic or contractual reasons relating to the borrower’s financial difficulty, the Group having granted to the borrower a concession that would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

*Collaterals or other credit enhancements*

The Group assesses whether collaterals or other credit enhancements financial instruments held are part of the relevant terms of financial instrument contract. In the measurement of ECLs, the Group's estimation of cash flow gap reflects the expected cash flow from collaterals or other credit enhancements (even if the expected occurrence time of the cash flow exceeds the contract term), provided that the collaterals or credit enhancements are part of the contract terms of financial instruments and the Group has not recognised them in the balance sheet.

*Presentation of allowance for ECL*

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt investments that are measured at FVOCI, for which the loss allowance is recognised in other comprehensive income.

*Write-off*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(7) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Company for repurchasing self-issued equity instruments are deducted from shareholders' equity.

When the Company repurchases its own shares, those shares are treated as treasury shares. All expenditure relating to the repurchase is recorded in the cost of the treasury shares, with the transaction recording in the share register. Treasury shares are excluded from profit distributions and are presented as a deduction under shareholders' equity in the balance sheet.

When treasury shares are cancelled, the share capital should be reduced to the extent of the total par value of the treasury shares cancelled. Where the cost of the treasury shares cancelled exceeds the total par value, the excess is deducted from capital reserve (share premium), surplus reserve and retained earnings sequentially. If the cost of treasury shares cancelled is less than the total par value, the difference is credited to the capital reserve (share premium).

When treasury shares are disposed of, any excess of proceeds above cost is recognised in capital reserve (share premium); otherwise, the shortfall is deducted against capital reserve (share premium), surplus reserve and retained earnings sequentially.

10 Long-term equity investments

(1) Investment cost of long-term equity investments

(a) Long-term equity investments acquired through a business combination

- The initial cost of a long-term equity investment acquired through a business combination involving entities under common control is the Company's share of the carrying amount of the subsidiary's equity in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the initial investment cost and the carrying amount of the consideration given is adjusted to the share premium in the capital reserve, with any excess adjusted to retained earnings. For a long-term equity investment in a subsidiary acquired through a business combination achieved in stages which do not form a bundled transaction and involving entities under common control, the Company determines the initial cost of the investment in accordance with the above policies. The difference between this initial cost and the sum of the carrying amount of previously-held investment and the consideration paid for the shares newly acquired is adjusted to capital premium in the capital reserve, with any excess adjusted to retained earnings.

- For a long-term equity investment obtained through a business combination not involving entities under common control, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Company, in exchange for control of the acquiree. For a long-term equity investment obtained through a business combination not involving entities under common control and achieved through multiple transactions in stages which do not form a bundled transaction, the initial cost comprises the carrying amount of the previously-held equity investment in the acquiree immediately before the acquisition date, and the additional investment cost at the acquisition date.

(b) Long-term equity investments acquired other than through a business combination

- A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(2) Subsequent measurement of long-term equity investment

(a) Investments in subsidiaries

In the Company's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost method unless the investment is classified as held for sale (See Note III. 27). Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses.

For the impairment of the investments in subsidiaries, refer to Note III. 17.

In the Group's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note III.6.

(b) Investment in joint ventures and associates

A joint venture is an arrangement whereby the Group and other parties have joint control (see Note III.10(3)) and rights to the net assets of the arrangement.

An associate is an entity over which the Group has significant influence (see Note III.10(3)).

An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement, unless the investment is classified as held for sale (see Note III. 27).

The accounting treatments under the equity method adopted by the Group are as follows:

- Where the initial cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is recognised in profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by the amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution (referred to as "other changes in owners' equity"), is recognised directly in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

- In calculating its share of the investee's net profits or losses, other comprehensive income and other changes in owners' equity, the Group recognises investment income and other comprehensive income after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Group and its associates or joint ventures are eliminated in the same way as unrealised gains but only to the extent that there is no impairment.

- The Group discontinues recognising its share of further losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the joint venture or associate is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. If the joint venture or associate subsequently reports net profits, the Group resumes recognising its share of those profits only after its share of the profits has fully covered the share of losses not recognised.

For the impairment of the investments in joint ventures and associates, refer to Note III. 17.

(3) Criteria for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (activities with significant impact on the returns of the arrangement) require the unanimous consent of the parties sharing control.

The following factors are usually considered when assessing whether the Group can exercise joint control over an investee:

- Whether no single participant party is in a position to control the investee's related activities unilaterally;
- Whether strategic decisions relating to the investee's related activities require the unanimous consent of all participant parties that sharing of control.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

11 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are accounted for using the cost model and stated in the balance sheet at cost less accumulated depreciation, amortisation and impairment losses. The cost of investment property, less its estimated residual value and accumulated impairment losses, is depreciated or amortised using the straight-line over its estimated useful life, unless the investment property is classified as held for sale (see Note III. 27). For the impairment of the investment properties, refer to Note III. 17.

The estimated useful lives, residual value rates and depreciation rates of each class of investment properties are as follows:

| *Category* | *Estimated useful life (years)* | *Residual value rate (%)* | *Depreciation rate (%)* |
|---|---|---|---|
| Plant and buildings | 35 | 5 | 2.71 |

12 Fixed assets

(1) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Group for administrative purposes with useful lives over one accounting year.

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets is measured in accordance with the policy set out in Note III.13.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets when it is probable that the economic benefits associated with the costs will flow to the Group, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day maintenance of fixed assets are recognised in profit or loss as incurred.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

(2) Depreciation of fixed assets

The cost of a fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the fixed asset is classified as held for sale (see Note III.27).

The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

| *Category* | *Estimated useful life (years)* | *Residual value rate (%)* | *Depreciation rate (%)* |
|---|---|---|---|
| Plant and buildings | 16-35 | 5 | 2.71 - 5.94 |
| Machinery & equipment | 2-11 | 1、5 | 8.64 - 49.50 |
| Motor vehicles | 6-8 | 5 | 11.88 - 15.83 |
| Other equipment | 5 | 5 | 19.00 |

Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

(3) For the impairment of the fixed assets, refer to Note III. 17.

(4) For the recognition, measurement and depreciation of fixed assets acquired under finance leases, refer to Note III. 26(3).

(5) Disposal of fixed assets

The carrying amount of a fixed asset is derecognised:

- when the fixed asset is holding for disposal; or
- when no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

13 Construction in progress

The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs, and any other costs directly attributable to bringing the asset to working condition for its intended use.

A self-constructed asset is classified as construction in progress and transferred to fixed asset when it is ready for its intended use. No depreciation is provided against construction in progress.

Construction in progress is stated in the balance sheet at cost less accumulated impairment losses (see Note III. 17).

14 Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III. 17). For an intangible asset with finite useful life, its cost estimated less residual value and accumulated impairment losses is amortised on the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale (see Note III.27).

The respective amortisation periods for such major intangible assets are as follows:

| *Item* | *Amortisation period (years)* |
|---|---|
| Software | 3-10 |

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. The Group reassesses the useful lives of intangible assets with indefinite useful lives in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Group estimates its useful life and accounts for it in accordance with the same policy as intangible assets with finite useful lives described above.

Expenditure on an internal research and development project is classified into expenditure during the research phase and expenditure during the development phase.

Expenditure during the research phase is expensed when incurred. Expenditure during the development phase is capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete the development. Capitalised development costs are stated in the balance sheet at cost less impairment losses (see Note III. 17). Other development expenditure is recognised as an expense in the period in which it is incurred.

15 Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving entities under common control.

Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note III. 17). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

16 Long-term deferred expenses

Long-term deferred expenses are amortised using a straight-line method within the benefit period.

17 Impairment of assets other than financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- construction in progress
- intangible assets
- investment properties measured using a cost model
- long-term equity investments
- goodwill
- long-term deferred expenses, etc.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of intangible assets not ready for use at least annually and the recoverable amounts of goodwill and intangible assets with indefinite useful lives at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group, or set of asset groups, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset (or asset group, set of asset groups) is the higher of its fair value (see Note III. 18) less costs to sell and its present value of expected future cash flows.

An asset group is composed of assets directly related to cash generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

18 Fair value measurement

Unless otherwise specified, the Group measures fair value as follows:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

19 Financial assets purchased under resale agreements and financial assets sold under repurchase agreements

Financial assets held under resale agreements are capital where the Group acquires financial assets which will be resold at a fixed price under resale agreements. Financial assets sold under repurchase agreements are capital where the Group sells financial assets which will be repurchased at a fixed price under repurchase agreements.

The cash advanced or received is recognised as amounts purchased under resale or sold under repurchase agreements in the balance sheet. Underlying assets purchased under resale agreements are reported not as purchase of the assets but recorded as off-balance sheet items. Underlying assets sold under repurchase agreement are retained in the balance sheet.

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

Initial cost less provision for impairments of financial assets held under resale agreements is stated in the balance sheet at cost less accumulated impairment losses (see Note III. 9(6)).

20 Employee benefits

(1) Salaries and other employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund and other employee benefits, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(2) Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the People's Republic of China, the Group participated in a defined contribution basic pension insurance plan in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions payable are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(3) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

21 Provisions

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome.
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

22 Appropriation of profits

(1) Distributions to shareholders

Dividend distribution proposed in the profit appropriation plan, which will be approved after the balance sheet date, is not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(2) Appropriation to general risk reserve

In accordance with the *Financial Rules for Financial Enterprises* (Order of MOF No.42) and the application guidance (Caijin [2007] No.23), and the *Notice of of Annual Report of Securities Companies in 2007* (Zheng Jian Ji Gou Zi [2007] No.320) issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit for the period to the general risk reserve and an amount equivalent to 10% of the net profit for the period to the trading risk reserve according to the *Securities Law* and Zheng Jian Ji Gou Zi [2007] No.320. Related subsidiaries of the Company appropriate general risk reserve and / or trading risk reserve according to relevant regulatory requirements. General risk reserve and trading risk reserve are included and accounted for in the general risk reserve.

23 Revenue

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following conditions are met.

(1) Fee and commission income

Fee and commission income is measured at the fair value of the consideration received or receivable under the contract or agreement during the provision of services in daily operation.

Relevant fee and commission income are recognised when the trading related economic benefits would flow to the Group and the relevant income can be reliably measured and specific criteria for the recognition of the following operating activities:

(a) Income from brokerage business

Commission income from securities brokerage services and futures brokerage services are recognised at transaction date.

(b) Income from investment banking business

Commission income from underwriting business, sponsoring business and financial advisory services are recognised when criteria for recognition of income from providing services are met.

(c) Income from asset management and fund management business

When income from asset management and fund management fee of entrusted clients meet the relevant criteria for income recognition, the income to be enjoyed by the Company shall be calculated according to the criteria and proportion specified in the contract and recognised as revenue.

(2) Interest income

Interest income is recognised on a time proportion basis with reference to the principal outstanding and the applicable effective interest rate.

(3) Investment income

The interests, bonus, dividends or cash dividends obtained during the holding period of financial assets held for trading, other equity instrument investment, other debt investment, financial derivatives and other investments held by the Group are recognised as current income.

When the transfer of a financial asset meets the criteria for derecognition, the asset should be derecognised, and the difference between the two amounts below should be recognised in investment income for the period:
- the carrying amount of the financial asset transferred measured at the date of derecognition;
- the sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

If cost method is adopted to calculate the long-term equity investments, the revenue shall be recognised according to the part of cash dividend or profit declared by the investee that belongs to the Company; if equity method is adopted to calculate the long-term equity investments, investment income shall be recognised according to the net profit realised or adjusted net profit of the investee.

24 Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Group except for capital contributions from the government in the capacity as an investor in the Group.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A government grant related to an asset is recognised as deferred income and amortised over the useful life of the related asset on a reasonable and systematic manner as other income or non-operating income. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Or included in other income or non-operating income directly.

25 Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax 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, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the balance sheet date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;
- they relate to income taxes levied by the same tax authority on either:
    - the same taxable entity; or
    - different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

26 Operating leases and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

(1) Operating lease charges

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term.

(2) Assets leased out under operating leases

Fixed assets leased out under operating leases, except for investment properties (see Note III. 11), are depreciated in accordance with the Group's depreciation policies described in Note III.12(2). Impairment losses are recognised in accordance with the accounting policy described in Note III. 17. Income derived from operating leases is recognised in profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately.

(3) Assets acquired under finance leases

When the Group acquires an asset under a finance lease, the asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments, each determined at the inception of the lease. At the commencement of the lease term, the minimum lease payments are recorded as long-term payables. The difference between the carrying amounts of the leased assets and the minimum lease payments is accounted for as unrecognised finance charges. Initial direct costs attributable to a finance lease that are incurred by the Group are added to the carrying amount of the leased asset. Depreciation and impairment losses are accounted for in accordance with the accounting policies described in Notes III.12(2) and III. 17, respectively.

If there is reasonable certainty that the Group will obtain ownership of a leased asset at the end of the lease term, the leased asset is depreciated over its estimated useful life. Otherwise, the leased asset is depreciated over the shorter of the lease term and its estimated useful life.

Unrecognised finance charges arising from a finance lease are recognised using an effective interest method over the lease term. The amortisation is accounted for in accordance with the principles of borrowing costs.

At the balance sheet date, the long-term payables arising from finance leases, net of the unrecognised finance charges, are analysed and separately presented as long-term payables or non-current liabilities due within one year.

(4) Assets leased out under finance leases

At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable, and recognises unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the aggregate of their present value is recognised as unearned finance income.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the balance sheet date, finance lease receivables, net of unearned finance income, are analysed and separately presented as long-term receivables or non-current assets due within one year.

27 Assets held for sale and discontinued operations

(1) Assets held for sale

The Group classified a non-current asset or disposal group as held for sale when the carrying amount of a non-current asset or disposal group will be recovered through a sale transaction rather than through continuing use.

A disposal group refers to a group of assets to be disposed of, by sale or otherwise, together as a whole in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction.

A non-current asset or disposal group is classified as held for sale when all the following criteria are met:

- According to the customary practices of selling such asset or disposal group in similar transactions, the non-current asset or disposal group must be available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups;
- Its sale is highly probable, that is, the Group has made a resolution on a sale plan and has obtained a firm purchase commitment. The sale is to be completed within one year.

Non-current assets or disposal groups held for sale are stated at the lower of carrying amount and fair value (see Note III. 18) less costs to sell (except financial assets (see Note III. 9), deferred tax assets (see Note III. 25) and investment properties with subsequent measurement using the fair value model (see Note III. 11)) initially and subsequently. Any excess of the carrying amount over the fair value (see Note III. 18) less costs to sell is recognised as an impairment loss in profit or loss.

(2) Discontinued operations

The Group classifies a separate component as a discontinued operation either upon disposal of the operation or when the operation meets the criteria to be classified as held for sale if it is separately identifiable and satisfies one of the following conditions:

- It represents a separate major line of business or a separate geographical area of operations;
- It is part of a single co-ordinated plan to dispose of a separate major line of business or a separate geographical area of operations;
- It is a subsidiary acquired exclusively with a view to resale.

Where an operation is classified as discontinued in the current period, profit or loss from continuing operations and profit or loss from discontinued operations are separately presented in the income statement for the current period. Profit or loss from continuing operation in the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

28 Accounting treatment of margin financing and securities lending business

The Group's margin accounts receivable are initially recognised and subsequently measured, and corresponding interest income is recognised in current profit and loss. Financial assets purchased for the purpose of securities lending business are presented according to relevant policy in Note III. 9 before short selling. After the short-selling, financial assets are not derecognised in the balance sheet and continue to be accounted for according to relevant policy in Note III. 9, and corresponding interest income is recognised in profit or loss.

29 Accounting treatment of refinancing business

Capital or securities of the Group through placements from China Securities Finance Corporation Limited are recognised as an asset, and recognise a liability to lender. Interest expenses derived from refinancing business are recognised in profit or loss. Securities borrowed are not recognised in balance sheet as the main revenue or risks are not enjoyed or assumed by the Group.

According to funds loaned and probability of default, the Group reasonably estimates the possible losses in the future, and fully reflects the performance risk of the loaned funds and securities.

30 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Company determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

31 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments during comparative period may be aggregated into a single operating segment if the segments have similar economic characteristics and are same or similar in respect of the nature of products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Reportable segments are identified based on operating segments taking into account of materiality principle.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting, and segment accounting policies, in all material respects, are consistent with those for the consolidated financial statements.

32 Significant accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(1) Significant accounting estimates

Except for accounting estimates relating to depreciation and amortisation of assets such as investment properties, fixed assets and intangible assets (see Note III. 11, 12 and 14) and provision for impairment of various types of assets (see Note VI.3, 6, 15, 16, 17, 18 and 20), other significant accounting estimates are as follows:

(i) Note VI. 19 – Recognition of deferred tax asset;
(ii) Note XIV – Fair value measurements of financial instruments

(2) Significant accounting judgements

Significant judgement made by the Group in the application of accounting policies is as follow:

(a) Note V. 2 – Structured entities or business entities that form control through entrusted operation

33 Changes in significant accounting policies and accounting estimates

(1) Description and reasons of changes in accounting policies

In 2019, the Group has adopted the following revised accounting standards issued by the MOF recently:

- *Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments (revised)*, *Accounting Standard for Business Enterprises No. 23 — Transfer of Financial Instruments (revised)*, *Accounting Standard for Business Enterprises No. 24 — Hedging Accounting (revised)* and *Accounting Standard for Business Enterprises No. 37 — Presentation of Financial Instruments (revised)* (hereinafter referred to as “new financial instrument standard”)
- *Notice on Revision of the Format of Financial Statements of Financial Enterprises for 2018* (Cai Kuai [2018] No. 36).
- *CAS No.7 – Exchange of Non-monetary Assets (Revised)* (“CAS 7 (2019)”)
- *CAS No.12 – Debt Restructuring (Revised)* (“CAS 12 (2019)”)

(a) Major impact of changes in accounting policies

(i) New financial instrument standards

The new financial instrument standards revise the *Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments*, *Accounting Standard for Business Enterprises No. 23 — Transfer of Financial Instruments*, *Accounting Standard for Business Enterprises No. 24 — Hedging which were* issued by the MOF in 2006 *and Accounting Standard for Business Enterprises No. 37 — Presentation of Financial Instruments* issued by the MOF in 2014 (hereinafter referred to as "original financial instrument standards").

The new financial instrument standards classify financial assets into three basic categories: (1) financial assets measured at amortised cost; (2) financial assets measured at FVOCI;(3) financial assets at FVTPL. The classification of financial assets under new financial instruments standards is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. New financial instruments standards cancel the previous categories of held to maturity investments, loans and receivables and available for sale financial assets under previous financial instruments standards. Under new financial instruments standards, derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

New financial instruments standards replace the "incurred loss" model in previous financial instruments standards with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in previous financial instruments standards.

Retrospective adjustments were made to classification and measurement (including impairment) of financial instruments not derecognised on the date of effectiveness of the standards (i.e. 1 January 2019) according to transition requirements of the new financial instrument standards. The Group has not yet adjust the financial statement and recognises the difference between the original carrying amount of financial instruments and the new carrying amount on the date of effectiveness of the standards as retained earnings or other comprehensive income at the beginning 2019.

The Group applies the new ECL model to the following items:

- financial assets measured at amortised cost;
- financial investments at FVOCI.

The new ECL model does not apply to investments in equity instruments.

The following table reconciles the closing loss allowance determined in accordance with previous financial instruments standards as at 31 December 2018 with the opening loss allowance determined in accordance with new financial instruments standards as at 1 January 2019.

| | |
|---|---|
| Loss allowance at 31 December 2018 under previous financial instruments standards | 1,123,550,859.69 |
| Adjustment on initial application of new financial instruments standards on 1 January 2019 | |
| - Cash at bank and on hand | 352,876.36 |
| - Margin Accounts | 21,596,923.53 |
| - Financial assets purchased under resale agreements | 229,784,376.49 |
| - Available-for-Sale financial assets | (87,756,199.63) |
| - Debt securities at fair value through other comprehensive income | 60,523,388.25 |
| Loss allowance at 1 January 2019 under new financial instruments standards | 1,348,052,224.69 |

(ii) Presentation of financial statement

According to the *Notice on Revision of the Format of Financial Statements of Financial Enterprises for 2018 (Cai Kuai [2018] No. 36)* issued by MOF in December 2018, the Group has adopted the revised format of financial statements of financial enterprises to prepare its financial statements since the accounting year starting from 1 January 2019.

(iii) CAS 7 (2019)

The *CAS 7 (2019)* specifies the applicability of standard for exchange of non-monetary assets and clarifies the accounting treatment for the situation in which the recognising timing of assets received is inconsistent with the derecognising timing of assets given up. The standard also revises the measurement principle for several assets to be received or given up at the same time during exchange of non-monetary assets at fair value. Additionally, the standard includes disclosure requirements on whether the exchange of non-monetary assets has commercial substance and the reasons behind this determination.

The effective date of *CAS 7 (2019)* is 10 June 2019. Exchanges of non-monetary assets that occurred between 1 January 2019 and the effective date shall be adjusted according to *CAS 7 (2019)*. Retrospective adjustment is not required for exchanges of non-monetary assets prior to 1 January 2019. The adoption of the Standard did not have any material impact on the financial position and financial performance of the Group.

(iv) CAS 12 (2019)

The *CAS 12 (2019)* modifies the definition of debt restructuring to specify the scope of this standard, as well as the application of relevant financial instruments standards with respect to the recognition, measurement and presentation of financial instruments involved in debt restructuring. For debt restructuring in which a debt is settled by the transfer of assets, *CAS 12 (2019)* modifies the principle of measurement for initial recognition of non-financial assets received by the creditor, and gains or losses of the debtor from debt restructuring are recognised without distinguishing whether they are gains or losses from asset transfer or debt restructuring. For debt restructuring in which a debt is settled by the issuance of equity instruments to the creditor, *CAS 12 (2019)* revises the principle of measurement for initial recognition of its share of equity by the creditor, and provides more guidance on the principle of measurement for initial recognition of equity instruments by the debtor.

The effective date of *CAS 12 (2019)* is 17 June 2019. Debt restructuring that occurred between 1 January 2019 and the effective date shall be adjusted according to *CAS 12 (2019)*. Retrospective adjustment is not required for debt restructuring prior to 1 January 2019. The adoption of *CAS 12 (2019)* has no material effect on the financial position and financial performance of the Group.

(b) The above changes of accounting policy in Note III. 33(a)(i) - (iv) which are not applied retrospectively have the following impact on each of the line items in the consolidated balance sheet and balance sheet as at 1 January 2019:

| *Items of statement* | *The Group* Before adjustments 1 January 2019 Book value | Reclassification Effect of new financial instruments standards | Remeasurement Effect of new financial instruments standards | Adjustment of format of statement and others | After adjustments 1 January 2019 Book value |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash at bank and on hand | 27,313,400,415.02 | - | (352,876.36) | 70,443,415.48 | 27,383,490,954.14 |
| Clearing settlement funds | 6,027,321,671.10 | - | - | 1,819,961.12 | 6,029,141,632.22 |
| Margin accounts | 17,492,122,392.09 | - | (21,596,923.53) | 203,306,534.59 | 17,673,832,003.15 |
| Derivative financial assets | 4,738,721.96 | - | - | 56,911.70 | 4,795,633.66 |
| Refundable deposits | 3,016,807,850.88 | - | - | 96,332.15 | 3,016,904,183.03 |
| Accounts receivables | 2,258,413,112.06 | - | - | - | 2,258,413,112.06 |
| Financial assets held under resale agreements | 21,135,207,051.97 | - | (229,784,376.49) | 91,230,692.58 | 20,996,653,368.06 |
| Financial assets held for trading | 40,474,266,480.47 | (40,474,266,480.47) | - | - | - |
| Available-for-sale financial assets | 31,142,420,975.29 | (31,142,420,975.29) | - | - | - |
| **Financial investments:** | | | | | |
| Financial assets at fair value through profit or loss | - | 44,225,776,721.06 | 437,572,602.76 | 473,437,890.65 | 45,136,787,214.47 |
| Debt securities at fair value through other comprehensive income | - | 25,013,467,430.00 | - | 738,630,157.28 | 25,752,097,587.28 |
| Equity securities not held for trading | - | 2,377,443,304.70 | - | - | 2,377,443,304.70 |
| Long-term equity investments | 1,711,928,961.78 | - | - | - | 1,711,928,961.78 |
| Investment properties | 244,057,825.35 | - | - | - | 244,057,825.35 |
| Fixed assets | 533,096,766.35 | - | - | - | 533,096,766.35 |
| Construction in progress | 731,853.81 | - | - | - | 731,853.81 |
| Intangible assets | 122,136,230.78 | - | - | - | 122,136,230.78 |
| Goodwill | 12,264,149.78 | - | - | - | 12,264,149.78 |
| Deferred tax assets | 1,299,854,541.44 | - | (47,338,682.65) | - | 1,252,515,858.79 |
| Other assets | 2,349,046,880.49 | - | - | (1,579,021,895.55) | 770,024,984.94 |
| Total assets | 155,137,815,880.62 | - | 138,499,743.73 | - | 155,276,315,624.35 |

| | *The Group* | | | | |
|---|---|---|---|---|---|
| *Items of statement* | *Before adjustments 1 January 2019 Book value* | *Reclassification Effect of new financial instruments standards* | *Remeasurement Effect of new financial instruments standards* | *Adjustment of format of statement and others* | *After adjustments 1 January 2019 Book value* |
| Liabilities: | | | | | |
| Short-term loans | 6,237,585,757.76 | - | - | 20,350,647.26 | 6,257,936,405.02 |
| Short-term financing payables | 642,692,157.48 | - | - | 7,935,302.99 | 650,627,460.47 |
| Placements from banks and other financial institutions | 1,000,000,000.00 | - | - | 955,555.56 | 1,000,955,555.56 |
| Financial liabilities held for trading | - | 2,622,855,593.19 | 3,552,688.69 | - | 2,626,408,281.88 |
| Financial liabilities measured at fair value through profit or loss | 1,414,669,869.66 | (1,414,669,869.66) | - | - | - |
| Derivative financial liabilities | 10,849,807.14 | - | - | 56,911.70 | 10,906,718.84 |
| Financial assets sold under repurchase agreements | 24,888,048,019.11 | - | - | 44,779,829.62 | 24,932,827,848.73 |
| Accounts payable to brokerage and margin client | 26,393,764,961.34 | - | - | 1,131,508.51 | 26,394,896,469.85 |
| Employee benefits payable | 3,223,861,458.12 | - | - | - | 3,223,861,458.12 |
| Taxes payable | 597,651,101.13 | - | - | - | 597,651,101.13 |
| Accounts payables | 963,705,331.55 | - | - | - | 963,705,331.55 |
| Long-term loans | 2,961,556,000.00 | - | - | - | 2,961,556,000.00 |
| Bonds payable | 48,501,477,143.04 | - | - | 1,275,758,858.49 | 49,777,236,001.53 |
| Deferred tax liabilities | 27,878,385.34 | - | (64,855.58) | - | 27,813,529.76 |
| Provisions | 4,461,811.81 | - | - | - | 4,461,811.81 |
| Other liabilities | 2,961,783,979.11 | (1,208,185,723.53) | - | (1,350,968,614.13) | 402,629,641.45 |
| Total liabilities | 119,829,985,782.59 | - | 3,487,833.11 | - | 119,833,473,615.70 |

| | *The Group* | | | | |
|---|---|---|---|---|---|
| *Items of statement* | *Before adjustments 1 January 2019 Book value* | *Reclassification Effect of new financial instruments standards* | *Remeasurement Effect of new financial instruments standards* | *Adjustment of format of statement and others* | *After adjustments 1 January 2019 Book value* |
| Shareholders' equity: | | | | | |
| Share capital | 6,696,671,674.00 | - | - | - | 6,696,671,674.00 |
| Capital reserve | 14,372,689,029.26 | - | - | - | 14,372,689,029.26 |
| Other comprehensive income | 130,209,693.76 | 15,090,095.08 | - | - | 145,299,788.84 |
| Surplus reserve | 1,559,994,821.18 | (42,585,897.91) | 18,856,491.46 | - | 1,536,265,414.73 |
| General risk reserve | 2,901,223,752.96 | (85,171,795.82) | 37,712,982.92 | 795,725,142.32 | 3,649,490,082.38 |
| Retained earnings | 6,844,659,423.43 | 112,667,598.65 | 87,224,513.67 | (795,725,142.32) | 6,248,826,393.43 |
| Total equity attributable to shareholders of the Company | 32,505,448,394.59 | - | 143,793,988.05 | - | 32,649,242,382.64 |
| Non-controlling interests | 2,802,381,703.44 | - | (8,782,077.43) | - | 2,793,599,626.01 |
| Total shareholders' equity | 35,307,830,098.03 | - | 135,011,910.62 | - | 35,442,842,008.65 |
| Total liabilities and shareholders' equity | 155,137,815,880.62 | - | 138,499,743.73 | - | 155,276,315,624.35 |

| *Items of statement* | *The Company* Before adjustments 1 January 2019 Book value | Reclassification Effect of new financial instruments standards | Remeasurement Effect of new financial instruments standards | Adjustment of format of statement | After adjustments 1 January 2019 Book value |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash at bank and on hand | 13,974,349,848.46 | - | - | 10,047,735.49 | 13,984,397,583.95 |
| Clearing settlement funds | 5,488,493,919.37 | - | - | 1,814,813.44 | 5,490,308,732.81 |
| Margin accounts | 12,412,916,345.75 | - | - | 203,306,534.59 | 12,616,222,880.34 |
| Derivative financial assets | 296,149.53 | - | - | 56,911.70 | 353,061.23 |
| Refundable deposits | 474,266,298.65 | - | - | 95,903.81 | 474,362,202.46 |
| Accounts receivables | 536,476,696.33 | - | - | - | 536,476,696.33 |
| Financial assets held under resale agreements | 20,956,505,501.97 | - | (229,784,376.49) | 90,999,190.00 | 20,817,720,315.48 |
| Financial assets held for trading | 24,495,261,369.69 | (24,495,261,369.69) | - | - | - |
| Available-for-sale financial assets | 33,895,782,110.65 | (33,895,782,110.65) | - | - | - |
| **Financial investments:** | | | | | |
| Financial assets at fair value through profit or loss | - | 31,000,132,745.64 | 481,204,262.50 | 331,082,570.03 | 31,812,419,578.17 |
| Debt securities at fair value through other comprehensive income | - | 25,013,467,430.00 | - | 738,630,157.28 | 25,752,097,587.28 |
| Equity securities not held for trading | - | 2,377,443,304.70 | - | - | 2,377,443,304.70 |
| Long-term equity investments | 5,685,392,398.87 | - | - | - | 5,685,392,398.87 |
| Investment properties | 244,057,825.35 | - | - | - | 244,057,825.35 |
| Fixed assets | 488,773,236.48 | - | - | - | 488,773,236.48 |
| Construction in progress | 731,853.81 | - | - | - | 731,853.81 |
| Intangible assets | 96,821,718.89 | - | - | - | 96,821,718.89 |
| Deferred tax assets | 1,079,377,514.23 | - | (62,854,971.48) | - | 1,016,522,542.75 |
| Other assets | 2,428,865,331.59 | - | - | (1,376,033,816.34) | 1,052,831,515.25 |
| Total assets | 122,258,368,119.62 | - | 188,564,914.53 | - | 122,446,933,034.15 |

| | *The Company* | | | | |
|---|---|---|---|---|---|
| *Items of statement* | *Before adjustments 1 January 2019 Book value* | *Reclassification Effect of new financial instruments standards* | *Remeasurement Effect of new financial instruments standards* | *Adjustment of format of statement* | *After adjustments 1 January 2019 Book value* |
| Liabilities: | | | | | |
| Short-term financing payables | 587,797,877.00 | - | - | 7,759,755.68 | 595,557,632.68 |
| Placements from banks and other financial institutions | 1,000,000,000.00 | - | - | 955,555.56 | 1,000,955,555.56 |
| Derivative financial liabilities | 296,149.53 | - | - | 56,911.70 | 353,061.23 |
| Financial assets sold under repurchase agreements | 23,488,231,035.89 | - | - | 38,392,383.48 | 23,526,623,419.37 |
| Accounts payable to brokerage and margin client | 13,636,993,806.23 | - | - | 1,131,508.51 | 13,638,125,314.74 |
| Employee benefits payable | 2,270,626,830.25 | - | - | - | 2,270,626,830.25 |
| Taxes payable | 292,668,322.43 | - | - | - | 292,668,322.43 |
| Accounts payables | 472,021,750.94 | - | - | - | 472,021,750.94 |
| Bonds payable | 48,501,477,143.04 | - | - | 1,275,758,858.49 | 49,777,236,001.53 |
| Provisions | 4,461,811.81 | - | - | - | 4,461,811.81 |
| Other liabilities | 1,490,816,674.47 | - | - | (1,324,054,973.42) | 166,761,701.05 |
| Total liabilities | 91,745,391,401.59 | - | - | - | 91,745,391,401.59 |

| | *The Company* | | | | |
|---|---|---|---|---|---|
| *Items of statement* | *Before adjustments 1 January 2019 Book value* | *Reclassification Effect of new financial instruments standards* | *Remeasurement Effect of new financial instruments standards* | *Adjustment of format of statement* | *After adjustments 1 January 2019 Book value* |
| Shareholders' equity: | | | | | |
| Share capital | 6,696,671,674.00 | - | - | - | 6,696,671,674.00 |
| Capital reserve | 14,234,115,813.82 | - | - | - | 14,234,115,813.82 |
| Other comprehensive income | (375,345,259.70) | 425,858,979.05 | - | - | 50,513,719.35 |
| Surplus reserve | 1,559,994,821.18 | (42,585,897.91) | 18,856,491.46 | - | 1,536,265,414.73 |
| General risk reserve | 2,901,223,752.96 | (85,171,795.82) | 37,712,982.92 | - | 2,853,764,940.06 |
| Retained earnings | 5,496,315,915.77 | (298,101,285.32) | 131,995,440.15 | - | 5,330,210,070.60 |
| Total shareholders' equity | 30,512,976,718.03 | - | 188,564,914.53 | - | 30,701,541,632.56 |
| Total liabilities and shareholders' equity | 122,258,368,119.62 | - | 188,564,914.53 | - | 122,446,933,034.15 |

## IV. Taxation

The applicable taxes and fees related to the provision of services and other business operations of the Group mainly include value-added tax, urban maintenance and construction tax, education surcharges, local education surcharges and corporate income tax, etc.

| *Tax type* | *Tax basis* |
|---|---|
| Value-added tax (i) | Output VAT is calculated on product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period |
| Urban maintenance and construction tax | Based on VAT paid |
| Education surcharges and local education surcharges | Based on VAT paid |
| Corporate income tax (ii) | Based on taxable profits |

(i) Value-added tax

Based on the “Notice of the Comprehensive Launch of the Pilot Program for the Reform of Business Tax to Value-Added Tax” (Cai Shui [2016] No.36), “Notice of Further Clarification of Pilot Program for the Reform of Business Tax to Value-Added Tax in the Financial Industry” (Cai Shui [2016] No.46) and the “Supplementary Notice on Value-Added Tax Policies on Interbank Transactions of Financial Institutions” (Caishui [2016] No.70) and other regulations issued by the Ministry of Finance and the State Administration of Taxation, the Company’s income from its principal business has been subject to value-added tax at a tax rate of 6% since 1 May 2016.

Based on the "Notice on Clarifying Value-Added Tax Policies on Finance, Real Estate Development and Educational Auxiliary Services" (Cai Shui [2016] No.140), the "Supplementary Notice on Issues Related to Value-Added Tax Policies for Asset Management Products" (Cai Shui [2017] No.2) and the "Notice on Issues Concerning Value-Added Tax on Asset Management Products" (Caishui [2017] No.56) issued by the Ministry of Finance and the State Administration of Taxation, after 1 January 2018 (inclusive), for any VAT taxable activities that occur during the operation of asset management products of product manager of asset management (hereinafter referred to as “Manager”), the Manager should be regarded as the VAT payer and the simplified tax calculation method is temporarily applied, such that VAT is paid at a rate of 3%.

(ii) Corporate income tax

In 2019, in addition to the 5% tax rate applicable to the Company's domestic subsidiary Fuzhou Industrial Securities Property Management Co., Ltd.(福州兴证物业管理有限公司), the income tax rate of the remaining domestic subsidiaries of the Company and the Group in China is 25%. Any subsidiaries outside China shall pay income tax in accordance with local regulations.

# V. Business combination and consolidated financial statements

## 1 Information about the subsidiaries of the Company

### (1) Major subsidiaries acquired through self-establishment

| *Name of the Subsidiary* | *Registered place* | *Paid-in capital* | *Business nature* | *Proportion of equity held by the Company* | | *Proportion of voting rights of the Company* | |
|---|---|---|---|---|---|---|---|
| | | | | *Direct* | *Indirect* | *Direct* | *Indirect* |
| 1. • China Industrial Securities Capital Management Co., Ltd. (证创新资本管理有限公司) | Fuzhou | RMB700 million | Equity investment, financial advisory services | 100.00% | - | 100.00% | - |
| 1) Fujian Xingtan Private Equity Investment Management Co., Ltd. (福建省兴潭私募股权投资管理有限公司) | Pingtan, Fuzhou | RMB5 million | Equity investment management and advisory | - | 80.00% | - | 80.00% |
| 2) Zhuhai Industrial Securities Liuhe Venture Capital Management Co., Ltd. (珠海兴证六和创业投资管理有限公司) | Zhuhai | RMB1 million | Equity investment management and advisory | - | 56.00% | - | 56.00% |
| 2. Industrial Securities (Hong Kong) Financial Holdings Limited (hereinafter referred to as "Industrial Securities (Hong Kong)") (兴证(香港)金融控股有限公司) | Hong Kong | HKD2 billion | Investment holding | 100.00% | - | 100.00% | - |
| 1) Industrial Securities Consultancy Service (Shenzhen) Company Limited | Shenzhen | HKD10 million | Advisory services | - | 100.00% | - | 100.00% |
| 2) China Industrial Securities International Holdings Limited | Cayman Island | HKD1.975 billion | Investment holding | - | 100.00% | - | 100.00% |
| (1) China Industrial Securities International Financial Group Limited (hereinafter referred to as "Industrial Securities International") (Note 1) | Cayman Island | HKD400 million | Investment holding | - | 51.93% | - | 51.93% |
| (i) China Industrial Securities International Brokerage Limited (hereinafter referred to as "Industrial Securities International Brokerage") | Hong Kong | HKD3.5 billion | Securities transaction | - | 51.93% | - | 51.93% |
| (ii) China Industrial Securities International Asset Management Limited | Hong Kong | HKD20 million | Asset management | - | 51.93% | - | 51.93% |
| (iii) China Industrial Securities International Futures Limited | Hong Kong | HKD50 million | Futures brokerage business | - | 51.93% | - | 51.93% |

| *Name of the Subsidiary* | *Registered place* | *Paid-in capital* | *Business nature* | *Proportion of equity held by the Company* | | *Proportion of voting rights of the Company* | |
|---|---|---|---|---|---|---|---|
| | | | | *Direct* | *Indirect* | *Direct* | *Indirect* |
| (iv) China Industrial Securities International Capital Limited | Hong Kong | HKD20 million | Financing services | - | 51.93% | - | 51.93% |
| (v) China Industrial Securities International Finance Limited | Hong Kong | HKD210,000 | Loan business | - | 51.93% | - | 51.93% |
| (vi) China Industrial Securities International Investment Limited | Hong Kong | HKD20 million | Investments | - | 51.93% | - | 51.93% |
| - CISI Investment Limited | British Virgin Island | USD2.5 million | Proprietary investment | - | 51.93% | - | 51.93% |
| - CISI Capital Management Limited | British Virgin Island | USD1 | Proprietary investment | - | 51.93% | - | 51.93% |
| (vii) China Industrial Securities International Wealth Management Limited | Hong Kong | HKD1 million | Private wealth management | - | 51.93% | - | 51.93% |
| (2) Wisdom Creation International Limited (智创国际有限公司) | British Virgin Island | HKD200 | No business | - | 100.00% | - | 100.00% |
| 3) IS (Hong Kong) Investment Limited | British Virgin Island | USD1 | Special purpose entity | - | 100.00% | - | 100.00% |
| 3. INDUSTRIAL ASSETS MANAGEMENT CO.,LTD. (兴证证券资产管理有限公司) | Pingtan, Fuzhou | RMB800 million | Asset management | 100.00% | - | 100.00% | - |
| 4. China Industrial Securities Investment Management Co., Ltd.(兴证投资管理有限公司) | Pingtan, Fuzhou | RMB1.5 billion | Investment management services | 100.00% | - | 100.00% | - |
| 5. Shanghai Industrial Securities Management Consulting Co., Ltd. (上海兴证管理咨询有限公司) (Note 2) | Shanghai | - | Corporate management consulting and investment consulting etc. | - | - | - | - |
| 6. Fuzhou Industrial Securities Property Management Co., Ltd. (福州兴证物业管理有限公司) | Fuzhou | RMB500,000 | Property management service | 100.00% | - | 100.00% | - |
| 7. AEGON-INDUSTRIAL Capital Management ( Shanghai ) Co. Ltd. (上海兴全睿众资产管理有限公司) (Note 3) | Shanghai | RMB80 million | Asset management | - | 51.00% | - | 51.00% |
| 8. Industrial Securities Risk Management Co., Ltd. (兴证风险管理有限公司) (Note 4) | Shanghai | RMB200 million | Risk management service | - | 99.55% | - | 99.55% |

Note 1: China Industrial Securities International Financial Group Limited is a company listed on the main board of the Hong Kong Stock Exchange with stock code 6058.HK.

Note 2: AEGON-INDUSTRIAL Capital was established and wholly-owned by the Company in 2015. Its cancellation was completed on 27 September 2019.

Note 3: AEGON-INDUSTRIAL Capital Management (Shanghai ) Co. Ltd. is a 100% direct holding subsidiary established by AEGON-Industrial Fund Management Co., Ltd.(兴证全球基金管理有限公司), the Company's controlling subsidiary.

Note 4: Industrial Securities Risk Management Co., Ltd. is a 100% direct holding subsidiary established by China Industrial Securities Futures Co., Ltd.（兴证期货有限公司）, the Company's controlling subsidiary.

## (2) Major subsidiaries acquired through business combination not under common control

| *Name of the Subsidiary* | *Registered place* | *Paid-in capital* | *Business nature* | *Proportion of equity held by the Company* | | *Proportion of voting rights of the Company* | |
|---|---|---|---|---|---|---|---|
| | | | | *Direct* | *Indirect* | *Direct* | *Indirect* |
| AEGON-Industrial Fund Management Co., Ltd.兴证全球基金管理有限公司(formerly known as Xingquan Fund Management Co., Ltd.兴全基金管理有限公司 hereinafter referred to as "AEGON-Industrial Fund") | Shanghai | RMB150 million | Fund management business | 51.00% | - | 51.00% | - |
| China Industrial Securities Futures Co., Ltd.(兴证期货有限公司) (hereinafter referred to as “Industrial Futures 兴证期货”) | Fuzhou | RMB1.2 billion | Futures brokerage business | 99.55% | - | 99.55% | - |

2. Structured entities or business entities that form control rights through entrusted operations

   The Group manages or invests in multiple structured entities, mainly including contractual funds (including private equity funds), bank wealth management products, asset management plans, trust plans and limited partnerships. In order to determine whether to control this type of structured entity, the Group mainly evaluates the overall economic benefits (including income from direct holding and expected management fees) that it enjoys by participating in the decision-making of and its involvement in establishing the relevant structured entity and related contract arrangements, as well as its scope of decision-making power for this type of structured entity. If the Group has power to this type of structured entity through investment contracts and other arrangements, enjoys variable returns by participating in the relevant activities of the structured entity, and has the ability to use the power of the group to affect the variable returns of this type of structured entity, the Group believes that it can control such structured entities and includes such structured entities into the scope of consolidated financial statements.

   As at 31 December 2019 and 31 December 2018, the total net assets of the structured entities included in the consolidation scope of the Group were RMB12.01 billion and RMB10.491 billion respectively. As at 31 December 2019, the equity of the Company and its subsidiaries in the structured entities above was reflected in their respective balance sheets for transactional financial assets of RMB8.725 billion and long-term equity investments of RMB220 million. As at 31 December 2018, the equity of the Company and its subsidiaries in the structured entities above was reflected in their respective balance sheets as the financial assets measured at fair value through profit and loss of RMB1.923 billion, the available-for-sale financial assets of RMB6.195 billion and the long-term equity investment of RMB243 million.

   On 31 December 2019 and 31 December 2018, the Group believed that the structured entities above were under the control of the Group, and therefore included them in the scope of the consolidated financial statements.

3. Subsidiaries included in the scope of consolidated financial statements but whose parent company has half or less of the voting rights

   As at 31 December 2019 and 31 December 2018, the Group did not have any significant subsidiaries that were included in the consolidated financial statements but whose parent company had half or less of its voting rights.

4. The investee that the Company has more than half of the voting rights but fails to control it

   As at 31 December 2019 and 31 December 2018, the Group had no significant investees that held more than half of the voting rights but failed to control them.

5. Explanation of changes in the scope of consolidation

   In 2019, with the exception of the subsidiaries and structured entities included in the consolidation scope described in Notes V.1 and V.2 and the cancelled subsidiaries described in Notes V.6, there were no other major changes in the Group's consolidation scope.

6. Subsidiaries whose consolidation scope has changed this year

(1) Significant subsidiaries newly included in the consolidation scope this year

The Group has no significant subsidiaries newly included in the consolidation scope this year.

(2) Subsidiaries not included in the consolidation scope this year

In September 2019, the Company's subsidiary Shanghai Industrial Securities Management Consulting Co., Ltd. (上海兴证管理咨询有限公司) was cancelled according to law.

7. Business combinations involving entities under common control during the year

The Group did not have any significant business combination under common control during the year.

8. Business combinations involving entities not under common control during the year

The Group did not have any significant business combination not under common control during the year.

9. The exchange rate of translating the primary items of statement of overseas operating entities

| | *2019* | *2018* |
|---|---|---|
| USD | 6.97620 | 6.86320 |
| HKD | 0.89578 | 0.87620 |

VI. Notes to the consolidated financial statements

1. Cash at bank and on hand

(1) By category

| | *31 December 2019* *RMB* | *31 December 2018* *RMB* |
|---|---|---|
| Cash on hand | 53,544.00 | 243,200.00 |
| Deposits with banks | 47,577,230,581.09 | 27,253,238,872.77 |
| Including: Customer deposits | 25,536,800,242.34 | 20,256,135,192.40 |
| Corporate deposits | 22,040,430,338.75 | 6,997,103,680.37 |
| Other monetary funds | 60,197,703.44 | 59,918,342.25 |
| Less: Provision for impairment | (344,816.72) | - |
| Total | 47,637,137,011.81 | 27,313,400,415.02 |

As at 31 December 2019, cash at bank and on hand include deposits with banks and interests of RMB 326,562,701.72 (31 December 2018: 145,190,416.05) in the fund-raising account which the Company as the custodian of the asset management products.

(2) By currencies

| | *31 December 2019* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Cash on hand | | | 53,544.00 |
| Including: RMB | 53,544.00 | 1.00000 | 53,544.00 |
| Deposits with banks | | | 47,577,230,581.09 |
| Including: Corporate deposits | | | 22,040,430,338.75 |
| Including: RMB | 15,230,182,801.95 | 1.00000 | 15,230,182,801.95 |
| USD | 916,041,184.25 | 6.97620 | 6,390,486,509.54 |
| HKD | 466,454,422.96 | 0.89578 | 417,840,543.00 |
| Others | | | 1,920,484.26 |
| Customers' deposits | | | 25,536,800,242.34 |
| Including: RMB | 23,938,384,328.06 | 1.00000 | 23,938,384,328.06 |
| USD | 11,114,351.57 | 6.97620 | 77,535,939.43 |
| HKD | 1,694,325,968.20 | 0.89578 | 1,517,743,315.79 |
| Others | | | 3,136,659.06 |
| Other monetary funds | | | 60,197,703.44 |
| Including: RMB | 60,197,703.44 | 1.00000 | 60,197,703.44 |
| Sub-total | | | 47,637,481,828.53 |
| Less: Provision for impairment | | | (344,816.72) |
| Total | | | 47,637,137,011.81 |

Including, Margin trading and securities lendings

| | *31 December 2019* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Corporate deposits for margin trading | | | 671,984,621.84 |
| Including: RMB | 671,984,621.84 | 1.00000 | 671,984,621.84 |
| Customers' deposits for margin trading | | | 1,860,562,805.79 |
| Including: RMB | 1,860,562,805.79 | 1.00000 | 1,860,562,805.79 |
| Total | | | 2,532,547,427.63 |

| | *31 December 2018* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Cash on hand | | | 243,200.00 |
| Including: RMB | 243,200.00 | 1.00000 | 243,200.00 |
| Deposits with banks | | | 27,253,238,872.77 |
| Including: Corporate deposits | | | 6,997,103,680.37 |
| Including: RMB | 5,709,929,092.21 | 1.00000 | 5,709,929,092.21 |
| USD | 81,592,032.47 | 6.86320 | 559,982,437.24 |
| HKD | 827,736,977.38 | 0.87620 | 725,263,139.58 |
| Others | | | 1,929,011.34 |
| Customers' deposits | | | 20,256,135,192.40 |
| Including: RMB | 15,813,010,724.65 | 1.00000 | 15,813,010,724.65 |
| USD | 326,641,327.23 | 6.86320 | 2,241,804,757.04 |
| HKD | 2,414,844,309.73 | 0.87620 | 2,115,886,584.19 |
| Others | | | 85,433,126.52 |
| Other monetary funds | | | 59,918,342.25 |
| Including: RMB | 59,918,342.25 | 1.00000 | 59,918,342.25 |
| Total | | | 27,313,400,415.02 |

Including, Margin trading and securities lendings

| | *31 December 2018* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Corporate deposits for margin trading | | | 629,803,166.74 |
| Including: RMB | 629,803,166.74 | 1.00000 | 629,803,166.74 |
| Customers' deposits for margin trading | | | 1,565,831,198.01 |
| Including: RMB | 1,565,831,198.01 | 1.00000 | 1,565,831,198.01 |
| Total | | | 2,195,634,364.75 |

(3) Cash at bank and on hand with restricted usage

As at 31 December 2019, the Group's cash at bank and on hand with restricted usage was mainly general risk reserve of fund companies under the Company, totalling RMB 1,286,219,593.40 (31 December 2018: RMB 1,054,716,055.06).

2. Clearing settlement funds

(1) By category

| | *31 December 2019* *Amount in RMB* | *31 December 2018* *Amount in RMB* |
|---|---|---|
| Corporate deposits | 823,108,302.73 | 1,694,691,496.55 |
| Customer deposits | 5,817,385,083.44 | 4,332,630,174.55 |
| Total | 6,640,493,386.17 | 6,027,321,671.10 |

(2) By currency

| | *31 December 2019* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Corporate deposits | | | 823,108,302.73 |
| Including: RMB | 823,108,302.73 | 1.00000 | 823,108,302.73 |
| Customer ordinary deposits | | | 5,510,239,903.20 |
| Including: RMB | 5,477,217,692.02 | 1.00000 | 5,477,217,692.02 |
| USD | 3,645,275.10 | 6.97620 | 25,430,168.15 |
| HKD | 8,475,343.31 | 0.89578 | 7,592,043.03 |
| Customer credit deposits | | | 307,145,180.24 |
| Including: RMB | 307,145,180.24 | 1.00000 | 307,145,180.24 |
| Total | | | 6,640,493,386.17 |

| | *31 December 2018* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Corporate deposits | | | 1,694,691,496.55 |
| Including: RMB | 1,694,691,496.55 | 1.00000 | 1,694,691,496.55 |
| Customer ordinary deposits | | | 3,884,164,599.83 |
| Including: RMB | 3,858,603,660.02 | 1.00000 | 3,858,603,660.02 |
| USD | 2,420,780.06 | 6.86320 | 16,614,297.71 |
| HKD | 10,210,730.54 | 0.87620 | 8,946,642.10 |
| Customer credit deposits | | | 448,465,574.72 |
| Including: RMB | 448,465,574.72 | 1.00000 | 448,465,574.72 |
| Total | | | 6,027,321,671.10 |

3. Margin accounts

(1) By category

| | *31 December 2019 RMB* | *31 December 2018 RMB* |
|---|---|---|
| Securities margin trading | 17,406,617,203.63 | 12,425,341,687.44 |
| Margin financing (Note) | 3,709,652,369.36 | 5,343,371,112.69 |
| Less: Provision for impairment | (381,206,245.33) | (276,590,408.04) |
| Net value of receivable from margin clients | 20,735,063,327.66 | 17,492,122,392.09 |

Note: In 2019, a subsidiary of the Company transferred the earning right of part of the receivables of margin financing business by issuing structured notes to third parties, and derecognised of the relevant receivables of margin financing business (see Note XIII. 2(6) for detail).

(2) By ageing

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *Book value* | | *Provision for bad and doubtful debts* | |
| | *Amount* | *Percentage (%)* | *Amount* | *Percentage (%)* |
| 1 - 3 months | 8,800,482,748.97 | 41.68 | 7,964,338.73 | 0.09 |
| 3 - 6 months | 2,783,770,809.32 | 13.18 | 2,529,944.12 | 0.09 |
| More than 6 months | 9,532,016,014.70 | 45.14 | 370,711,962.48 | 3.89 |
| Total | 21,116,269,572.99 | 100.00 | 381,206,245.33 | 1.81 |

| | *31 December 2018* | | | |
|---|---|---|---|---|
| | *Book value* | | *Provision for bad and doubtful debts* | |
| | *Amount* | *Percentage (%)* | *Amount* | *Percentage (%)* |
| 1 - 3 months | 4,658,162,495.23 | 26.22 | 3,158,478.60 | 0.07 |
| 3 - 6 months | 2,513,084,052.21 | 14.14 | 1,576,961.27 | 0.06 |
| More than 6 months | 10,597,466,252.69 | 59.64 | 271,854,968.17 | 2.57 |
| Total | 17,768,712,800.13 | 100.00 | 276,590,408.04 | 1.56 |

(3) By customer type

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Domestic | | |
| Including: Individuals | 15,705,763,662.77 | 11,266,000,200.58 |
| Institutions | 1,700,853,540.86 | 1,159,341,486.86 |
| Less: Provision for impairment | (17,187,349.23) | (12,425,341.69) |
| Sub-total of carrying amount | 17,389,429,854.40 | 12,412,916,345.75 |
| Overseas | | |
| Including: Individuals | 2,417,093,651.36 | 3,627,459,631.41 |
| Institutions | 1,292,558,718.00 | 1,715,911,481.28 |
| Less: Provision for impairment | (364,018,896.10) | (264,165,066.35) |
| Sub-total of carrying amount | 3,345,633,473.26 | 5,079,206,046.34 |
| Total | 20,735,063,327.66 | 17,492,122,392.09 |

(4) Fair value of collaterals

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Cash | 1,955,770,455.26 | 1,651,456,680.41 |
| Bonds | 1,249,642,091.96 | 1,087,604,045.38 |
| Stocks | 67,429,905,606.57 | 50,544,442,328.41 |
| Funds | 581,949,830.22 | 429,149,563.15 |
| Total | 71,217,267,984.01 | 53,712,652,617.35 |

## 4. Derivative financial instruments

| | *31 December 2019* | | | | | |
|---|---|---|---|---|---|---|
| | *Derivative financial instruments used as hedges* | | | *Derivative financial instruments used as non-hedges* | | |
| | | *Fair value* | | | *Fair value* | |
| | *Notional amount* | *Assets* | *Liabilities* | *Notional amount* | *Assets* | *Liabilities* |
| **Interest rate derivatives** | | | | | | |
| -Interest rate swap contracts | - | - | - | 3,580,000,000.00 | 739,935.39 | - |
| - Treasury bond future contracts | - | - | - | 924,257,518.04 | - | - |
| **Currency derivatives** | | | | | | |
| -Currency swap contracts | - | - | - | 1,883,364,461.19 | 3,525,985.02 | (78,380.75) |
| **Equity derivatives** | | | | | | |
| -Stock index future contracts | - | - | - | 789,507,840.00 | - | - |
| -Equity income swaps | - | - | - | 16,000,000.00 | 1,358.90 | - |
| -Stock index option contracts | - | - | - | 720,284,756.04 | 10,043,390.81 | (9,857,251.84) |
| -Over-the-counter option contracts | - | - | - | 29,990,000.00 | 9,328.66 | - |
| **Credit derivatives** | **-** | **-** | **-** | **1,604,371,540.74** | **1,059,994.33** | **(7,578,313.01)** |
| **Other derivative instruments** | | | | | | |
| -Commodity future contracts | - | - | - | 4,036,464,135.00 | - | - |
| -Commodity option contracts | - | - | - | 106,222,500.00 | - | (509,499.00) |
| -Foreign exchange future contract | - | - | - | 209,233,524.44 | - | - |
| Total | - | - | - | 13,899,696,275.45 | 15,379,993.11 | (18,023,444.60) |

| | *31 December 2018* | | | | | |
|---|---|---|---|---|---|---|
| | *Derivative financial instruments used as hedges* | | | *Derivative financial instruments used as non-hedges* | | |
| | | *Fair value* | | | *Fair value* | |
| | *Notional amount* | *Assets* | *Liabilities* | *Notional amount* | *Assets* | *Liabilities* |
| **Interest rate derivatives** | | | | | | |
| -Interest rate swap contracts | - | - | - | 2,140,000,000.00 | 296,149.53 | (296,149.53) |
| -Treasury bond future contracts | - | - | - | 3,133,045,492.00 | - | - |
| **Equity derivatives** | | | | | | |
| -Stock index future contracts | - | - | - | 98,852,380.50 | - | - |
| **Credit derivatives** | **-** | **-** | **-** | **1,753,776,000.00** | **2,407,548.89** | **(10,408,840.41)** |
| **Other derivative instruments** | | | | | | |
| -Commodity future contracts | - | - | - | 885,275,225.00 | - | - |
| -Commodity option contracts | - | - | - | 6,339,600.00 | - | (144,817.20) |
| -Foreign exchange future contract | - | - | - | 103,090,559.48 | - | - |
| -Future derivatives | - | - | - | 216,909,923.69 | 2,035,023.54 | - |
| Total | - | - | - | 8,337,289,180.67 | 4,738,721.96 | (10,849,807.14) |

### Derivative financial instruments offset

| | *31 December 2019* | | | *31 December 2018* | | |
|---|---|---|---|---|---|---|
| | *Total before offsetting* | *Amount offset* | *Net amount after offsetting* | *Total before offsetting* | *Amount offset* | *Net amount after offsetting* |
| Interest rate swap contracts | (13,496,959.25) | 13,496,959.25 | - | (15,534,450.29) | 15,534,450.29 | - |
| Treasury bond future contracts | 809,706.37 | (809,706.37) | - | (6,771,019.50) | 6,771,019.50 | - |
| Stock index future contracts | (4,125,954.80) | 4,125,954.80 | - | 176,350.05 | (176,350.05) | - |
| Commodity future contracts | (27,149,730.00) | 27,149,730.00 | - | (2,866,575.00) | 2,866,575.00 | - |
| Foreign exchange future contract | (1,963,488.61) | 1,963,488.61 | - | (238,328.06) | 238,328.06 | - |
| Total | (45,926,426.29) | 45,926,426.29 | - | (25,234,022.80) | 25,234,022.80 | - |

Under the daily mark-to-market and settlement arrangement, any changes in the Group's fair value in treasury bond futures, interest rate swaps, stock index futures, commodity futures and foreign exchange futures were settled daily and were included in Clearing settlement funds. Therefore, derivative financial assets and treasury bond futures, interest rate swaps, stock index futures, commodity futures and foreign exchange futures investments under derivative financial liabilities are listed according to the net amount after offsetting relevant temporary receipt and payment.

5. Refundable deposits

(1) By category

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Trading margin | 3,869,037,963.44 | 2,600,309,551.33 |
| Credit deposits | 23,793,304.75 | 18,119,109.83 |
| Performance security | 281,843,503.25 | 398,379,189.72 |
| Total | 4,174,674,771.44 | 3,016,807,850.88 |

(2) By currency

| | *31 December 2019* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Trading margin | | | 3,869,037,963.44 |
| Including: RMB | 3,719,449,846.42 | 1.00000 | 3,719,449,846.42 |
| USD | 19,799,791.04 | 6.97620 | 138,127,302.26 |
| HKD | 12,794,229.34 | 0.89578 | 11,460,814.76 |
| Credit deposits | | | 23,793,304.75 |
| Including: RMB | 23,793,304.75 | 1.00000 | 23,793,304.75 |
| Performance security | | | 281,843,503.25 |
| Including: RMB | 269,609,886.73 | 1.00000 | 269,609,886.73 |
| HKD | 13,656,943.13 | 0.89578 | 12,233,616.52 |
| Total | | | 4,174,674,771.44 |

| | *31 December 2018* | | |
|---|---|---|---|
| | *Amount in original currency* | *Exchange rate* | *Amount in RMB* |
| Trading margin | | | 2,600,309,551.33 |
| Including: RMB | 2,278,695,986.81 | 1.00000 | 2,278,695,986.81 |
| USD | 45,311,702.82 | 6.86320 | 310,983,278.79 |
| HKD | 12,132,259.45 | 0.87620 | 10,630,285.73 |
| Credit deposits | | | 18,119,109.83 |
| Including: RMB | 18,119,109.83 | 1.00000 | 18,119,109.83 |
| Performance security | | | 398,379,189.72 |
| Including: RMB | 386,509,352.80 | 1.00000 | 386,509,352.80 |
| HKD | 13,546,949.23 | 0.87620 | 11,869,836.92 |
| Total | | | 3,016,807,850.88 |

(3) Restricted refundable deposits

As at 31 December 2019, the Group's refundable deposits as collaterals under refinancing agreement was RMB 134,283,568.90 in total (31 December 2018: RMB 247,457,514.60).

6. Accounts receivable

(1) By detail

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Settlement receivables | 1,700,722,894.19 | 1,591,450,106.48 |
| Fee and commission receivables | 714,234,353.61 | 678,574,224.03 |
| Others | 5,255,572.96 | - |
| Sub-total | 2,420,212,820.76 | 2,270,024,330.51 |
| Less: Provision for bad and doubtful debts (provision made using a simplified model) | (8,126,460.08) | (11,611,218.45) |
| Total | 2,412,086,360.68 | 2,258,413,112.06 |

(2) The ageing analysis is as follows:

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within 1 year | 2,349,437,725.47 | 97.08 | 2,384,555.36 | 0.10 |
| 1 - 2 years | 52,119,666.87 | 2.15 | 3,453,406.09 | 6.63 |
| 2 - 3 years | 15,504,767.97 | 0.64 | 988,043.86 | 6.37 |
| Over 3 years | 3,150,660.45 | 0.13 | 1,300,454.77 | 41.28 |
| Total | 2,420,212,820.76 | 100.00 | 8,126,460.08 | 0.34 |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within 1 year | 2,221,422,672.36 | 97.86 | 4,597,870.05 | 0.21 |
| 1 - 2 years | 34,026,627.43 | 1.50 | 3,635,188.90 | 10.68 |
| 2 - 3 years | 13,171,378.23 | 0.58 | 2,676,333.25 | 20.32 |
| Over 3 years | 1,403,652.49 | 0.06 | 701,826.25 | 50.00 |
| Total | 2,270,024,330.51 | 100.00 | 11,611,218.45 | 0.51 |

The ageing is counted starting from the date when receivables are recognised.

(3) By impairment assessment method

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually assessed for impairment | 317,882.69 | 0.01 | 317,882.69 | 100.00 |
| Collectively assessed for impairment | 2,419,894,938.07 | 99.99 | 7,808,577.39 | 0.32 |
| Total | 2,420,212,820.76 | 100.00 | 8,126,460.08 | 0.34 |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually assessed for impairment | 310,934.40 | 0.01 | 310,934.40 | 100.00 |
| Collectively assessed for impairment | 2,269,713,396.11 | 99.99 | 11,300,284.05 | 0.50 |
| Total | 2,270,024,330.51 | 100.00 | 11,611,218.45 | 0.51 |

(4) Additions, recoveries or reversals of provision for bad and doubtful debts during the year

(a) Movements of provision for bad and doubtful debts for the year

See Note VI. 21.

(b) Significant recoveries or reversals during the year

The Group has no significant recoveries or reversals during the year.

(c) Significant receivables written off during the year

The Group has no significant receivables written off during the year.

(5) Five largest accounts receivable

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *Nature* | *Amount* | *Ageing* | *Percentage of total receivables (%)* |
| Euroclear Bank S.A./N.V. | Settlement receivables | 548,676,457.64 | Within 1 year | 22.67 |
| Hong Kong Securities Clearing Company Ltd. | Settlement receivables | 479,770,535.95 | Within 1 year | 19.82 |
| Marex Hong Kong Limited | Settlement receivables | 65,426,426.44 | Within 1 year | 2.70 |
| AEGON-Industrial Fund Heyi Agile Hybrid Fund (兴全合宜灵活配置混合型证券投资基金（LOF）) | asset management fees receivable | 46,640,565.72 | Within 1 year | 1.93 |
| Phillip Securities (Hong Kong) Limited | Settlement receivables | 43,087,089.92 | Within 1 year | 1.78 |
| Total | | 1,183,601,075.67 | | 48.90 |

| | *31 December 2018* | | | |
|---|---|---|---|---|
| | *Nature* | *Amount* | *Ageing* | *Percentage of total receivables (%)* |
| Euroclear Bank S.A./N.V. | Settlement receivables | 229,883,738.38 | Within 1 year | 10.13 |
| Nomura International PLC | Settlement receivables | 194,077,279.81 | Within 1 year | 8.55 |
| Xinghua Urban Construction Investment Co.,Ltd (兴化市城市建设投资有限公司) | Settlement receivables | 100,000,000.00 | Within 1 year | 4.41 |
| Hong Kong Securities Clearing Company Ltd. | Settlement receivables | 91,233,197.77 | Within 1 year | 4.02 |
| Right Time Global Investment SPC- for the account of Right Time New Era Investment SPC | Settlement receivables | 86,674,906.76 | Within 1 year | 3.82 |
| Total | | 701,869,122.72 | | 30.93 |

7. Financial assets held under resale agreements

(1) By types of underlying assets

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Stocks | 8,488,146,732.61 | 20,773,956,300.49 |
| Bonds | 1,128,550,316.47 | 1,053,181,550.00 |
| Equity investment | 81,882,383.58 | - |
| Sub-total | 9,698,579,432.66 | 21,827,137,850.49 |
| Less: Provision for impairment | (1,070,709,977.65) | (691,930,798.52) |
| Total | 8,627,869,455.01 | 21,135,207,051.97 |

(2) By class of business

| | *Note* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Securities-backed lending repurchase | (a) | 8,487,881,929.52 | 20,741,819,240.49 |
| Contractual repurchased securities | (b) | - | 32,137,060.00 |
| Bonds-backed lending repurchase | | 290,448,933.84 | 1,053,181,550.00 |
| Other bond repurchase | | 920,248,569.30 | - |
| Sub-total | | 9,698,579,432.66 | 21,827,137,850.49 |
| Less: Provision for impairment | | (1,070,709,977.65) | (691,930,798.52) |
| Total | | 8,627,869,455.01 | 21,135,207,051.97 |

(a) Remaining maturity and balance of bonds-backed lending repurchase of financial assets held under resale agreements are analysed as follows:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Within 1 month | 3,501,884,908.03 | 3,018,513,397.94 |
| 1 - 3 months | 1,290,672,379.80 | 3,359,945,288.00 |
| 3 months - 1 year | 3,120,011,976.77 | 11,772,205,454.49 |
| Over 1 year | 575,312,664.92 | 2,591,155,100.06 |
| Sub-total | 8,487,881,929.52 | 20,741,819,240.49 |
| Less: Provision for impairment | (1,069,822,483.53) | (691,898,661.46) |
| Total | 7,418,059,445.99 | 20,049,920,579.03 |

(b) Remaining maturity and balance of agreed repurchase type securities of financial assets held under resale agreements are analysed as follows:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| 1 - 3 months | - | 19,947,050.00 |
| 3 months - 1 year | - | 12,190,010.00 |
| Sub-total | - | 32,137,060.00 |
| Less: Provision for impairment | - | (32,137.06) |
| Total | - | 32,104,922.94 |

(3) Collaterals

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Collaterals | 21,940,423,096.74 | 41,054,629,340.10 |
| Including: Available-for-sale or repledged collaterals | - | - |
| Including: Sold or repledged collaterals | - | - |

Note: For treasury bond reverse repurchase transactions operated by the exchange, because it is the full value of the collateral automatically calculated and merged by the exchange, information of counter party's pledge database cannot be obtained. Therefore, the amount could not be disclosed, and fair value of the collateral assets obtained by the exchange's treasury bond reverse repurchase is not included in this amount. As at 31 December 2019, the balance of financial assets held under resale agreements guaranteed was RMB 190,315,122.87 (31 December 2018: RMB 698,001,550.00).

(4) Bonds-backed lending repurchase by impairment stage

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *12-month ECL* | *Lifetime ECL (Not credit impaired)* | *Lifetime ECL (Credit impaired)* | *Total* |
| Book value | 5,564,801,728.57 | 37,801,928.00 | 2,885,278,272.95 | 8,487,881,929.52 |
| Provision for impairment | (54,744,576.58) | (271,811.63) | (1,014,806,095.32) | (1,069,822,483.53) |
| Carrying amount | 5,510,057,151.99 | 37,530,116.37 | 1,870,472,177.63 | 7,418,059,445.99 |
| Value of collaterals | 17,882,589,726.06 | 129,119,562.72 | 2,055,863,782.23 | 20,067,573,071.01 |

## 8. Financial assets held for trading

(1) By item

| | *31 December 2018* |
|---|---|
| Financial assets held for trading | 38,840,106,021.36 |
| Financial assets designated at fair value through profit or loss | 1,634,160,459.11 |
| Total | 40,474,266,480.47 |

(2) By category

| | *31 December 2018* | | | | | |
|---|---|---|---|---|---|---|
| | *Fair value* | | | *Initial investment cost* | | |
| | *Financial assets held for trading* | *Financial assets designated at fair value through profit or loss* | *Total fair value* | *Financial assets held for trading* | *Financial assets designated at fair value through profit or loss* | *Total initial investment cost* |
| Bonds | 22,920,318,203.75 | - | 22,920,318,203.75 | 23,152,197,970.25 | - | 23,152,197,970.25 |
| Stocks | 5,292,110,961.46 | - | 5,292,110,961.46 | 6,032,299,444.69 | - | 6,032,299,444.69 |
| Funds | 10,627,676,856.15 | - | 10,627,676,856.15 | 10,693,995,128.89 | - | 10,693,995,128.89 |
| Others | | | | | | |
| Including: Other equity instruments | - | 1,422,645,704.67 | 1,422,645,704.67 | - | 1,503,630,795.11 | 1,503,630,795.11 |
| Debt instruments | - | 211,514,754.44 | 211,514,754.44 | - | 207,108,912.39 | 207,108,912.39 |
| Total | 38,840,106,021.36 | 1,634,160,459.11 | 40,474,266,480.47 | 39,878,492,543.83 | 1,710,739,707.50 | 41,589,232,251.33 |

(3) Securities lending of financial assets held for trading

The Group has no securities lent among balance of financial assets at fair value through profit or loss.

(4) Financial assets held for trading with realisation restriction

| | *Restrictions* | *31 December 2018* |
|---|---|---|
| Bonds | Repurchase agreement business as collaterals | 12,366,158,536.90 |
| Bonds | Bond loans as collaterals | 475,629,105.00 |
| Bonds | Pledged loans as collaterals | 1,241,701,721.50 |
| Stocks | With restriction on sales term | 47,221,854.41 |

9. Available-for-sale financial assets

(1) Available-for-sale financial assets

| | | *31 December 2018* | | | |
|---|---|---|---|---|---|
| | *Note* | *Initial cost* | *Movements in fair value* | *Provision for impairment* | *Carrying amount* |
| Bonds | | 25,585,142,136.14 | 67,701,357.62 | (43,706,817.36) | 25,609,136,676.40 |
| Stocks | | 391,338,523.87 | 39,279,308.08 | (34,473,236.75) | 396,144,595.20 |
| Asset management plan of securities firms | | 716,406,065.98 | 13,888,919.87 | (5,275,350.46) | 725,019,635.39 |
| Funds and fund segregated account plans | | 745,462,585.31 | (18,882,316.63) | (4,220,795.06) | 722,359,473.62 |
| Equity investment | (a) | 1,048,344,540.12 | - | (80,000.00) | 1,048,264,540.12 |
| Others | (b) | 2,694,770,359.15 | (53,274,304.59) | - | 2,641,496,054.56 |
| Total | | 31,181,464,210.57 | 48,712,964.35 | (87,756,199.63) | 31,142,420,975.29 |

(a) Certain unlisted equity instruments investments are measured at cost as they have not been traded in any market and the fair value cannot be reliably measured.

(b) As at 31 December 2018, the above available-for-sale financial assets include the Company's investment, with various PRC securities firms, to designated accounts operated and managed by China Securities Finance Corporation Limited (CSF). Risk and reward arising from the investment of the designated accounts shall be shared by the relevant securities firms according to the proportion of their respective contribution, which is uniformly operated and managed by CSF. As at 31 December 2018, the fair value at the end of the period of the Company's investment recognised by the Company were RMB 2,377,443,304.70, based on the asset report provided by CSF.

(2) As at 31 December 2018, cost (amortised cost), fair value, cumulative fair value changes recognised in other comprehensive income and provision for impairment of available-for-sale financial assets:

| | *Available-for-sale equity instruments* | *Available-for-sale debt instruments* | *Total* |
|---|---|---|---|
| Cost of equity instruments / amortised cost of debt instruments | 5,596,322,074.43 | 25,585,142,136.14 | 31,181,464,210.57 |
| Fair value | 5,533,284,298.89 | 25,609,136,676.40 | 31,142,420,975.29 |
| Cumulative fair value changes recognised in other comprehensive income | (18,988,393.27) | 67,701,357.62 | 48,712,964.35 |
| Provision for impairment | 44,049,382.27 | 43,706,817.36 | 87,756,199.63 |

(3) Movements in impairment of available-for-sale financial assets are as follows

| | *2018* | | |
|---|---|---|---|
| | *Available-for-sale equity instruments* | *Available-for-sale debt instruments* | *Total* |
| Balance at the beginning of the year | 10,185,539.72 | - | 10,185,539.72 |
| Charge for the year | 34,334,424.02 | 43,706,817.36 | 78,041,241.38 |
| Including: Amount transferred from other comprehensive income | 34,334,424.02 | 43,706,817.36 | 78,041,241.38 |
| Decrease during the year | (470,581.47) | - | (470,581.47) |
| Balance at the end of the year | 44,049,382.27 | 43,706,817.36 | 87,756,199.63 |

(4) Available-for-sale financial assets with realisation restrictions

| | *Restrictions* | *31 December 2018* |
|---|---|---|
| Bonds | Repurchase agreement business as collaterals | 15,932,147,413.95 |
| Bonds | Bond loans as collaterals | 2,028,685,849.00 |
| Bonds | Pledged loans as collaterals | 295,522,672.79 |
| Stocks | Securities lent | 26,904,368.60 |
| Asset management product of securities firms | Collective asset management plan subscribed as manager | 154,050,930.59 |

(5) Securities lending in available-for-sale financial assets

For securities lent of the Group, see Note VI. 13.

## 10. Financial assets at fair value through profit or loss

### (1) By category

| | 31 December 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Fair value | | | Initial investment cost | | |
| | *Financial assets classified as measured at FVTPL* | *Financial assets designated at FVTPL* | *Total fair value* | *Financial assets classified as measured at FVTPL* | *Financial assets designated at FVTPL* | *Total initial cost* |
| Bonds | 23,043,033,940.27 | - | 23,043,033,940.27 | 22,752,589,026.31 | - | 22,752,589,026.31 |
| Public funds | 9,948,329,365.89 | - | 9,948,329,365.89 | 9,830,770,034.68 | - | 9,830,770,034.68 |
| Stocks | 9,397,151,597.58 | - | 9,397,151,597.58 | 8,731,998,788.48 | - | 8,731,998,788.48 |
| Wealth management products of banks | 1,511,686,025.21 | - | 1,511,686,025.21 | 1,506,327,973.92 | - | 1,506,327,973.92 |
| Asset management product of securities firms | 801,406,456.67 | - | 801,406,456.67 | 798,403,875.21 | - | 798,403,875.21 |
| Trust schemes | 472,628,205.87 | - | 472,628,205.87 | 460,722,764.19 | - | 460,722,764.19 |
| Asset management plans and others | 3,375,544,694.15 | - | 3,375,544,694.15 | 2,873,236,670.34 | - | 2,873,236,670.34 |
| Total | 48,549,780,285.64 | - | 48,549,780,285.64 | 46,954,049,133.13 | - | 46,954,049,133.13 |

### (2) Securities lending in financial assets at fair value through profit or loss

The Group's balance of financial assets at fair value through profit or loss include securities lent. Please see Note VI. 13 for details.

### (3) Financial assets at fair value through profit or loss with realisation restrictions

| | *Restrictions* | *31 December 2019* |
|---|---|---|
| Bonds | Repurchase agreement business as collaterals | 13,632,709,158.16 |
| Bonds | Bond loans as collaterals | 62,325,275.34 |
| Stocks | With restriction on sales term | 527,689,444.70 |
| Stocks | Securities lent | 33,746,098.18 |
| Funds | Funds lent | 44,963,387.00 |
| Asset management product of securities firms | Collective asset management plan subscribed as manager | 132,095,763.41 |

11. Debt securities at fair value through other comprehensive income

(1) By category

| | *31 December 2019* | | | | |
|---|---|---|---|---|---|
| | *Initial cost* | *Interest* | *Movements in fair value* | *Carrying amount* | *Accumulated provision for impairment* |
| Local bonds | 100,000,000.00 | 1,733,506.85 | - | 101,733,506.85 | (13,918.20) |
| Financial bonds | 1,736,741,449.66 | 37,401,654.54 | 19,274,850.34 | 1,793,417,954.54 | (213,490.08) |
| Corporate bonds | 12,530,001,659.54 | 357,778,656.01 | 255,649,710.46 | 13,143,430,026.01 | (7,872,658.26) |
| Medium-term notes | 1,320,617,640.42 | 46,467,500.00 | 62,505,169.58 | 1,429,590,310.00 | (799,364.53) |
| Corporate bonds | 6,031,471,135.99 | 170,845,832.55 | 9,197,553.88 | 6,211,514,522.42 | (51,382,261.62) |
| Others | 298,070,138.10 | 15,487,600.00 | 3,142,411.90 | 316,700,150.00 | (453,580.34) |
| Total | 22,016,902,023.71 | 629,714,749.95 | 349,769,696.16 | 22,996,386,469.82 | (60,735,273.03) |

(2) Debt securities at fair value through other comprehensive income with realisation restrictions

| | *Restrictions* | *2019* |
|---|---|---|
| Bonds | Repurchase agreement business as collaterals | 16,297,931,470.17 |
| Bonds | Bond loans as collaterals | 1,590,165,844.25 |

For the Group's security lending business, see Note XII. 3.

12. Equity securities not held for trading

| | | *31 December 2019* | |
|---|---|---|---|
| | *Note* | *Initial cost* | *Fair value at the end of the period* |
| Equity instruments not held for trading | (1) | 2,434,000,000.00 | 2,495,987,365.42 |

(1) As at 31 December 2019, the above equity instrument investments include the Group's investment, with various PRC securities firms, to designated accounts operated and managed by China Securities Finance Corporation Limited (CSF). Risk and reward arising from the investment of the designated accounts shall be shared by the relevant securities firms according to the proportion of their respective contribution, which is uniformly operated and managed by CSF. The Group irrevocably designated the other equity instrument investments at financial assets at fair value through other comprehensive income as the Group managed the account for a non-trading purpose. As at 31 December 2019, the fair value at the end of the period of the Group's investment recognised by the Group were RMB 2,495,987,365.42, based on the asset report provided by CSF (please see Note VI. 9 for the accounting of the above financial assets as at 31 December 2018).

13. Securities lending

(1) Analysed by item

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Securities from margin refinancing | 425,494.00 | 5,853,795.00 |
| Financial assets held for trading | 78,709,485.18 | - |
| Available-for-sale financial assets | - | 26,904,368.60 |
| Total securities lent | 79,134,979.18 | 32,758,163.60 |
| Total securities refinanced | 1,077,200.00 | 10,525,200.00 |

(2) Defaults on securities lending business

As at 31 December 2019 and 31 December 2018, the Group's securities lending business had no material default.

14. Long-term equity investments

(1) Long-term equity investments by category:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Investments in joint ventures | 1,350,659,250.90 | 1,323,828,556.17 |
| Investments in associates | 422,602,043.10 | 388,100,405.61 |
| Sub-total | 1,773,261,294.00 | 1,711,928,961.78 |
| Less: Provision for impairment | - | - |
| Total | 1,773,261,294.00 | 1,711,928,961.78 |

## (2) Movements of long-term equity investments during the year are as follows:

| | | Changes in equity during 2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Investee* | *Balance at the beginning of the year* | *Increase in capital* | *Decrease in investments* | *Investment income under equity method* | *Other comprehensive income* | *Other equity movements* | *Declared distribution of cash dividends or profits* | *Provisions for impairment* | *Other* | *Balance at the end of the year* | *Balance of provision for impairment at the end of the year* |
| Joint ventures | | | | | | | | | | | |
| Fujian Relief I Equity Investment Partnership (Limited Partnership) (Note 1) (福建省纾困一号股权投资合伙企业(有限合伙)) | 1,289,188,635.40 | - | - | 32,496,236.64 | - | - | - | - | - | 1,321,684,872.04 | - |
| CIS New China Ever- Growing Fund SP | 34,639,920.77 | - | - | (6,455,725.78) | - | - | - | - | 790,183.87 | 28,974,378.86 | - |
| Sub-total | 1,323,828,556.17 | - | - | 26,040,510.86 | - | - | - | - | 790,183.87 | 1,350,659,250.90 | - |
| Associates | | | | | | | | | | | |
| Haixia Equity Exchange (Fujian) Co., Ltd. (海峡股权交易中心 (福建) 有限公司) | 42,705,981.57 | - | - | 664,418.44 | - | - | - | - | - | 43,370,400.01 | - |
| Fujian Funeng Industrial Equity Investment Management Co., Ltd. (福建省福能兴业股权投资管理有限公司) | 66,116,741.95 | - | - | 12,632,921.72 | (600,862.50) | - | - | - | - | 78,148,801.17 | - |
| Fujian Pien Tze Huang Medical Equipment Technology Co., Ltd. (福建片仔癀医疗器械科技有限公司) | 1,905,502.99 | - | - | (145,698.50) | - | - | - | - | - | 1,759,804.49 | - |
| Beijing Increasepharm Corporation Limited (北京盈科瑞创新医药股份有限公司) | 156,909,880.56 | - | - | 10,316,847.64 | - | 42,148.94 | - | - | - | 167,268,877.14 | - |
| Zhuhai Industrial Securities Liuhe Qihang Equity Investment Partnership (Limited Partnership) (珠海兴证六和启航股权投资合伙企业 (有限合伙)) (Note 2) | 894,988.83 | - | - | 346,800.37 | - | - | - | - | - | 1,241,789.20 | - |
| Ningbo Xingfu Zhiyuan Equity Investment Partnership (Limited Partnership) (宁波兴富致远股权投资合伙企业(有限合伙)) | 113,823,793.94 | - | (31,800,996.31) | 14,213,578.67 | - | - | (30,226,153.03) | - | - | 66,010,223.27 | - |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) (平潭兴证赛富股权投资合伙企业(有限合伙))(Note 2) | 4,546,283.31 | - | (1,164,755.48) | (593,899.59) | - | - | - | - | - | 2,787,628.24 | - |
| Pingtan Industrial Securities Saifu I Equity Investment Partnership (Limited Partnership) (平潭兴证赛富一股权投资合伙企业(有限合伙)) (Note 2) | 1,197,230.86 | - | (307,132.26) | (156,686.17) | - | - | - | - | - | 733,412.43 | - |
| Pingtan Xinghang Guohong Equity Investment Partnership (Limited Partnership) (平潭兴杭国弘股权投资合伙企业(有限合伙)) (Note 2) | 1.00 | - | - | - | - | - | - | - | - | 1.00 | - |
| Pingtan Industrial Securities Chuangpai Equity Investment Partnership (Limited Partnership) (平潭兴证创湃文化投资合伙企业(有限合伙)) (Note 2) | 0.60 | - | - | 0.59 | - | - | - | - | - | 1.19 | - |
| Xiamen Industrial Securities Youxuan Start-up Equity Investment Partnership (Limited Partnership) (厦门兴证优选创业投资合伙企业(有限合伙)) (Note 2) | - | 1,940,000.00 | - | (683,498.31) | - | - | - | - | - | 1,256,501.69 | - |
| Pingtan Liangan Innovative Start-up Equity Investment Partnership (Limited Partnership) (平潭两岸创新创业股权投资合伙企业(有限合伙)) (Note 2) | - | 60,000,000.00 | - | 24,603.27 | - | - | - | - | - | 60,024,603.27 | - |
| Sub-total | 388,100,405.61 | 61,940,000.00 | (33,272,884.05) | 36,619,388.13 | (600,862.50) | 42,148.94 | (30,226,153.03) | - | - | 422,602,043.10 | - |
| Total | 1,711,928,961.78 | 61,940,000.00 | (33,272,884.05) | 62,659,898.99 | (600,862.50) | 42,148.94 | (30,226,153.03) | - | 790,183.87 | 1,773,261,294.00 | - |

Note 1: According to the Partnership Agreement or Fund Agreement, the Group, as a general partner or fund manager, manages the partnership or fund together with another general partner or fund manager, and can exercise joint control over the partnership or fund. Therefore, the Group accounts the partnership or fund as a joint venture using the equity method.

Note 2: According to the Partnership Agreement, the Group has significant impact on Zhuhai Industrial Securities Liuhe Qihang Equity Investment Partnership (Limited Partnership), Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership), Pingtan Industrial Securities Saifu I Equity Investment Partnership (Limited Partnership), Pingtan Xinghang Guohong Equity Investment Partnership (Limited Partnership), Pingtan Industrial Securities Chuangpai Equity Investment Partnership (Limited Partnership), Xiamen Industrial Securities Youxuan Start-up Equity Investment Partnership (Limited Partnership) and Pingtan Liangan Innovative Start-up Equity Investment Partnership (Limited Partnership). Therefore, these partnerships will be accounted for as associates using the equity method.

As at 31 December 2019, there were no material restrictions on transfers of funds from investees to the Group.

15. Investment properties

Investment properties measured at cost

| | *Plant & buildings* |
|---|---|
| **Original value** | |
| Balance at the beginning of the year | 324,726,746.38 |
| Additions during the year | - |
| Decrease during the year | (122,104,615.23) |
| - Transfers to fixed assets | (120,240,595.57) |
| - Others | (1,864,019.66) |
| Balance at the end of the year | 202,622,131.15 |
| **Less: Accumulated depreciation** | |
| Balance at the beginning of the year | (80,668,921.03) |
| Charge for the year | (6,389,542.20) |
| - Charge for the year | (6,389,542.20) |
| Decrease during the year | 36,317,001.06 |
| - Transfer to fixed assets | 36,226,078.37 |
| - Other transfers out | 90,922.69 |
| Balance at the end of the year | (50,741,462.17) |
| **Provision for impairment** | |
| Balance at the beginning of the year | - |
| Charge for the year | - |
| Decrease during the year | - |
| Balance at the end of the year | - |
| **Carrying amount** | |
| Carrying amounts at the end of the year | 151,880,668.98 |
| Carrying amounts at the beginning of the year | 244,057,825.35 |

No provision for impairment was required for investment properties as at 31 December 2018 and 31 December 2019.

As at 31 December 2019 and 31 December 2018, the Group had no material investment properties pending certificates of ownership.

16. Fixed assets

(1) Book value

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Original value of fixed assets | 1,102,246,924.30 | 950,535,123.82 |
| Less: Accumulated depreciation | (485,840,281.56) | (407,729,446.27) |
| Provision for impairment of fixed assets | (9,708,911.20) | (9,708,911.20) |
| Total | 606,697,731.54 | 533,096,766.35 |

(2) Movements of fixed assets

| | *Plant & buildings* | *Machinery & equipment* | *Motor vehicles* | *Other equipment* | *Total* |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at the beginning of the year | 533,652,055.00 | 372,692,665.84 | 28,920,510.30 | 15,269,892.68 | 950,535,123.82 |
| Additions during the year | 123,111,844.29 | 68,632,902.70 | 2,075,285.73 | 1,324,855.18 | 195,144,887.90 |
| - Purchase | 2,871,248.72 | 68,632,902.70 | 2,075,285.73 | 1,324,855.18 | 74,904,292.33 |
| - Transfer from investment properties | 120,240,595.57 | - | - | - | 120,240,595.57 |
| Decrease during the year | (426,601.02) | (42,754,928.65) | (659,754.00) | (291,560.19) | (44,132,843.86) |
| - Disposal or retirement | (350,000.00) | (42,754,928.65) | (659,754.00) | (291,560.19) | (44,056,242.84) |
| - Others | (76,601.02) | - | - | - | (76,601.02) |
| Exchange differences | - | 629,273.17 | 30,974.37 | 39,508.90 | 699,756.44 |
| Balance at the end of the year | 656,337,298.27 | 399,199,913.06 | 30,367,016.40 | 16,342,696.57 | 1,102,246,924.30 |

| | *Plant & buildings* | *Machinery & equipment* | *Motor vehicles* | *Other equipment* | *Total* |
|---|---|---|---|---|---|
| Less: Accumulated depreciation | | | | | |
| Balance at the beginning of the year | (135,089,786.72) | (253,045,219.23) | (10,326,558.56) | (9,267,881.76) | (407,729,446.27) |
| Additions during the year | (54,122,656.75) | (60,295,690.43) | (3,167,429.78) | (1,599,783.74) | (119,185,560.70) |
| - Charge for the year | (17,896,578.38) | (60,295,690.43) | (3,167,429.78) | (1,599,783.74) | (82,959,482.33) |
| - Transfer from investment propertie | (36,226,078.37) | - | - | - | (36,226,078.37) |
| Decrease during the year | 199,166.37 | 40,018,583.84 | 618,098.17 | 248,723.66 | 41,084,572.04 |
| - Disposal or retirement | 199,166.37 | 40,018,583.84 | 618,098.17 | 248,723.66 | 41,084,572.04 |
| Exchange differences | - | 38,932.20 | (15,326.57) | (33,452.26) | (9,846.63) |
| Balance at the end of the year | (189,013,277.10) | (273,283,393.62) | (12,891,216.74) | (10,652,394.10) | (485,840,281.56) |
| Provision for impairment | | | | | |
| Balance at the beginning of the year | (9,708,911.20) | - | - | - | (9,708,911.20) |
| Balance at the end of the year | (9,708,911.20) | - | - | - | (9,708,911.20) |
| Book value | | | | | |
| Balance at the end of the year | 457,615,109.97 | 125,916,519.44 | 17,475,799.66 | 5,690,302.47 | 606,697,731.54 |
| Balance at the beginning of the year | 388,853,357.08 | 119,647,446.61 | 18,593,951.74 | 6,002,010.92 | 533,096,766.35 |

(3) Temporarily idle fixed assets

As at 31 December 2019 and 31 December 2018, the Group had no temporarily idle fixed assets.

(4) Fixed assets acquired under finance leases

As at 31 December 2019 and 31 December 2018, the Group had no material fixed assets acquired under finance leases.

(5) Fixed assets leased out under operating leases circumstances

As at 31 December 2019 and 31 December 2018, the Group had no material fixed assets leased out under operating leases circumstances.

(6) Fixed assets pending certificates of ownership

As at 31 December 2019 and 31 December 2018, the Group had no material fixed assets pending certificates of ownership.

17. Intangible assets

Changes of intangible assets

| | *Securities trading seat rights* | *Software* | *Total* |
|---|---|---|---|
| Cost | | | |
| Balance at the beginning of the year | 20,345,774.17 | 328,896,372.55 | 349,242,146.72 |
| Additions during the year | - | 149,288,150.54 | 149,288,150.54 |
| Decrease during the year | - | (5,082,680.24) | (5,082,680.24) |
| Exchange differences | 19,580.00 | 219,801.57 | 239,381.57 |
| Balance at the end of the year | 20,365,354.17 | 473,321,644.42 | 493,686,998.59 |
| Less: Accumulated amortisation | | | |
| Balance at the beginning of the year | (18,541,740.95) | (208,564,174.99) | (227,105,915.94) |
| Charge for the year | (157,999.98) | (70,961,153.34) | (71,119,153.32) |
| Decrease during the year | - | 4,817,663.19 | 4,817,663.19 |
| Exchange differences | - | (107,827.67) | (107,827.67) |
| Balance at the end of the year | (18,699,740.93) | (274,815,492.81) | (293,515,233.74) |
| Book value | | | |
| Balance at the end of the year | 1,665,613.24 | 198,506,151.61 | 200,171,764.85 |
| Balance at the beginning of the year | 1,804,033.22 | 120,332,197.56 | 122,136,230.78 |

As at 31 December 2019 and 31 December 2018, none of the Group's material intangible assets were pledged as security or used as guarantee.

As at 31 December 2019 and 31 December 2018, management of the Group and the Company considered no provision for impairment of intangible assets was necessary.

18. Goodwill

| | *31 December 2019 and 31 December 2018* *RMB* |
|---|---|
| Goodwill of AEGON-Industrial Fund | 1,317,291.24 |
| Goodwill of Industrial Securities Future | 10,946,858.54 |
| Sub-total | 12,264,149.78 |
| Less: Provision for impairment (Note) | - |
| Total | 12,264,149.78 |

Note: There was no impairment due to business combinations involving entities not under common control.

19. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets and liabilities

Deferred tax assets before offsetting:

| | *31 December 2019* | | *31 December 2018* | |
|---|---|---|---|---|
| *Item* | *Deductible temporary differences* | *Deferred tax assets* | *Deductible temporary differences* | *Deferred tax assets* |
| Provision for impairment of assets | 1,217,163,992.85 | 302,781,729.09 | 847,130,681.28 | 211,782,670.32 |
| Movements in fair value | 548,247,262.84 | 137,061,815.71 | 1,281,701,815.52 | 320,425,453.88 |
| Charged but unpaid wages and bonuses | 3,737,703,936.00 | 934,349,724.00 | 2,764,030,539.52 | 690,945,977.83 |
| Compensation to be deducted before taxes | 245,555,614.00 | 61,388,903.50 | 246,617,425.80 | 61,654,356.45 |
| Deductible losses | 447,406,273.33 | 73,822,035.10 | - | - |
| Others | 92,737,534.96 | 23,790,469.41 | 63,722,347.96 | 15,930,587.03 |
| Sub-total | 6,288,814,613.98 | 1,533,194,676.81 | 5,203,202,810.08 | 1,300,739,045.51 |
| Amount offset | (1,986,399,906.59) | (496,599,976.65) | (3,538,016.28) | (884,504.07) |
| Balance after offsetting | 4,302,414,707.39 | 1,036,594,700.16 | 5,199,664,793.80 | 1,299,854,541.44 |

Deferred tax liabilities before offsetting:

| *Item* | *31 December 2019* Taxable temporary differences | *31 December 2019* Deferred tax liabilities | *31 December 2018* Taxable temporary differences | *31 December 2018* Deferred tax liabilities |
|---|---|---|---|---|
| Movements in fair value | (1,977,527,092.19) | (494,381,773.05) | (52,730,305.08) | (13,182,576.27) |
| Others | (52,148,926.95) | (13,023,980.84) | (65,524,427.98) | (15,580,313.14) |
| Sub-total | (2,029,676,019.14) | (507,405,753.89) | (118,254,733.06) | (28,762,889.41) |
| Amount offset | 1,986,399,906.59 | 496,599,976.65 | 3,538,016.28 | 884,504.07 |
| Balance after offsetting | (43,276,112.55) | (10,805,777.24) | (114,716,716.78) | (27,878,385.34) |

(2) Deferred tax assets or liabilities after offsetting

| *Item* | *31 December 2019* Amount of offsetting of deferred tax assets and liabilities | *31 December 2019* Balances of deferred tax assets or liabilities after offsetting | *31 December 2018* Amount of offsetting of deferred tax assets and liabilities | *31 December 2018* Balances of deferred tax assets or liabilities after offsetting |
|---|---|---|---|---|
| Deferred tax assets | (496,599,976.65) | 1,036,594,700.16 | (884,504.07) | 1,299,854,541.44 |
| Deferred tax liabilities | 496,599,976.65 | (10,805,777.24) | 884,504.07 | (27,878,385.34) |

(3) Details of unrecognised deferred tax assets

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Unrecognised temporary difference | (67,497,498.66) | 131,430,000.00 |
| Temporary differences of deductible losses | 299,945,403.66 | 202,724,175.46 |
| Total | 232,447,905.00 | 334,154,175.46 |

(4) Expiration of deductible tax losses for unrecognised deferred tax assets

According to existing tax regulations in relevant region, there is no expiration of deductible tax losses for unrecognised deferred tax assets.

## 20. Other assets

| | *Note* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Other receivables | (1) | 1,257,671,840.02 | 293,201,246.15 |
| Inventory of bulk commodity trading | | 948,054,822.89 | 142,227,450.60 |
| Input tax to be deducted | | 102,801,978.53 | 37,411,264.39 |
| Long-term deferred expenses | (2) | 96,615,453.89 | 142,452,186.07 |
| Deferred expenses | | 51,752,479.94 | 43,249,462.15 |
| Dividends receivable | | 3,426,081.82 | 33,836,717.67 |
| Interest receivable | | 1,611,917.48 | 1,587,432,995.33 |
| Loans and receivables | (3) | - | 66,659,480.00 |
| Others | | 47,291,919.50 | 2,576,078.13 |
| Total | | 2,509,226,494.07 | 2,349,046,880.49 |

### (1) Other receivables

#### (a) By detail

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Balance of other receivables | 1,297,509,155.53 | 337,086,027.06 |
| Less: Provision for bad and doubtful debts | (39,837,315.51) | (43,884,780.91) |
| Other net receivables | 1,257,671,840.02 | 293,201,246.15 |

#### (b) The ageing analysis is as follows

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *Book value* | | *Provision for bad and doubtful debts* | |
| | *Amount* | *Percentage (%)* | *Amount* | *Percentage (%)* |
| Within 1 year | 1,182,578,839.67 | 91.14 | 526,532.04 | 0.04 |
| 1 - 2 years | 13,127,258.43 | 1.01 | 1,740,428.39 | 13.26 |
| 2 - 3 years | 981,295.46 | 0.08 | 196,259.09 | 20.00 |
| Over 3 years | 100,821,761.97 | 7.77 | 37,374,095.99 | 37.07 |
| Total | 1,297,509,155.53 | 100.00 | 39,837,315.51 | 3.07 |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Within 1 year | 221,070,239.22 | 65.58 | 3,869,473.92 | 1.75 |
| 1 - 2 years | 3,278,003.89 | 0.97 | 327,800.39 | 10.00 |
| 2 - 3 years | 112,137,403.34 | 33.27 | 39,387,316.29 | 35.12 |
| Over 3 years | 600,380.61 | 0.18 | 300,190.31 | 50.00 |
| Total | 337,086,027.06 | 100.00 | 43,884,780.91 | 13.02 |

The ageing is counted starting from the date when other receivables are recognised.

(c) By impairment assessment method

| | 31 December 2019 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Individual provision for impairment loss | 100,621,374.23 | 7.75 | 37,583,804.23 | 37.35 |
| Group provision for impairment loss | 1,196,887,781.30 | 92.25 | 2,253,511.28 | 0.19 |
| Total | 1,297,509,155.53 | 100.00 | 39,837,315.51 | 3.07 |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| | Book value | | Provision for bad and doubtful debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) |
| Individual provision for impairment loss | 103,151,186.82 | 30.60 | 40,113,616.52 | 38.89 |
| Group provision for impairment loss | 233,934,840.24 | 69.40 | 3,771,164.39 | 1.61 |
| Total | 337,086,027.06 | 100.00 | 43,884,780.91 | 13.02 |

(d) Additions, recoveries or reversals of provision for bad and doubtful debts during the year:

For analysis of the movements of provisions for bad and doubtful debts of other receivables for the year, see Note VI. 21.

(e) Five largest other receivables by debtor at the end of the year

| | *Nature* | *Amount* | *Ageing* | *Percentage of total other receivables (%)* |
|---|---|---|---|---|
| LFM Oversea Investment Fund SPC – LFA Global SP | Bill trading | 689,750,600.00 | Within 1 year | 53.16 |
| WaiChun Logistics Technology Limited | Bill trading | 139,472,946.00 | Within 1 year | 10.75 |
| Employees' remained performance and risk reserve investments | Advances | 116,683,812.22 | Within 1 year | 8.99 |
| Beijing Jingcai Wuxian Music Co., Ltd. | Creditor's rights receivable | 100,001,570.00 | Over 3 years | 7.71 |
| Timeless Global Investments Limited | Bill trading | 69,691,684.00 | Within 1 year | 5.37 |
| Total | | 1,115,600,612.22 | | 85.98 |

(f) Receivables from related parties

As at 31 December 2019, there were no receivables from shareholders who hold more than 5% (including 5%) of the shares of the Company among the other receivables.

(2) Long-term deferred expenses

| | *Balance at the beginning of the year* | *Purchased for the year* | *Amortisation for the year* | *Exchange differences* | *Balance at the end of the year* |
|---|---|---|---|---|---|
| Leasehold improvements | 86,375,252.14 | 42,913,356.25 | (44,866,839.98) | (336,003.32) | 84,085,765.09 |
| Others | 56,076,933.93 | 16,378,237.93 | (59,925,483.06) | - | 12,529,688.80 |
| Total | 142,452,186.07 | 59,291,594.18 | (104,792,323.04) | (336,003.32) | 96,615,453.89 |

(3) Loans and receivables

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Balance of loans and receivables | - | 66,684,480.00 |
| Less: Provision for bad and doubtful debts | - | (25,000.00) |
| Net amount of loans and receivables | - | 66,659,480.00 |

## 21. Provisions for impairment

As at 31 December 2019 and 31 December 2018, the provisions for impairment of the Group are set out as follows:

| | Note | *Balance at 31December 2018* | *Adjustments to changes in accounting policies* | *Balance at the beginning of the year after adjustment* | *Charge for the year* | *Decrease during the year* | | *Translation differences arising from translation of foreign currency financial statements* | *Balance at the end of the year* |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | *Reversals* | *Write-offs* | | |
| Provision for impairment of cash at bank and on hand | VI.1 | - | 352,876.36 | 352,876.36 | - | (232,004.64) | - | 223,945.00 | 344,816.72 |
| Provision for impairment losses of margin accounts | VI.3 | 276,590,408.04 | 21,596,923.53 | 298,187,331.57 | 568,567,724.39 | - | (487,731,286.01) | 2,182,475.38 | 381,206,245.33 |
| Provision for bad and doubtful debts of receivables | VI.6 | 11,611,218.45 | - | 11,611,218.45 | - | (3,484,758.37) | - | - | 8,126,460.08 |
| Provisions for impairment of financial assets held under resale agreements | VI.7 | 691,930,798.52 | 229,784,376.49 | 921,715,175.01 | 187,581,265.14 | - | (38,586,462.50) | - | 1,070,709,977.65 |
| Provision for impairment of available-for-sale financial assets | VI.9 | 87,756,199.63 | (87,756,199.63) | - | - | - | - | - | - |
| Provision for impairment of debt investments at fair value through profit or loss | VI.11 | - | 60,523,388.25 | 60,523,388.25 | 1,096,487.18 | - | (884,602.40) | - | 60,735,273.03 |
| Provision for impairment of other financial assets | | 43,936,685.28 | - | 43,936,685.28 | - | (4,578,407.06) | (125,907.19) | 669,595.17 | 39,901,966.20 |
| Sub-total of provision for credit losses of financial instruments | | 1,111,825,309.92 | 224,501,365.00 | 1,336,326,674.92 | 757,245,476.71 | (8,295,170.07) | (527,328,258.10) | 3,076,015.55 | 1,561,024,739.01 |
| Provision for impairment of fixed assets | VI.16 | 9,708,911.20 | - | 9,708,911.20 | - | - | - | - | 9,708,911.20 |
| Provision for impairment of other assets | | 2,016,638.57 | - | 2,016,638.57 | - | (2,016,638.57) | - | - | - |
| Sub-total of provision for impairment of other assets | | 11,725,549.77 | - | 11,725,549.77 | - | (2,016,638.57) | - | - | 9,708,911.20 |
| Total | | 1,123,550,859.69 | 224,501,365.00 | 1,348,052,224.69 | 757,245,476.71 | (10,311,808.64) | (527,328,258.10) | 3,076,015.55 | 1,570,733,650.21 |

As at 31 December 2019, a summary of the Group's three stages of ECL is as follows:

| | | *Balance at 31 December 2019* | | | |
|---|---|---|---|---|---|
| | *Note* | *12-month ECL* | *Lifetime ECL (Not credit impaired)* | *Lifetime ECL (Credit impaired)* | *Total* |
| Provision for impairment of cash at bank and on hand | VI.1 | 344,816.72 | - | - | 344,816.72 |
| Provision for impairment losses of margin accounts | VI.3 | 31,331,018.51 | 3,972,267.43 | 345,902,959.39 | 381,206,245.33 |
| Provision for impairment losses of accounts receivable (simplified model) | VI.6 | - | 7,808,577.39 | 317,882.69 | 8,126,460.08 |
| Provisions for impairment of financial assets held under resale agreements | VI.7 | 55,632,070.70 | 271,811.63 | 1,014,806,095.32 | 1,070,709,977.65 |
| Provision for impairment of debt investments at fair value through profit or loss | VI.11 | 11,578,455.67 | - | 49,156,817.36 | 60,735,273.03 |
| Provision for impairment of other financial assets | | 64,650.69 | 2,253,511.28 | 37,583,804.23 | 39,901,966.20 |
| Total | | 98,951,012.29 | 14,306,167.73 | 1,447,767,558.99 | 1,561,024,739.01 |

## 22. Short-term loans

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Unsecured loans | 5,707,443,798.50 | 4,950,530,000.00 |
| Pledged loans | 175,767,321.32 | 1,287,055,757.76 |
| Total | 5,883,211,119.82 | 6,237,585,757.76 |

As at 31 December 2019, the Group had no past due short-term loans.

As at 31 December 2019, the Group's pledged loans include non-bank borrowings amounted to RMB 175,767,321.32 (31 December 2018: RMB 1,287,055,757.76).

## 23. Short-term financing payables

| *Debenture* | *Face value Original currency* | *Value date* | *Period* | *Issuance amount Original currency* | *Nominal interest rate* | *Book value at the beginning of the year RMB equivalent* | *Additions during the year RMB equivalent* | *Decreases during the year RMB equivalent* | *Carrying amount at the end of the year RMB equivalent* |
|---|---|---|---|---|---|---|---|---|---|
| Commercial papers | RMB 4.00 billion | 23 October 2019 | 91 days | RMB 4.00 billion | 3.00% | - | 4,023,013,698.63 | - | 4,023,013,698.63 |
| Structured notes (Note) | | | | | | 595,557,632.68 | 2,863,544,861.48 | (3,092,098,930.67) | 367,003,563.49 |
| Bills | USD 8.00 million | 12 June 2018 | 365+365 days | USD 8.00 million | 3.00% | 55,069,827.79 | 2,440,241.77 | (29,470,189.12) | 28,039,880.44 |
| US dollar bonds | USD 200.00 million USD 75.00 million | 30 August 2019 26 September 2019 | 364 days | USD 200.00 million USD 75.00 million | 5.00% | - | 1,947,132,020.91 | - | 1,947,132,020.91 |
| Total | | | | | | 650,627,460.47 | 8,836,130,822.79 | (3,121,569,119.79) | 6,365,189,163.47 |

Note: They are structured notes with periods less than one year issued by the Company through institutional private placement product quotation and service system, with face value of RMB 2.853 billion. The return on products that have not matured is 2.5% to 6.5%, plus floating rate.

24. Placements from banks and other financial institutions

By category

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Margin refinancing | (i) | 505,444,444.43 | 1,000,000,000.00 |

(i) The analysis of remaining maturity and interest rate of capital refinanced

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| Residual maturity | Balance | Interests rate | Balance | Interests rate |
| Within 3 months | 505,444,444.43 | 3.50% | - | - |
| Over 3 months but less than 12 months | - | - | 1,000,000,000.00 | 4.30% |
| Total | 505,444,444.43 | | 1,000,000,000.00 | |

25. Financial liabilities at fair value through profit or loss

(1) By category

| | | 31 December 2019 | | |
|---|---|---|---|---|
| | Note | Financial liabilities classified as measured at FVTPL | Financial liabilities designated at FVTPL | Total |
| Stocks | (a) | 27,637,948.23 | - | 27,637,948.23 |
| Others | | | | |
| - Interest of other shareholders of structured entities | (b) | - | 3,392,605,579.36 | 3,392,605,579.36 |
| - Structured notes | | - | 573,155,904.00 | 573,155,904.00 |
| Total | | 27,637,948.23 | 3,965,761,483.36 | 3,993,399,431.59 |

(a) Financial liabilities at fair value through profit or loss after selling securities lent.

(b) As at 31 December 2019, financial liabilities designated at fair value through profit or loss were mainly interests of other shareholders of asset management plan or other limited partners of private fund in the consolidated structured entities. Financial liabilities designated at fair value through profit or loss arising from changes in the entity's own credit risk were not material.

26. Financial liabilities held for trading

(1) By category

| | | *31 December 2018* | | |
|---|---|---|---|---|
| | *Notes* | *Financial liabilities held for trading* | *Financial liabilities designated at FVTPL* | *Total* |
| Stocks | (a) | 91,582,176.40 | - | 91,582,176.40 |
| Others | | | | |
| - Interest of other shareholders of structured entities | (b) | - | 1,141,063,302.59 | 1,141,063,302.59 |
| - Structured notes | | - | 182,024,390.67 | 182,024,390.67 |
| Total | | 91,582,176.40 | 1,323,087,693.26 | 1,414,669,869.66 |

(a) Financial liabilities held for trading after selling stocks lent.

(b) As at 31 December 2018, financial liabilities designated at fair value through profit or loss were mainly interests of other shareholders of asset management plan or other limited partners of private fund in the consolidated structured entities. Financial liabilities designated at fair value through profit or loss arising from changes in the entity's own credit risk were not material.

27. Financial assets sold under repurchase agreements

(1) By category of financial asset

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Bonds | 25,756,432,946.93 | 24,888,048,019.11 |

(2) By business type

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Collateralised repurchase sold in the inter-bank market | 4,626,587,409.70 | 4,720,600,900.00 |
| Outright repurchase sold in the inter-bank market | 1,098,824,724.53 | 553,821,135.89 |
| Collateralised repurchase sold in the Stock Exchange | 16,751,296,220.43 | 18,263,585,275.00 |
| Bonds-backed lending quoted repurchase | 196,571,000.00 | 4,721,000.00 |
| Other pledged repurchase | 3,083,153,592.27 | 1,345,319,708.22 |
| Total | 25,756,432,946.93 | 24,888,048,019.11 |

(3) Analysed by the fair value of collaterals

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Bonds | 29,930,640,628.33 | 28,298,305,950.85 |
| Including: Financial assets held for trading | 13,632,709,158.16 | - |
| Financial assets at fair value through profit or loss | - | 12,366,158,536.90 |
| Debt investments at fair value through other comprehensive income | 16,297,931,470.17 | - |
| Available-for-sale financial assets | - | 15,932,147,413.95 |
| Bond lending | 2,760,805,993.00 | 4,342,580,264.00 |
| Total | 32,691,446,621.33 | 32,640,886,214.85 |

(4) Quoted capital borrowed repurchase by remaining maturity

| | *31 December 2019* | *Interest rate range* | *31 December 2018* | *Interest rate range* |
|---|---|---|---|---|
| Within 1 months | 196,571,000.00 | 1.6%-8% | 4,721,000.00 | 2% - 3% |

28. Accounts payable to brokerage and margin clients

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Accounts payable to brokerage clients | | |
| - Individuals | 17,525,187,298.32 | 11,370,379,647.17 |
| - Institutions | 14,127,772,879.35 | 11,039,213,107.35 |
| Sub-total | 31,652,960,177.67 | 22,409,592,754.52 |
| Accounts payable to margin clients | | |
| - Individuals | 2,591,482,484.06 | 2,978,031,695.36 |
| - Institutions | 360,455,779.36 | 1,006,140,511.46 |
| Sub-total | 2,951,938,263.42 | 3,984,172,206.82 |
| Total | 34,604,898,441.09 | 26,393,764,961.34 |

## 29. Employee benefits payable

| | *Notes* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Employee benefits | (1) | 4,126,816,093.40 | 3,213,202,453.13 |
| Post-employment benefits | | | |
| - Defined contribution plans | (2) | 216,994,938.55 | 10,659,004.99 |
| Total | | 4,343,811,031.95 | 3,223,861,458.12 |

### (1) Employee benefits

| | *Balance at the beginning of the year* | *Accrued during the year* | *Decreased during the year* | *Balance at the end of the year* |
|---|---|---|---|---|
| Salaries, bonuses, allowances | 3,186,917,022.98 | 3,670,274,696.66 | (2,753,953,970.73) | 4,103,237,748.91 |
| Staff welfare | - | 38,245,087.68 | (38,245,087.68) | - |
| Social insurance | 88,280.64 | 124,732,300.75 | (124,754,451.84) | 66,129.55 |
| - Medical insurance | 80,885.09 | 114,134,462.81 | (114,151,738.63) | 63,609.27 |
| - Work-related injury insurance | 10,343.36 | 1,599,011.78 | (1,603,648.59) | 5,706.55 |
| - Maternity insurance | (2,947.81) | 8,704,454.92 | (8,704,693.38) | (3,186.27) |
| - Other social insurance | - | 294,371.24 | (294,371.24) | - |
| Housing fund | (58,332.54) | 130,385,524.48 | (130,282,889.57) | 44,302.37 |
| Labour union fee, staff and workers' education fee | 26,255,482.05 | 34,080,087.21 | (36,867,656.69) | 23,467,912.57 |
| Others | - | 870,572.10 | (870,572.10) | - |
| Total | 3,213,202,453.13 | 3,998,588,268.88 | (3,084,974,628.61) | 4,126,816,093.40 |

### (2) Post-employment benefits – defined contribution plans

| | *Balance at the beginning of the year* | *Accrued during the year* | *Decreased during the year* | *Balance at the end of the year* |
|---|---|---|---|---|
| Basic pension insurance | 10,611,740.40 | 179,955,479.23 | (180,744,596.30) | 9,822,623.33 |
| Unemployment insurance | 45,503.38 | 2,645,572.63 | (2,649,190.60) | 41,885.41 |
| Annuity | 1,761.21 | 393,363,810.80 | (186,235,142.20) | 207,130,429.81 |
| Total | 10,659,004.99 | 575,964,862.66 | (369,628,929.10) | 216,994,938.55 |

30. Taxes payable

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Corporate income tax | 558,654,480.57 | 344,676,656.74 |
| Individual income tax | 120,699,250.24 | 73,038,096.68 |
| Individual income tax from restricted shares | 153,821,350.74 | 118,289,667.00 |
| VAT | 63,050,484.07 | 53,549,989.09 |
| City maintenance and construction tax | 3,982,136.29 | 4,119,545.71 |
| Education and local education surcharges | 2,851,246.01 | 2,567,897.17 |
| Others | 601,780.33 | 1,409,248.74 |
| Total | 903,660,728.25 | 597,651,101.13 |

31. Accounts payable

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Liquidatable payables | 1,773,639,500.20 | 749,279,272.87 |
| Fees and commission payable | 353,346,899.22 | 208,679,427.56 |
| Asset management products redemption payable | 6,805,183.32 | 5,746,631.12 |
| Total | 2,133,791,582.74 | 963,705,331.55 |

32. Long-term loans

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Unsecured loans | 2,999,186,930.04 | 2,961,556,000.00 |

As at 31 December 2019, the Group’s credit loans were bank borrowings.

## 33. Bonds payable

| *Debenture* | *Face value Original currency* | *Value date* | *Maturity period* | *Issuance amount Original currency* | *Nominal interest rate* | *Balance at the beginning of the year RMB equivalent* | *Additions during the year RMB equivalent* | *Decreases during the year RMB equivalent* | *Balance at the end of the year RMB equivalent* |
|---|---|---|---|---|---|---|---|---|---|
| 13 Industrial 01 | RMB 1.50 billion | 13 March 2014 | 3+2 years | RMB 1.50 billion | 6.00% | 1,575,000,000.00 | 15,000,000.00 | (1,590,000,000.00) | - |
| 13 Industrial 02 | RMB 1.00 billion | 13 March 2014 | 5+2 years | RMB 1.00 billion | 6.35% | 1,052,101,319.94 | 64,077,221.80 | (68,000,000.00) | 1,048,178,541.74 |
| 17 Industrial F1 | RMB 3.00 billion | 23 October 2017 | 2 years | RMB 3.00 billion | 5.13% | 3,021,969,251.39 | 124,341,159.55 | (3,146,310,410.94) | - |
| 17 Industrial F2 | RMB 2.20 billion | 6 November 2017 | 2 years | RMB 2.20 billion | 5.25% | 2,211,791,010.61 | 103,392,551.01 | (2,315,183,561.62) | - |
| 17 Industrial F3 | RMB 1.50 billion | 22 November 2017 | 3 years | RMB 1.50 billion | 5.40% | 1,501,734,407.85 | 80,162,610.74 | (76,589,716.45) | 1,505,307,302.14 |
| 18 Industrial F1 | RMB 4.50 billion | 22 January 2018 | 3 years | RMB 4.50 billion | 5.70% | 4,717,877,024.54 | 252,396,428.02 | (242,099,069.56) | 4,728,174,383.00 |
| 18 Industrial F2 | RMB 2.00 billion | 10 May 2018 | 3 years | RMB 2.00 billion | 5.20% | 2,055,235,490.31 | 106,415,294.97 | (101,473,352.29) | 2,060,177,432.99 |
| 18 Industrial F3 | RMB 5.00 billion | 20 August 2018 | 3 years | RMB 5.00 billion | 4.79% | 5,054,627,521.32 | 239,438,982.09 | (227,127,216.34) | 5,066,939,287.07 |
| 19 Industrial F1 | RMB 3.00 billion | 20 March 2019 | 3 years | RMB 3.00 billion | 4.10% | - | 3,102,306,116.32 | (22,641,509.43) | 3,079,664,606.89 |
| 19 Industrial G1 | RMB 10.50 billion | 6 November 2019 | 3 years | RMB 10.50 billion | 3.78% | - | 10,562,908,451.80 | (40,094,339.62) | 10,522,814,112.18 |
| Sub-total of corporate bonds | | | | | | 21,190,336,025.96 | 14,650,438,816.30 | (7,829,519,176.25) | 28,011,255,666.01 |
| 16 Industrial 02 | RMB 3.00 billion | 26 September 2016 | 5 years | RMB 3.00 billion | 3.68% | 3,021,463,705.18 | 105,839,875.77 | (102,838,356.19) | 3,024,465,224.76 |
| 16 Industrial 03 | RMB 5.00 billion | 20 October 2016 | 5 years | RMB 5.00 billion | 3.48% | 5,022,423,462.89 | 169,935,626.21 | (165,895,890.39) | 5,026,463,198.71 |
| 17 Industrial C1 | RMB 2.50 billion | 22 February 2017 | 2 years | RMB 2.50 billion | 4.80% | 2,602,596,306.20 | 10,499,584.20 | (2,613,095,890.40) | - |
| 17 Industrial C2 | RMB 4.00 billion | 21 March 2017 | 3 years | RMB 4.00 billion | 5.00% | 4,155,892,217.56 | 191,659,090.95 | (191,232,876.69) | 4,156,318,431.82 |
| 17 Industrial C3 | RMB 5.00 billion | 14 April 2017 | 2 years | RMB 5.00 billion | 4.90% | 5,175,222,965.64 | 61,722,239.85 | (5,236,945,205.49) | - |
| 17 Industrial C4 | RMB 3.00 billion | 25 April 2017 | 3 years | RMB 3.00 billion | 5.15% | 3,104,190,655.08 | 146,735,040.39 | (144,764,383.58) | 3,106,161,311.89 |
| 17 Industrial C7 | RMB 2.80 billion | 24 August 2017 | 2 years | RMB 2.80 billion | 5.15% | 2,847,465,771.54 | 87,835,780.71 | (2,935,301,552.25) | - |
| 17 Industrial C8 | RMB 2.00 billion | 15 September 2017 | 2 years | RMB 2.00 billion | 5.10% | 2,026,643,414.77 | 71,481,703.63 | (2,098,125,118.40) | - |
| Sub-total of subordinated debts | | | | | | 27,955,898,498.86 | 845,708,941.71 | (13,488,199,273.39) | 15,313,408,167.18 |
| Structured notes (Note) | | | | | | 631,001,476.71 | - | (631,001,476.71) | - |
| US dollar bonds | USD 295.00 million | 30 December 2019 | 3 years | USD 295.00 million | 2.90% | - | 2,050,529,827.40 | - | 2,050,529,827.40 |
| Total | | | | | | 49,777,236,001.53 | 17,546,677,585.41 | (21,948,719,926.35) | 45,375,193,660.59 |

Note: They are structured notes with periods more than one year issued by the Company through interotc system, which were all expired on 31 December 2019.

34. Provisions

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Risk agency fee | 3,400,000.00 | 4,461,811.81 |
| Total | 3,400,000.00 | 4,461,811.81 |

35. Other liabilities

| | *Notes* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Other payables | (1) | 299,250,398.84 | 336,608,010.22 |
| Dividends payable | | 269,500,000.00 | - |
| Risk reserve for future business | (2) | 62,962,761.95 | 58,259,081.20 |
| Interest payable | | 1,359,285.77 | 1,360,582,586.02 |
| Funds from securities repayment agency business | | 649,838.96 | 649,838.96 |
| Other financial liabilities | | - | 1,204,782,989.84 |
| Others | | 1,097,260.37 | 901,472.87 |
| Total | | 634,819,545.89 | 2,961,783,979.11 |

(1) Other payables

| | *Notes* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Staff risk deposit | (a) | 127,980,236.93 | 80,416,526.89 |
| Payable to security investors protection fund | (b) | 19,194,183.55 | 19,627,248.96 |
| Payable to future investors protection fund | (c) | 786,095.56 | 540,819.48 |
| Sales payment or service fees payable | | 69,602,587.20 | 53,028,540.55 |
| Pledged warehouse receipts | | - | 89,486,624.00 |
| Others | | 81,687,295.60 | 93,508,250.34 |
| Total | | 299,250,398.84 | 336,608,010.22 |

(a) The risk guarantee will be returned in accordance with the Company's relevant regulations after the assessment.

(b) The appropriation of security investors protection fund was made according to the *Notice of China Securities Regulatory Commission on Printing and Distributing the Implementation Measures for the Payment of Securities Investor Protection Funds* by Securities Companies (for Trial Implementation) (Zheng Jian Fa [2007] No. 50) and the *Notice of Implementation of Guideline on the Classified Supervision of Securities Companies (for trial Implementation)* (Zheng Jian Hui Ji Gou Bu Bu Han [2007] No. 268) according to a certain proportion of operating revenue. The proportion of provision in 2019 was 0.5% (2018: 1%).

(c) According to the *Decision on the Amendment of Matters concerning the Payment of Futures Investor Protection Funds by Futures Exchanges and Futures Companies* (Zheng Jian Hui Gong Gao [2016] No. 27), the subsidiary, China Industrial Securities Futures Co., Ltd. (兴证期货有限公司), made appropriation of investor protection fund at 0.006‱ of the agency trading volume since 8 December 2016 (before 8 December 2016: 0.06‱).

(2) Risk reserve for future business

The future risk reserve is appropriated at 5% of the net income of the China Industrial Securities Futures Co., Ltd. (兴证期货有限公司)'s agency fee income less fee payable to the futures exchange.

## 36. Share capital

| | | Movements during the year | | | | | |
|---|---|---|---|---|---|---|---|
| | *Balance at 1 January 2019* | *Issuance of new shares* | *Bonus shares* | *Transfer from reserves* | *Share conversion* | *Sub-total* | *Balance at 31 December 2019* |
| Unrestricted shares - Ordinary shares of RMB | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |

## 37. Capital reserve

| | *Balance at the beginning of the year* | *Additions during the year* | *Decrease during the year* | *Balance at the end of the year* |
|---|---|---|---|---|
| Share premium (Note 1) | 14,368,044,814.01 | 1,894,430.90 | - | 14,369,939,244.91 |
| Other capital reserve (Note 2) | 4,644,215.25 | 4,277.99 | - | 4,648,493.24 |
| Total | 14,372,689,029.26 | 1,898,708.89 | - | 14,374,587,738.15 |

Note 1: The increase of capital premium and capital reserve in the year is mainly due to the Group's purchase of certain non-controlling shares in subsidiaries. Please see VII.2 for details;

Note 2: The increase of other capital reserve during the year is mainly due to the changes in other rights and interests of long-term equity investment accounted by equity method.

## 38. Other comprehensive income

| | | | | 1 January 2019 to 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Balance at the beginning of the year attributable to shareholders of the Company* | *Adjustments of changes in accounting policies* | *Balance at the beginning of the year after adjustment* | *Amount before taxation* | *Less: Income tax expense* | *Less: Previously recognised amount transferred to profit or loss* | ***Total*** | *Net-of-tax amount attributable to shareholders of the Company* | *Net-of-tax amount attributable to non-controlling interests* | *Balance at the end of the year attributable to shareholders of the Company* |
| **Items that will not be reclassified to profit or loss** | | | | | | | | | | |
| Including: Equity investment at fair value through other comprehensive income | - | (42,479,720.51) | (42,479,720.51) | 118,544,060.72 | (29,636,015.18) | - | 88,908,045.54 | 88,908,045.54 | - | 46,428,325.03 |
| **Items that may be subsequently reclassified to profit or loss** | | | | | | | | | | |
| Including: | | | | | | | | | | |
| Share of other comprehensive income of associates | 118,907.53 | - | 118,907.53 | (160,230.00) | 40,057.50 | - | (120,172.50) | (118,907.53) | (1,264.97) | - |
| Changes in fair value of available-for-sale financial assets | 35,423,624.27 | (35,423,624.27) | - | - | - | - | - | - | - | - |
| Changes in fair value of debt securities at fair value through other comprehensive income | - | 47,600,898.67 | 47,600,898.67 | 322,974,483.08 | (71,575,457.81) | (36,672,651.82) | 214,726,373.45 | 214,726,373.45 | - | 262,327,272.12 |
| Credit impairment provisions of debt securities at fair value through other comprehensive income | - | 45,392,541.19 | 45,392,541.19 | 211,884.78 | (52,971.20) | - | 158,913.58 | 158,913.58 | - | 45,551,454.77 |
| Exchange differences on translation of financial statements in foreign currencies | 94,667,161.96 | - | 94,667,161.96 | 92,344,002.51 | - | - | 92,344,002.51 | 49,750,949.53 | 42,593,052.98 | 144,418,111.49 |
| Total | 130,209,693.76 | 15,090,095.08 | 145,299,788.84 | 533,914,201.09 | (101,224,386.69) | (36,672,651.82) | 396,017,162.58 | 353,425,374.57 | 42,591,788.01 | 498,725,163.41 |

39. Surplus reserve

| | *Balance at the beginning of the year* | *Additions during the year* | *Decrease during the year* | *Balance at the end of the year* |
|---|---|---|---|---|
| Statutory surplus reserve | 1,536,265,414.73 | 180,725,540.61 | - | 1,716,990,955.34 |

The statutory surplus accumulation fund is appropriated according to 10% of the Company's annual net profit, which can be used to make up for the Company's losses, expand the Company's production and operation or increase the Company's capital.

40. General risk reserve

| | *Balance at the beginning of the year* | *Additions during the year* | *Decrease during the year* | *Balance at the end of the year* |
|---|---|---|---|---|
| General risk reserve | 2,128,220,991.69 | 327,423,164.37 | - | 2,455,644,156.06 |
| Trading risk reserve | 1,521,269,090.69 | 189,768,704.18 | - | 1,711,037,794.87 |
| Total | 3,649,490,082.38 | 517,191,868.55 | - | 4,166,681,950.93 |

General risk reserves include general risk reserves and trading risk reserves appropriated by the Company and its subsidiaries in accordance with relevant regulations (see Note III. 22).

41. Appropriation of profits and retained earnings

| | *Notes* | *2019* | *2018* |
|---|---|---|---|
| Retained earnings at the beginning of the year (before adjustment) | | 6,844,659,423.43 | 8,026,990,360.95 |
| Total adjustments for opening retained earnings | (1) | (595,833,030.00) | - |
| Retained earnings at the beginning of the year (after adjustment) | | 6,248,826,393.43 | 8,026,990,360.95 |
| Add: Net profits for the year attributable to shareholders of the Company | | 1,762,537,169.01 | 135,348,071.20 |
| Less: Appropriation for statutory surplus reserve | (2) | (180,725,540.61) | (104,392,752.54) |
| Appropriation for general risk reserve | (2) | (327,423,164.37) | (104,392,752.54) |
| Appropriation for trading risk reserve | (2) | (189,768,704.18) | (104,392,752.54) |
| Cash Dividends for ordinary shares | (3) | (334,833,583.70) | (1,004,500,751.10) |
| Retained earnings at the end of the year | | 6,978,612,569.58 | 6,844,659,423.43 |

(1) Impact on retained earnings at the beginning of the year of RMB 595,833,030.00 due to changes in the Group's accounting policies (See Note III. 33(1)(b)).

(2) Appropriation for surplus reserve and risk reserve

According to relevant laws and regulations and Articles of Association, the Group made appropriation for statutory surplus reserve, general risk reserve and trading risk reserve.

(3) Dividends in respect of ordinary shares declared during the year

Pursuant to the shareholders' approval at the shareholders' general meeting on 30 June 2019, a cash dividend of RMB 0.05 per share (2018: RMB 0.15 per share), totalling RMB 334,833,583.70 (2018: RMB 1,004,500,751.10), was declared and paid to the Company's all shareholders on 26 August 2019.

(4) Retained earnings at the end of the year

As at 31 December 2019, the consolidated retained earnings attributable to the Company included appropriation to surplus reserves made by the Company's subsidiaries amounting to RMB 296,479,314.79 (2018: RMB 279,615,386.75).

42. Net fee and commission income

(1) By income type

| | *Note* | *2019* | *2018* |
|---|---|---|---|
| **Net income from securities brokerage business** | | **1,450,371,339.68** | **1,210,894,303.74** |
| - Income from securities brokerage business | | 1,830,835,838.34 | 1,533,211,525.46 |
| - Agency securities trading | | 1,207,511,269.34 | 939,634,081.15 |
| - Lease of trading membership | | 454,187,395.95 | 453,665,953.26 |
| - Agency sale of financial product | | 169,137,173.05 | 139,911,491.05 |
| - Expenses for securities brokerage business | | (380,464,498.66) | (322,317,221.72) |
| - Agency securities trading | | (377,037,346.39) | (320,939,149.28) |
| - Agency sale of financial product | | (3,427,152.27) | (1,378,072.44) |
| | | | |
| **Net income from futures brokerage business** | | **112,887,459.18** | **138,341,876.47** |
| - Income from futures brokerage business | | 118,651,667.47 | 144,417,266.21 |
| - Expenses for futures brokerage business | | (5,764,208.29) | (6,075,389.74) |
| | | | |
| **Net income from investment banking business** | | **743,916,590.94** | **835,766,179.80** |
| - Income from investment banking business | | 759,330,483.56 | 883,391,545.87 |
| - Securities underwriting business | | 605,815,379.21 | 711,026,748.63 |
| - Securities sponsorship business | | 44,687,101.77 | 27,800,504.50 |
| - Financial advisory business | (a) | 108,828,002.58 | 144,564,292.74 |
| - Expenses for investment banking business | | (15,413,892.62) | (47,625,366.07) |
| - Securities underwriting business | | (11,647,510.90) | (24,887,915.03) |
| - Securities sponsorship business | | (2,215,470.76) | (16,308,936.95) |
| - Financial advisory business | (a) | (1,550,910.96) | (6,428,514.09) |
| | | | |
| **Net income from assets management business** | | **295,267,614.75** | **285,687,262.44** |
| - Income from assets management business | | 300,009,528.98 | 291,131,181.94 |
| - Expenses for assets management business | | (4,741,914.23) | (5,443,919.50) |
| | | | |
| **Net income from fund management business** | | **1,599,268,701.23** | **1,725,687,546.06** |
| - Income from fund management business | | 2,107,108,715.18 | 2,243,767,561.58 |
| - Expenses for fund management business | | (507,840,013.95) | (518,080,015.52) |

| | *2019* | *2018* |
|---|---|---|
| **Net Income from investment advisory business** | **46,306,561.66** | **40,470,874.15** |
| - Income from investment advisory business | 46,306,561.66 | 41,333,956.70 |
| - Expenses for investment advisory business | - | (863,082.55) |
| **Net income from other fee and commission** | **145,797,018.68** | **85,461,279.83** |
| - Net income from other fee and commission | 154,347,276.78 | 98,924,908.93 |
| - Expenses for other fee and commission | (8,550,258.10) | (13,463,629.10) |
| Total | 4,393,815,286.12 | 4,322,309,322.49 |
| Including: Total income from fee and commission | 5,316,590,071.97 | 5,236,177,946.69 |
| Total expenses for fee and commission | (922,774,785.85) | (913,868,624.20) |

(a) Net income from financial advisory services

| | *2019* | *2018* |
|---|---|---|
| Net income from M&A restructuring financial advisory business | | |
| - Domestic listed company | 18,411,089.01 | 12,651,212.10 |
| Net income from other financial advisory business | 88,866,002.61 | 125,484,566.55 |
| Total | 107,277,091.62 | 138,135,778.65 |

## 43. Net Interest income/(expenses)

| | *2019* | *2018* |
|---|---|---|
| Interest income | | |
| Including: Interest income from cash at bank and Clearing settlement funds | 970,498,821.21 | 822,401,809.57 |
| Interest income from margin accounts | 1,267,931,085.08 | 1,426,956,584.81 |
| Interest income from financial assets held under resale agreements | 827,443,936.36 | 1,466,239,691.22 |
| Including: Interest income from stock-backed lending and stock repurchase | 702,531,277.41 | 1,443,740,395.26 |
| Interest income from contracted repurchase | 450,453.40 | 3,885,979.20 |
| Interest income from debt securities at fair value through other comprehensive income | 1,099,722,629.68 | - |
| Others | 11,111,463.77 | 8,067,131.73 |
| Sub-total of interest income | 4,176,707,936.10 | 3,723,665,217.33 |
| Interest expenses | | |
| Including: Interest expenses for loans | (422,032,946.62) | (285,562,225.70) |
| Interest expenses for short-term financing payable | (73,168,294.40) | (269,724,118.78) |
| Interest expenses for placements from banks and other financial institutions | (60,611,681.30) | (50,040,470.96) |
| Including: Interest expenses for margin financing and securities lending | (26,463,186.92) | (38,289,995.66) |
| Interest expenses for financial assets sold under repurchase agreement | (669,939,135.34) | (808,848,062.47) |
| Including: Interest expenses for securities-backed lending | (503,652.65) | (800,738.07) |
| Interest expenses for customer deposits | (78,966,766.11) | (63,497,734.87) |
| Interest expenses for bonds payables | (2,103,548,354.95) | (2,565,556,393.38) |
| Including: Interest expenses for subordinated bonds | (908,323,903.81) | (1,563,672,849.75) |
| Others | (17,917,359.26) | (14,180,763.87) |
| Sub-total of interest expenses | (3,426,184,537.98) | (4,057,409,770.03) |
| Net Interest income/(expenses) | 750,523,398.12 | (333,744,552.70) |

## 44. Investment income

### (1) By category

| | *2019* | *2018* |
|---|---|---|
| Income from long-term equity investment income accounted for under the equity method | 62,659,898.99 | 85,634,636.20 |
| Investment income from financial instruments | 2,538,104,848.21 | 3,069,999,742.56 |
| Including: Income from holding financial instruments | 1,740,110,290.40 | 3,329,515,331.17 |
| - Financial assets at fair value through profit or loss | 1,571,064,849.55 | - |
| - Financial instruments held for trading | - | 1,892,934,251.17 |
| - Available-for-sale financial assets | - | 1,439,515,037.07 |
| - Equity securities not held for trading | 159,794,443.83 | - |
| - Derivative financial instruments | 9,250,997.02 | 1,582,343.15 |
| - Financial liabilities at fair value through profit or loss | - | (4,516,300.22) |
| Gains on disposal of financial instruments | 797,994,557.81 | (259,515,588.61) |
| - Financial assets at fair value through profit or loss | 793,851,041.84 | - |
| - Debt securities at fair value through other comprehensive income | 36,672,651.82 | - |
| - Financial instruments held for trading | - | (757,287,364.57) |
| - Derivative financial instruments | (32,529,135.85) | 98,167,044.16 |
| - Financial liabilities at fair value through profit or loss | - | (44,098,136.28) |
| - Available-for-sale financial assets | - | 443,702,868.08 |
| Others | - | (295,553,642.44) |
| Total | 2,600,764,747.20 | 2,860,080,736.32 |

Details of investment income from financial instruments are as follows:

| | | *2019* | *2018* |
|---|---|---|---|
| Financial assets classified at fair value through profit or loss | Income from holding financial instruments | 1,574,650,218.11 | 1,892,934,251.17 |
| | Income/(losses) from disposals | 827,642,895.37 | (757,287,364.57) |
| Financial assets designated at fair value through profit or loss | Income from holding financial instruments | - | - |
| | Income from disposals | - | - |
| Financial liabilities classified at fair value through profit or loss | Income/(losses) from holding financial instruments | 10,164,631.44 | (4,516,300.22) |
| | Income/(losses) from disposals | 10,700,560.35 | (44,098,136.28) |
| Financial liabilities designated at fair value through profit or loss | Losses from holding financial instruments | (13,750,000.00) | - |
| | Losses from disposals | (44,492,413.88) | - |
| Total | | 2,364,915,891.39 | 1,087,032,450.10 |

(2) Income from investment in associates and joint ventures

See Note VI. 14(2).

(3) Significant restrictions on the repatriation of investment returns.

None of the above-mentioned investment income faces any significant restriction on the repatriation of investment returns.

45. Other revenue

| | *2019* | *2018* | *Amount recognised in extraordinary gain and loss in 2019* |
|---|---|---|---|
| Government grants related to income | 212,497,046.07 | 190,885,500.44 | 212,497,046.07 |
| Commission refund from tax withheld and remitted | 17,839,284.41 | 10,854,054.36 | 17,839,284.41 |
| Others | 28,841.62 | - | 28,841.62 |
| Total | 230,365,172.10 | 201,739,554.80 | 230,365,172.10 |

| *Subsidy item* | *2019* | *2018* | *Related to assets/income* |
|---|---|---|---|
| Special subsidy | 128,107,000.00 | 125,379,006.95 | - Related to income |
| Financial incentives and subsidies | 84,390,046.07 | 65,506,493.49 | - Related to income |
| Others | 17,868,126.03 | 10,854,054.36 | - Related to income |
| Total | 230,365,172.10 | 201,739,554.80 | |

46. Gains/(losses) from changes in fair value

| | *2019* | *2018* |
|---|---|---|
| Financial assets at fair value through profit or loss | 1,748,463,476.87 | - |
| Including: Financial assets designated at fair value through profit or loss | - | - |
| Financial liabilities at fair value through profit or loss | (201,974,492.19) | - |
| Including: Financial assets designated at fair value through profit or loss | (201,974,492.19) | - |
| Derivative financial instruments | 10,040,572.61 | 12,553,158.80 |
| Financial assets held for trading | - | (1,182,867,981.32) |
| Including: Financial assets designated at fair value through profit or loss | - | (121,049,045.95) |
| Financial liabilities held for trading | - | 99,016,279.27 |
| Including: Financial liabilities designated at fair value through profit or loss | - | 12,728,826.70 |
| Total | 1,556,529,557.29 | (1,071,298,543.25) |

## 47. Other business income

| | *2019* | *2018* |
|---|---|---|
| Income from commodity trading | 4,724,539,769.29 | 492,525,704.01 |
| Lease income | 11,175,162.61 | 17,757,662.56 |
| Income from property management | 670,550.93 | 651,168.12 |
| Others | 7,368,229.72 | 2,904,944.76 |
| Total | 4,743,753,712.55 | 513,839,479.45 |

## 48. Taxes and surcharges

| | *2019* | *2018* |
|---|---|---|
| Urban maintenance and construction tax | 30,461,042.93 | 31,725,417.33 |
| Education surcharges and local education surcharges | 20,696,598.59 | 21,646,299.70 |
| Others | 8,417,825.59 | 8,499,706.97 |
| Total | 59,575,467.11 | 61,871,424.00 |

49. General and administrative expenses

| | *2019* | *2018* |
|---|---|---|
| Salaries, bonuses, allowances | 3,624,572,898.93 | 2,653,903,539.19 |
| Social insurance | 693,078,464.87 | 328,868,130.80 |
| Lease payments | 306,051,056.12 | 263,982,289.61 |
| Depreciation and amortisation | 182,442,802.73 | 146,886,398.70 |
| Office operating expenses | 129,701,758.25 | 92,100,952.40 |
| Housing fund | 127,665,744.30 | 102,260,745.68 |
| Entertainment expenses | 111,626,676.76 | 116,421,712.39 |
| Advisory fee | 102,521,476.98 | 112,460,952.66 |
| Business travel expenses | 100,538,301.54 | 91,384,391.67 |
| Other labour costs | 71,289,160.86 | 73,348,509.92 |
| Asset management and marketing expenses | 46,896,807.43 | 78,486,868.72 |
| Others | 532,963,953.41 | 508,289,561.34 |
| Total | 6,029,349,102.18 | 4,568,394,053.08 |

50. Assets impairment losses

| | *2018* |
|---|---|
| Financial assets held under resale agreements | 596,308,162.70 |
| Available-for-sale financial assets | 78,041,241.38 |
| Margin accounts | 10,846,071.19 |
| Bad and doubtful debts | 2,491,166.50 |
| Others | 2,026,385.51 |
| Total | 689,713,027.28 |

51. Credit impairment loss

| | *2019* |
|---|---|
| Reversal of impairment losses for cash at bank and on hand | (232,004.64) |
| Margin accounts | 568,567,724.39 |
| Reversal of provision for accounts receivable | (3,484,758.37) |
| Financial assets held under resale agreements | 187,581,265.14 |
| Debt securities at fair value through other comprehensive income | 1,096,487.18 |
| Reversal of provision for other financial assets | (4,578,407.06) |
| Total | 748,950,306.64 |

52. Reversal of impairment losses on other assets

| | *2019* |
|---|---|
| Commodity Inventories | (2,016,638.57) |

53. Other operating cost

| | *2019* | *2018* |
|---|---|---|
| Selling cost for commodity trading | 4,743,948,063.60 | 497,838,466.68 |
| Expenses for house property leasing | 6,389,542.20 | 12,016,640.39 |
| Expenses for property management | 2,697,126.41 | 3,133,302.70 |
| Others | - | 316,866.17 |
| Total | 4,753,034,732.21 | 513,305,275.94 |

54. Non-operating income and non-operating expenses

(1) Non-operating income by item is as follows:

| | *2019* | *2018* | *Amount recognised in extraordinary gain and loss in 2019* |
|---|---|---|---|
| Accounts payable unable to be paid | 540,526.35 | 212,569.33 | 540,526.35 |
| Reversal of provisions | - | 7,844,386.00 | - |
| Others | 1,961,159.42 | 984,081.77 | 1,912,973.45 |
| Total | 2,501,685.77 | 9,041,037.10 | 2,453,499.80 |

(2) Non-operating expenses

| *Item* | *2019* | *2018* | *Amount recognised in extraordinary gain and loss in 2019* |
|---|---|---|---|
| Expenses for donation | 29,442,891.24 | 17,271,919.00 | 29,442,891.24 |
| Penalty and compensation for damage | 3,446,285.15 | 3,027,537.69 | 3,446,285.15 |
| Losses on disposal of non-current assets | 427,795.76 | 82,852.82 | 427,795.76 |
| Others | 284,474.72 | 1,479,311.79 | 284,417.77 |
| Total | 33,601,446.87 | 21,861,621.30 | 33,601,389.92 |

55. Income tax expenses

| | *2019* | *2018* |
|---|---|---|
| Current tax expense for the year based on tax law and regulations | 753,772,455.49 | 541,400,225.53 |
| Changes in deferred tax assets/liabilities | 104,046,986.78 | (517,954,894.25) |
| Tax filling differences | (143,568,726.21) | 54,430,116.94 |
| Total | 714,250,716.06 | 77,875,448.22 |

Reconciliation between income tax expenses and accounting profit:

| | *2019* | *2018* |
|---|---|---|
| Profits before taxation | 2,629,543,130.82 | 653,269,072.64 |
| Expected income tax expenses at tax rate of 25% | 657,385,782.73 | 163,317,268.15 |
| Effect of different tax rates applied by subsidiaries | 31,594,718.69 | (20,141,981.20) |
| Tax filling differences | (143,568,726.21) | 54,430,116.94 |
| Effect of non-taxable income | (68,277,683.54) | (182,899,006.25) |
| Effect of non-deductible costs, expense and losses | 254,974,265.11 | 45,412,692.66 |
| Use of temporary differences in unrecognized deferred income tax assets | (2,760,412.98) | (3,255,853.27) |
| Temporary differences in deferred income tax not recognized in the current period | (15,097,227.74) | 21,012,211.19 |
| Income tax expenses | 714,250,716.06 | 77,875,448.22 |

56. Basic earnings per share and diluted earnings per share

Basic earnings per share is calculated as dividing consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

| | *2019* | *2018* |
|---|---|---|
| Consolidated net profit attributable to ordinary shareholders | 1,762,537,169.01 | 135,348,071.20 |
| Weighted average number of ordinary shares outstanding | 6,696,671,674.00 | 6,696,671,674.00 |
| Basic earnings per share (RMB/share) | 0.26 | 0.02 |

The Company does not have any potential dilutive ordinary shares. Therefore, the calculation of diluted earnings per share and basic earnings per share is the same.

57. Cash flow statement

(1) Proceeds relating to other operating activities:

| | *2019* | *2018* |
|---|---|---|
| Receivable from commodity trading | 4,724,539,769.29 | 492,525,704.01 |
| Government grants | 215,964,523.61 | 192,998,052.96 |
| VAT from assets management products | 315,590,464.89 | 196,837,866.61 |
| Others | 420,026,983.74 | 96,371,427.47 |
| Total | 5,676,121,741.53 | 978,733,051.05 |

(2) Payments relating to other operating activities:

| | *2019* | *2018* |
|---|---|---|
| Cost for commodity trading | 5,556,845,465.93 | 497,838,466.68 |
| Business and administration management fee | 1,302,737,548.53 | 1,160,908,136.68 |
| Net refundable deposits | 1,157,795,107.67 | 59,525,012.25 |
| Changes in restricted cash at bank and on hand | 231,503,538.34 | 396,277,279.48 |
| Non-operating expenses | 33,601,446.87 | 19,902,352.92 |
| Equity swap principal and deposits | - | 31,000,000.00 |
| Other businesses | 148,771,752.13 | 387,447,980.08 |
| Total | 8,431,254,859.47 | 2,552,899,228.09 |

58. Supplement information on cash flow statement

(1) Supplement to cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities:

| | *2019* | *2018* |
|---|---|---|
| Net profit | 1,915,292,414.76 | 575,393,624.42 |
| Add: Credit/impairment losses | 746,933,668.07 | 689,713,027.28 |
| Depreciation of fixed assets | 82,959,482.33 | 69,401,482.88 |
| Amortisation of intangible assets | 71,119,153.32 | 50,615,414.20 |
| Amortisation of long-term deferred expenses | 93,732,513.98 | 54,129,460.25 |
| Depreciation on investment properties | 6,389,542.20 | 12,016,640.36 |
| Losses/(gains) on disposal or retirement of fixed assets, intangible assets and other long-term assets | 381,594.04 | (442,106.98) |
| Losses on scrapping of fixed assets | - | 82,852.82 |
| (Gains)/losses from changes in fair value | (1,556,529,557.29) | 1,071,298,543.25 |
| Net interest expenses | 1,499,026,966.29 | 3,120,842,737.86 |
| Losses/(gains) arising from foreign exchange | 25,834,417.85 | (6,005,333.05) |
| Investment income | (259,126,994.64) | (510,565,358.71) |
| Decrease/(increase) in deferred tax assets | 121,054,739.30 | (501,986,285.86) |
| Decrease in deferred tax liabilities | (17,007,752.52) | (15,968,608.39) |
| Increase in financial instruments trading at fair value through profit or loss | (492,939,997.86) | - |
| Decrease in financial instruments held for trading | - | 100,091,098.41 |
| Increase in available-for-sale financial assets | - | (7,677,994,460.34) |
| Decrease in operating receivables | 5,049,090,761.14 | 10,991,305,762.53 |
| Increase in operating payables | 11,057,537,562.34 | 9,585,107,627.71 |
| Net cash flow from operating activities | 18,343,748,513.31 | 17,607,036,118.64 |

(b) Significant investing and financing activities not requiring the use of cash:

The Group does not have significant investing and financing activities not requiring the use of cash during 2019.

(c) Change in cash:

| | *2019* | *2018* |
|---|---|---|
| Cash at the end of the year | 52,909,338,431.64 | 32,286,006,031.06 |
| Less: Cash at the beginning of the year | (32,286,006,031.06) | (26,688,812,174.03) |
| Net increase in cash | 20,623,332,400.58 | 5,597,193,857.03 |

(2) Information on acquisition or disposal of subsidiaries and other business units during the year:

The Group does not have any significant acquisition or disposal of subsidiaries during 2019 and 2018.

(3) Details of cash

| | | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Cash | | | |
| Including: | Cash on hand | 53,544.00 | 243,200.00 |
| | Bank deposits available on demand | 46,211,232,591.21 | 26,199,308,815.55 |
| | Other monetary funds available on demand | 60,197,703.44 | 59,132,344.41 |
| | Clearing settlement funds available on demand | 6,637,854,592.99 | 6,027,321,671.10 |
| Cash balance at the end of the year | | 52,909,338,431.64 | 32,286,006,031.06 |

## 59. Monetary items denominated in foreign currencies

### (1) Monetary items denominated in foreign currencies

| | | 31 December 2019 | | |
|---|---|---|---|---|
| | | *Amount in original currency* | *Exchange rates* | *Amount in RMB equivalent* |
| Cash at bank and on hand | | | | |
| Including: | USD | 927,155,535.82 | 6.97620 | 6,468,022,448.97 |
| | HKD | 2,160,780,391.16 | 0.89578 | 1,935,583,858.79 |
| | Other currencies | | | 5,057,143.32 |
| Clearing settlement funds | | | | |
| Including: | USD | 3,645,275.10 | 6.97620 | 25,430,168.15 |
| | HKD | 8,475,343.31 | 0.89578 | 7,592,043.03 |
| Margin accounts | | | | |
| Including: | HKD | 3,734,882,977.15 | 0.89578 | 3,345,633,473.27 |
| Accounts receivables | | | | |
| Including: | HKD | 1,808,231,639.39 | 0.89578 | 1,619,777,737.93 |
| Refundable deposits | | | | |
| Including: | USD | 19,799,791.04 | 6.97620 | 138,127,302.26 |
| | HKD | 26,451,172.47 | 0.89578 | 23,694,431.28 |
| Other assets | | | | |
| Including: | HKD | 1,447,540,445.67 | 0.89578 | 1,296,677,780.42 |
| Short-term loans | | | | |
| Including: | USD | 25,195,281.29 | 6.97620 | 175,767,321.32 |
| | HKD | 6,371,479,379.42 | 0.89578 | 5,707,443,798.50 |
| Accounts payable to brokerage and margin clients | | | | |
| Including: | USD | 111,205,894.40 | 6.97620 | 775,794,560.48 |
| | HKD | 1,710,592,403.61 | 0.89578 | 1,532,314,463.31 |
| | Other currencies | | | 13,503,629.74 |
| Accounts payables | | | | |
| Including: | HKD | 809,207,767.70 | 0.89578 | 724,872,134.15 |
| Long-term loans: | | | | |
| Including: | HKD | 3,348,128,926.79 | 0.89578 | 2,999,186,930.04 |
| Other liabilities | | | | |
| Including: | HKD | 59,266,691.88 | 0.89578 | 53,089,917.25 |

| | | 31 December 2018 | | |
|---|---|---|---|---|
| | | *Amount in original currency* | *Exchange rates* | *Amount in RMB* |
| Cash at bank and on hand | | | | |
| Including: | USD | 408,233,359.70 | 6.86320 | 2,801,787,194.28 |
| | HKD | 3,242,581,287.11 | 0.87620 | 2,841,149,723.77 |
| | Other currencies | | | 87,362,137.86 |
| Clearing settlement funds | | | | |
| Including: | USD | 2,420,780.06 | 6.86320 | 16,614,297.71 |
| | HKD | 10,210,730.54 | 0.87620 | 8,946,642.10 |
| Margin accounts | | | | |
| Including: | HKD | 5,796,856,934.88 | 0.87620 | 5,079,206,046.34 |
| Accounts receivables | | | | |
| Including: | HKD | 1,499,775,057.45 | 0.87620 | 1,314,102,905.33 |
| Refundable deposits | | | | |
| Including: | USD | 45,311,702.82 | 6.86320 | 310,983,278.79 |
| | HKD | 25,679,208.68 | 0.87620 | 22,500,122.65 |
| Short-term loans | | | | |
| Including: | USD | 187,529,979.86 | 6.86320 | 1,287,055,757.76 |
| | HKD | 5,650,000,000.00 | 0.87620 | 4,950,530,000.00 |
| Accounts payable to brokerage and margin clients | | | | |
| Including: | USD | 370,464,644.09 | 6.86320 | 2,542,572,945.29 |
| | HKD | 2,484,260,581.23 | 0.87620 | 2,176,709,121.24 |
| | Other currencies | | | 102,191,089.49 |
| Accounts payables | | | | |
| Including: | USD | 4,747.19 | 6.86320 | 32,580.91 |
| | HKD | 398,661,635.06 | 0.87620 | 349,307,324.64 |
| Long-term loans | | | | |
| Including: | HKD | 3,380,000,000.00 | 0.87620 | 2,961,556,000.00 |

(2) Foreign operations

The Group's significant foreign operation is one of its subsidiaries: Industrial Securities (Hong Kong), its principal place of business is Hong Kong and its functional currency is Hong Kong Dollar. Functional currency is determined by the subsidiary on the basis of its primary economic environment, and there have been no changes in functional currency during the reporting period.

## VII. Interests in other entities

### 1. Interests in subsidiaries

#### (1) Composition of the Group

See Notes V. 1 and 2 for details of subsidiaries and structured entities included in the consolidated financial statement.

#### (2) Material non-wholly owned subsidiaries

| | 31 December 2019 | | | |
|---|---|---|---|---|
| *Name of the Subsidiary* | *Proportion of ownership interest held by non-controlling interests* | *Profit or loss allocated to non-controlling interests during the year* | *Dividend declared to non-controlling shareholders during the year* | *Balance of non-controlling interests at the end of the year* |
| AEGON-Industrial Fund 兴证基金 | 49.00% | 353,113,458.34 | 336,630,000.00 | 946,827,252.09 |
| Industrial Futures 兴证期货 | 0.45% | 352,909.85 | - | 6,400,495.81 |
| Industrial Securities International | 48.07% | (201,436,527.34) | 38,950,299.67 | 1,653,141,290.62 |

| | 31 December 2018 | | | |
|---|---|---|---|---|
| *Name of the Subsidiary* | *Proportion of ownership interest held by non-controlling interests* | *Profit or loss allocated to non-controlling interests during the year* | *Dividend declared to non-controlling shareholders during the year* | *Balance of non-controlling interests at the end of the year* |
| AEGON-Industrial Fund 兴证基金 | 49.00% | 355,937,753.95 | - | 930,378,138.10 |
| Industrial Futures 兴证期货 | 0.45% | 1,885,583.92 | 2,574,992.09 | 6,048,461.51 |
| Industrial Securities International | 48.16% | 69,108,710.46 | 47,529,331.71 | 1,861,651,813.06 |

(3) Key financial information about material non-wholly owned subsidiaries

The following table sets out the key financial information of the above subsidiaries without offsetting internal transactions, but with adjustments made for the relevant fair value adjustment at the acquisition date and any differences in accounting policies:

| | *AEGON-Industrial Fund 兴证基金* | | *Industrial Futures 兴证期货* | | *Industrial Securities International* | |
|---|---|---|---|---|---|---|
| | *2019* | *2018* | *2019* | *2018* | *2019* | *2018* |
| Total assets | 3,668,843,350.50 | 2,777,052,027.77 | 12,699,473,612.18 | 9,751,105,009.07 | 21,836,557,500.07 | 20,522,118,924.62 |
| Total liabilities | 1,736,542,836.04 | 878,321,133.68 | 11,277,141,210.66 | 8,407,002,451.65 | 18,386,827,381.00 | 16,656,673,280.38 |
| Operating income | 2,337,964,450.27 | 2,414,683,213.04 | 5,091,968,902.83 | 889,754,685.99 | 1,229,071,496.76 | 949,644,481.35 |
| Net profit/(loss) | 720,639,710.90 | 726,403,579.48 | 78,424,410.84 | 97,290,873.79 | (407,536,000.70) | 146,693,489.27 |
| Total comprehensive income | 720,639,710.90 | 662,576,294.54 | 78,424,410.84 | 95,229,321.52 | (407,536,000.70) | 287,831,977.66 |
| Cash flows from operating activities | 534,717,072.07 | 357,877,494.85 | (395,070,953.21) | 1,113,227,948.65 | 2,382,248,891.05 | (1,485,094,953.35) |

2. Transactions that cause changes in the Group's interests in subsidiaries that do not result in loss of control

The Company's subsidiary Industrial Securities (Hong Kong) acquired some of Industrial Securities International's non-controlling interests (0.09% of the company's shares) with self-owned funds. Industrial Securities International is a subsidiary of Industrial Securities (Hong Kong). The acquisition did not change the Company's control in that subsidiary.

| | Industrial Securities International RMB |
|---|---|
| Acquisition cost/disposal consideration | |
| - Cash | (1,726,570.44) |
| Total | (1,726,570.44) |
| Less: Share of net assets in subsidiaries based on the shares acquired/disposed | 3,621,001.34 |
| Difference | 1,894,430.90 |
| Including: Adjustment on capital reserve | 1,894,430.90 |

3. Interests in joint ventures or associates

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Joint ventures | | |
| - material joint ventures | 1,321,684,872.04 | 1,289,188,635.40 |
| - immaterial joint ventures | 28,974,378.86 | 34,639,920.77 |
| Associates | | |
| - material associates | 43,370,400.01 | 42,705,981.57 |
| - immaterial associates | 379,231,643.09 | 345,394,424.04 |
| Sub-total | 1,773,261,294.00 | 1,711,928,961.78 |
| Less: Provision for impairment | - | - |
| Total | 1,773,261,294.00 | 1,711,928,961.78 |

(1) Material joint ventures or associates:

| *Name of investee* | *Registered place* | *Business nature* | *Shareholding percentage (%)* | | *Accounting treatment of investments in associates* | *Paid-in capital* | *Strategic to the Group's activities* |
|---|---|---|---|---|---|---|---|
| | | | Direct | Indirect | | | |
| *Associates* | | | | | | | |
| Haixia Equity Exchange (Fujian) Co., Ltd (海峡股权交易中心（福建）有限公司) | Pingtan, Fujian | Equity exchanges | 21.43 | - | Equity method | RMB 210 million | Yes |
| *Joint ventures* | | | | | | | |
| Fujian Relief I Equity Investment Partnership (Limited Partnership) (福建省纾困一号股权投资合伙企业(有限合伙)) | Pingtan, Fujian | Equity exchanges | - | 64.50 | Equity method | RMB 200 million | Yes |

(2) Key financial information of material associates

The following table sets out the key financial information of the Group's material associates, adjusted for fair value adjustments at the time of acquisition and any differences in accounting policies of the Group. The table also reconciles the key financial information to the carrying amount of the Group's investments in the associates when using the equity method:

| | *Haixia Equity Exchange (Fujian) Co., Ltd.* | |
|---|---|---|
| | *2019* | *2018* |
| Total assets | 236,187,435.20 | 238,032,809.90 |
| Total liabilities | 34,957,457.71 | 39,772,609.26 |
| Net asset | | |
| Non-controlling interests | 408,152.48 | 579,421.38 |
| Attributable to shareholders of the Company | 200,821,825.01 | 197,680,779.26 |
| Share of net assets by shareholding percentage | 43,036,117.10 | 42,362,990.99 |
| Add: Other adjustments | 334,282.91 | 342,990.58 |
| Less: Provision for impairment | - | - |
| Carrying amount of interests in associates | 43,370,400.01 | 42,705,981.57 |
| | | |
| Operating income | 18,138,870.40 | 28,735,152.78 |
| Net profit/(loss) | 2,969,776.87 | (14,780,526.46) |
| Other comprehensive income | - | - |
| Total comprehensive income | 2,969,776.87 | (14,780,526.46) |
| | | |
| Dividends received from associates during the year | - | - |

(3) Key financial information of material joint ventures:

The following table sets out the key financial information of the Group's material joint ventures, adjusted for fair value adjustments at the time of acquisition and any differences in accounting policies of the Group. The table also reconciles the key financial information to the carrying amount of the Group's investments in the joint ventures when using the equity method:

| | Fujian Relief I Equity Investment Partnership (Limited Partnership) (福建省纾困一号股权投资合伙企业(有限合伙)) | |
|---|---|---|
| | *2019* | *2018* |
| Total assets | 2,049,123,832.62 | 1,999,242,070.39 |
| Total liabilities | - | 500,000.00 |
| Partner interest | 2,049,123,832.62 | 1,998,742,070.39 |
| Share of net assets in subsidiaries based on the shares acquired/shareholding | 1,321,684,872.04 | 1,289,188,635.40 |
| Less: Provision for impairment | - | - |
| Carrying amount of interests in joint ventures | 1,321,684,872.04 | 1,289,188,635.40 |
| Operating income | 69,379,100.02 | 338,688.51 |
| Net profit/(loss) | 50,381,762.23 | (1,257,929.61) |
| Other comprehensive income | - | - |
| Total comprehensive income | 50,381,762.23 | (1,257,929.61) |
| Dividends received from associates during the year | - | - |

(4) Summarised financial information of immaterial joint ventures and associates

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Joint ventures: | | |
| Aggregate carrying amount of investments | 28,974,378.86 | 34,639,920.77 |
| Aggregate amount of share of | | |
| - Net loss | (6,455,725.78) | (442,254.95) |
| - Other comprehensive income | - | - |
| - Total comprehensive income | (6,455,725.78) | (442,254.95) |
| Associates: | | |
| Aggregate carrying amount of investments | 379,231,643.09 | 345,394,424.04 |
| Aggregate amount of share of | | |
| - Net profit | 35,954,969.69 | 90,057,024.08 |
| - Other comprehensive income | (600,862.50) | 600,862.50 |
| - Total comprehensive income | 35,354,107.19 | 90,657,886.58 |

4. Interests in structured entities not included in the consolidated financial statements

(1) Basic information of structured entities not included in the consolidated financial statements

The Group's structured entities not included in the consolidated financial statements include funds (private equity fund included), wealth management product of bank, asset management scheme and trust scheme sponsored by third-party institution and directly held by the Group, and fund (private equity fund included) and asset management scheme sponsored by the Group. The purpose of these structured entities is to manage assets on behalf of investors. These structured entities are financed through the issuance of investment products to investors. Interest in the unconsolidated structured entities held by the Group mainly represents interests through direct holding of the investment and administrative fees charged on managing these structured entities. The Group believes the variable returns from structured entities is not significant except for those consolidated structured entities stated in Note V. 2. Therefore, the Group has not consolidated any other structured entity.

See Note VII. 4(3) for details of unconsolidated structured entities sponsored by the Group as at 31 December 2019 and 31 December 2018.

(2) Interest in the structured entities sponsored by third-party institutions

The Group enjoys interests in structured entities sponsored by third-party institutions through direct investments. As at 31 December 2019 and 31 December 2018, relevant line items and the carrying amounts / maximum loss exposure of the Group’s interests in structured entities sponsored by third-party institutions through direct investments in the consolidated balance sheet are as follows:

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *Financial assets held for trading* | *Equity securities not held for trading* | *Long-term equity investments* | *Total* |
| Public offering funds | 7,305,105,683.33 | - | - | 7,305,105,683.33 |
| Wealth management products of banks | 1,511,686,025.21 | - | - | 1,511,686,025.21 |
| Asset management products of securities companies | 200,891,229.01 | - | - | 200,891,229.01 |
| Trust scheme | 472,628,205.87 | - | - | 472,628,205.87 |
| Asset management scheme and others | 860,231,688.80 | 2,495,987,365.42 | 126,034,827.54 | 3,482,253,881.76 |
| Total | 10,350,542,832.22 | 2,495,987,365.42 | 126,034,827.54 | 12,972,565,025.18 |

| | *31 December 2018* | | | |
|---|---|---|---|---|
| | *Financial assets at fair value through profit or loss* | *Available-for-sale financial assets* | *Long-term equity investments* | *Total* |
| Fund and special account in fund | 7,756,041,753.54 | 391,595,685.12 | - | 8,147,637,438.66 |
| Assets management scheme of securities companies | - | 106,119,599.82 | - | 106,119,599.82 |
| Others | - | 2,640,431,954.56 | 113,823,793.94 | 2,754,255,748.50 |
| Total | 7,756,041,753.54 | 3,138,147,239.50 | 113,823,793.94 | 11,008,012,786.98 |

As at 31 December 2019 and 31 December 2018, the maximum exposure to investment risk arising from the above funds and wealth management products etc. equals their fair value at the reporting date.

(3) Interests in unconsolidated structured entities sponsored by the Group

Structured entities sponsored by the Group but not include in the consolidated financial statements. As at 31 December 2019 and 31 December 2018, relevant line items and the carrying amounts / maximum loss exposure of the Group's interests in structured entities sponsored by third-party institutions through direct investments in the consolidated balance sheet are as follows:

| | *31 December 2019* | | | |
|---|---|---|---|---|
| | *Financial assets held for trading* | *Equity securities not held for trading* | *Long-term equity investments* | *Total* |
| Public offering funds | 2,643,223,682.56 | - | - | 2,643,223,682.56 |
| Asset management products of securities companies | 600,515,227.66 | - | - | 600,515,227.66 |
| Asset management scheme and others | 277,140,068.67 | - | 1,357,491,739.86 | 1,634,631,808.53 |
| Total | 3,520,878,978.89 | - | 1,357,491,739.86 | 4,878,370,718.75 |

| | *31 December 2018* | | | |
|---|---|---|---|---|
| | *Financial assets at fair value through profit or loss* | *Available-for-sale financial assets* | *Long-term equity investments* | *Total* |
| Fund and special account in fund | 3,920,685,030.93 | 330,763,788.50 | - | 4,251,448,819.43 |
| Assets management scheme of securities companies | - | 618,900,035.57 | - | 618,900,035.57 |
| Others | - | 1,064,100.00 | 1,330,467,060.77 | 1,331,531,160.77 |
| Total | 3,920,685,030.93 | 950,727,924.07 | 1,330,467,060.77 | 6,201,880,015.77 |

As at 31 December 2019 and 31 December 2018, the maximum exposure to investment risk arising from the above funds (private fund included) and asset management products of securities companies etc. equals their fair value at the reporting date.

As at 31 December 2019, assets held by unconsolidated structured entities sponsored by the Group amounting to RMB 430.34 billion (2018: RMB 364.843 billion). In 2019, the Group recognised RMB 1,921,048,922.34 (2018: RMB 2,003,592,644.35) of net management fee income from these structured entities.

## VIII. Segment reporting

In 2019, adjusted reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. Resource allocation and performance evaluation are based on the adjusted reportable segments. Therefore, the segment reports for 2018 and 2019 have been presented in accordance with the following new segments.

The wealth management segment includes securities and futures brokerage and asset management. The securities and futures brokerage business provide clients with both on-site and online comprehensive financial service solutions for specific issue in the following fields: securities and futures brokerage, sale of goods, margin trading and securities lending, stock pledged repurchase and investment advisory. The Group's asset management business includes providing management services for assets of securities companies, fund assets and private investment funds.

Institutional services segment includes institutional sales and research and investment banking. Institutional sales and research business provide securities research and sales transaction services, brokerage transaction settlement services, asset custody and outsourcing services for various institution clients. The investment banking segment provides one-stop direct financing services including stock financing, bond financing, merger financing, the New Third Board and structured financing, asset securitisation, financial consulting, and regional equity market services for corporate and government clients.

The proprietary investment segment is engaged in multiple types of proprietary investment, trading and market-making services including stocks, bonds, derivatives, equity, and alternatives under the precondition of carrying out value investment and prudent operation.

The company's overseas business segment is mainly engaged in global securities and futures brokerage, institutional sales and research, corporate financing, fixed income, asset management, private wealth management, etc., in Hong Kong through its wholly-owned subsidiary Industrial Securities (Hong Kong), and Industrial Securities International which is held by Industrial Securities (Hong Kong).

Segment accounting policies are based on those for the consolidated financial statements, except for proprietary trading business where internal fund expenses are included in operating expenses at internal transfer price. Segment revenue and expenditure are measured on the basis of the actual transaction price of each segment, except for the internal funds on income and expense between segments are recognised at the internal transfer price.

Assets are allocated based on the operations of the segments and the location of the assets. Liabilities are allocated based on the operations of the segments. Segment capital expenditure refers to the total expenses arising from fixed assets, intangible assets and other long-term assets purchased by the segment during the accounting period.

The Group provides services in mainland China and Hong Kong. All of its external transaction income is derived from mainland China and Hong Kong. The Group's financial assets and non-current assets other than deferred income tax assets are mostly located in mainland China and Hong Kong.

The Group's businesses do not carry out to specific clients; therefore, the Group does not have significant dependence on any single client.

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Wealth management* | | *Institutional services* | *Proprietary trading business* | *Overseas business* | *Others* | *Elimination among segments* | *Total* |
| | *Securities and futures businesses* | *Asset management* | | | | | | |
| Operating income | | | | | | | | |
| Net fee and commission income/(expenses) | 1,073,074,344.90 | 1,875,875,148.35 | 1,178,968,581.68 | (16,228.97) | 249,956,470.08 | 18,807,946.56 | (2,850,976.48) | 4,393,815,286.12 |
| Investment income | 14,087,049.87 | 274,199,219.44 | 56,059,932.62 | 1,896,105,666.49 | 322,310,820.75 | 496,081,280.30 | (458,079,222.27) | 2,600,764,747.20 |
| Others | 935,291,427.38 | 30,640,640.70 | 4,657,478,648.39 | 2,010,497,138.99 | (141,422,474.94) | 495,264,437.70 | (732,793,990.05) | 7,254,955,828.17 |
| Total operating income | 2,022,452,822.15 | 2,180,715,008.49 | 5,892,507,162.69 | 3,906,586,576.51 | 430,844,815.89 | 1,010,153,664.56 | (1,193,724,188.80) | 14,249,535,861.49 |
| Operating expenses | 1,809,763,508.80 | 1,012,929,738.73 | 5,594,399,988.27 | 861,097,121.76 | 924,652,148.76 | 2,121,519,139.59 | (735,468,676.34) | 11,588,892,969.57 |
| Operating profit/(loss) | 212,689,313.35 | 1,167,785,269.76 | 298,107,174.42 | 3,045,489,454.75 | (493,807,332.87) | (1,111,365,475.03) | (458,255,512.46) | 2,660,642,891.92 |
| Total assets | 56,280,764,773.86 | 9,394,049,681.40 | 2,673,885,336.00 | 48,683,055,620.61 | 23,828,797,087.42 | 56,775,822,194.74 | (27,061,419,463.89) | 170,574,955,230.14 |
| Total liabilities | 52,142,096,239.01 | 5,410,883,149.69 | 2,769,732,776.47 | 44,649,847,415.76 | 20,291,224,093.92 | 28,664,028,434.35 | (20,396,543,860.57) | 133,531,268,248.63 |
| Supplement information | | | | | | | | |
| Depreciation and amortisation expenses | 48,165,631.39 | 23,992,026.82 | 16,424,240.67 | 1,764,298.20 | 13,426,143.59 | 106,066,807.57 | - | 209,839,148.24 |
| Capitalised expenses | 62,459,220.23 | 19,797,389.84 | 14,545,664.21 | 2,773,186.21 | 8,221,034.04 | 175,077,134.73 | - | 282,873,629.26 |
| Credit/impairment losses | 188,861,282.32 | 843,430.70 | (228,544.37) | (316,974.61) | 563,656,144.05 | (5,881,670.02) | - | 746,933,668.07 |
| - Credit losses | 188,861,282.32 | 843,430.70 | 1,788,094.20 | (316,974.61) | 563,656,144.05 | (5,881,670.02) | - | 748,950,306.64 |
| - Reversals of impairment losses from other assets | - | - | (2,016,638.57) | - | - | - | - | (2,016,638.57) |

| | *2018* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Wealth management* | | *Institutional services* | *Proprietary trading business* | *Overseas business* | *Others* | *Elimination among segments* | *Total* |
| | *Securities and futures businesses* | *Asset management* | | | | | | |
| Operating income | | | | | | | | |
| Net fee and commission income/(expenses) | 841,054,962.82 | 1,956,862,093.72 | 1,240,045,871.53 | (5,397,098.86) | 272,060,954.18 | 20,459,771.69 | (2,777,232.59) | 4,322,309,322.49 |
| Investment income | 20,932,865.89 | 240,324,855.92 | 26,767,831.03 | 2,335,488,924.98 | 178,448,752.30 | 1,219,673,738.11 | (1,161,556,231.91) | 2,860,080,736.32 |
| Others | 1,040,240,128.60 | 170,044,818.50 | 498,163,644.52 | (1,720,161,918.11) | 63,101,946.99 | 273,551,086.53 | (1,007,956,328.70) | (683,016,621.67) |
| Total operating income | 1,902,227,957.31 | 2,367,231,768.14 | 1,764,977,347.08 | 609,929,908.01 | 513,611,653.47 | 1,513,684,596.33 | (2,172,289,793.20) | 6,499,373,437.14 |
| Operating expenses | 1,948,376,022.29 | 1,164,802,836.17 | 1,344,511,201.24 | 1,165,870,267.15 | 320,442,392.96 | 899,314,050.30 | (1,010,032,989.81) | 5,833,283,780.30 |
| Operating (loss)/profit | (46,148,064.98) | 1,202,428,931.97 | 420,466,145.84 | (555,940,359.14) | 193,169,260.51 | 614,370,546.03 | (1,162,256,803.39) | 666,089,656.84 |
| Total assets | 65,941,697,914.83 | 7,592,441,164.04 | 1,053,347,730.00 | 47,377,677,084.54 | 20,600,452,779.98 | 61,081,309,370.42 | (48,509,110,163.19) | 155,137,815,880.62 |
| Total liabilities | 62,640,367,977.83 | 3,962,546,923.79 | 927,026,782.60 | 45,146,102,146.23 | 16,673,309,190.18 | 32,717,320,657.63 | (42,236,687,895.67) | 119,829,985,782.59 |
| Supplement information | | | | | | | | |
| Depreciation and amortisation expenses | 36,898,646.68 | 25,277,496.67 | 14,207,835.84 | 1,183,972.64 | 13,251,109.53 | 83,327,295.97 | - | 174,146,357.33 |
| Capitalised expenses | 58,589,922.89 | 21,989,447.25 | 15,402,696.98 | 1,959,087.05 | 70,438,800.34 | 108,529,830.77 | - | 276,909,785.28 |
| Impairment loss | 598,151,969.69 | 5,589,088.02 | 2,198,107.33 | 71,822,575.20 | 10,153,883.22 | 1,797,403.82 | - | 689,713,027.28 |

IX. Related parties and related party transactions

1. The largest shareholder of the Company

(1) The disclosure of relevant information of the Company's largest shareholders is as follow:

The disclosure of relevant information of the Company's largest shareholders as at 31 December 2019 and 31 December 2018 is as follow:

| *Name of the shareholder* | *Registered place* | *Business nature* | *Shareholding percentage* |
|---|---|---|---|
| Fujian Provincial Department of Finance | Fuzhou | Managing state-owned assets etc. | 20.27% |

2 Information about the subsidiaries of the Company

The information about the Group's subsidiaries is disclosed in Note V. 1; For subsidiaries with controlling relationship and are included in the scope of the Company's consolidated financial statements, their mutual transactions and parent-subsidiary transactions have been offset.

3. Information about joint ventures and associates of the Group and the Company

The information about joint ventures and associates of the Group and the Company is disclosed in Note VI. 14(2).

4 Information on other related parties

Other related parties that have related party transactions with the Group during the year or the previous year, and with balance are as follows:

| *Name of other related parties* | *Relationships with the related parties stated above* |
|---|---|
| Fujian Investment & Development Group Co., Ltd. | Shareholder with more than 5% of the Company's share |
| Fujian Huaxing Group Co., Ltd. | Subsidiary of shareholder that holds more than 5% of the Company's share |
| Min Xin Insurance Company Limited | Subsidiary of shareholder that holds more than 5% of the Company's share |
| Haixia Capital Management Co., Ltd. | Subsidiary of shareholder that holds more than 5% of the Company's share |
| Xiamen Special Economic Zone Real Estate Development Group Co., Ltd. | Others (companies where other related parties act as directors, upper management) |
| Xiamen International Bank Co., Ltd. | Others (companies where other related parties act as directors, upper management) |
| Alltrust Insurance Company Limited | Others (companies where other related parties act as directors, upper management) |

## 5 Transactions with related parties

### (1) Fee and commission income

| *Related party* | *Nature of transaction* | *2019* | *2018* |
|---|---|---|---|
| Fujian Provincial Department of Finance | Securities underwriting | 509,433.95 | 1,377,358.48 |
| Fujian Investment & Development Group Co., Ltd. and subsidiaries | Transaction fee from securities trading | 2,625,667.20 | 981,174.20 |
| Fujian Investment & Development Group Co., Ltd. and subsidiaries | Securities underwriting | 2,287,735.85 | 3,943,396.23 |
| Fujian Investment & Development Group Co., Ltd. and subsidiaries | Custody fee | 55,871.21 | - |
| Haixia Equity Exchange (Fujian) Co., Ltd. | Finance consultancy | - | 120,227.56 |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | Custody fee | 136,488.77 | 157,006.62 |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | Investment advisory | - | 673,441.26 |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | Fund management fee | 11,544,831.68 | 11,639,312.77 |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | Custody fee | 35,990.62 | 41,406.81 |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | Investment advisory | - | 177,578.99 |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | Fund management | 3,042,754.91 | 3,069,157.49 |
| Fujian Relief I Equity Investment Partnership (Limited Partnership) | Fund management | 12,264,150.60 | 705,608.67 |
| Xiamen Industrial Securities Youxuan Start-up Equity Investment Partnership (Limited Partnership) | Fund management | 3,537,735.75 | - |
| Xiamen Special Economic Zone Real Estate Development Group Co., Ltd. | Securities underwriting | 6,415,094.32 | 6,679,245.28 |
| Xiamen Special Economic Zone Real Estate Development Group Co., Ltd. | Finance consultancy | 377,358.49 | - |
| Xiamen International Bank Co., Ltd. | Fund management fee | 69,181.89 | 3,341.59 |
| Total | | 42,902,295.24 | 29,568,255.95 |

### (2) Interest income

| *Related party* | *Nature of transaction* | *2019* | *2018* |
|---|---|---|---|
| Fujian Provincial Department of Finance | Interest income from bonds | 4,657,136.39 | 18,056,639.77 |
| Fujian Investment & Development Group Co., Ltd. and subsidiaries | Interest income from bonds | 7,372,281.58 | 5,653,193.11 |
| Xiamen Special Economic Zone Real Estate Development Group Co., Ltd. | Interest income from bonds | 1,431,515.38 | 905,660.38 |
| Total | | 13,460,933.35 | 24,615,493.26 |

### (3) Interest expenses

| *Related party* | *Nature of related party transaction* | *2019* | *2018* |
|---|---|---|---|
| Fujian Provincial Department of Finance | Interest expenses for clients' margin account | 277,154.89 | 207,708.67 |
| Fujian Investment & Development Group Co., Ltd. and subsidiaries | Interest expenses for clients' margin account | 581,994.10 | 179,158.57 |
| Total | | 859,148.99 | 386,867.24 |

## (4) Leases

| *Name of lessee* | *Type of assets leased* | *2019* | *2018* |
|---|---|---|---|
| Fujian Investment & Development Group Co., Ltd. | Income from property leasing | 5,088,596.66 | 5,606,833.85 |

## (5) Other operating receivables from related parties

| *Related party* | *Nature of related party transaction* | *2019* | *2018* |
|---|---|---|---|
| Fujian Investment & Development Group Co., Ltd. | Property management | 634,199.97 | 634,199.94 |

## (6) Other operating payables to related parties

| *Related party* | *Nature of related party transaction* | *2019* | *2018* |
|---|---|---|---|
| Haixia Equity Exchange (Fujian) Co., Ltd. And its subsidiaries | Secondment of employee | 383,761.92 | - |
| Alltrust Insurance Company Limited | Insurance expenses | 273,855.72 | 461,420.67 |
| Total | | 657,617.64 | 461,420.67 |

## (7) Remuneration of key management personnel

| *Item* | *2019* RMB '0000 | *2018* RMB '0000 |
|---|---|---|
| Remuneration of key management personnel | 2,054.98 | 1,867.05 |

## 6. Related party transaction balances

## (1) Receivables from related parties

| *Related party* | *Item* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Asset management product issued by related party | Other receivables | 125,651,598.33 | 62,892,951.31 |
| Fujian Investment & Development Group Co., Ltd. | Receivables | - | 250,000.00 |
| Fujian Investment & Development Group Co., Ltd. | Interest receivable | - | 5,345,850.00 |
| Fujian Provincial Department of Finance | Interest receivable | - | 5,766,940.00 |
| Total | | 125,651,598.33 | 74,255,741.31 |

## (2) Payables to related parties

| *Related parties* | *Items* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Fujian Investment & Development Group Co., Ltd. | Deposits for property leasing | 1,000,000.00 | 1,000,000.00 |
| Fujian Investment & Development Group Co., Ltd. and subsidiaries | Accounts payable to brokerage and margin clients | 17,734,827.61 | 60,186,664.93 |
| Fujian Provincial Department of Finance | Accounts payable to brokerage and margin clients | 1,060,270.17 | 783,115.28 |
| Total | | 19,795,097.78 | 61,969,780.21 |

## (3) Balance of bonds issued by related parties subscribed

| *Related parties* | *Items* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Fujian Provincial Department of Finance | Financial assets held for trading | - | 240,000,000.00 |
| Fujian Investment & Development Group Co., Ltd. | Financial assets held for trading | 144,076,820.27 | 128,150,000.00 |
| Xiamen Special Economic Zone Real Estate Development Group Co., Ltd. | Financial assets held for trading | 31,802,506.85 | 29,790,000.00 |
| Fujian Provincial Department of Finance | Available-for-sale financial assets | - | 100,000,000.00 |
| Fujian Investment & Development Group Co., Ltd. | Available-for-sale financial assets | - | 67,900,000.00 |
| Fujian Provincial Department of Finance | Debt securities at fair value through other comprehensive income | 101,733,506.85 | - |
| Fujian Investment & Development Group Co., Ltd. | Debt securities at fair value through other comprehensive income | 71,765,917.81 | - |
| Total | | 349,378,751.78 | 565,840,000.00 |

7. Guarantee and commitment of related parties

The Company has undertaken to provide loan with total amount no greater than RMB 1 billion to its subsidiary: INDUSTRIAL ASSETS MANAGEMENT CO.,LTD (兴证证券资产管理有限公司). As at 31 December 2019, INDUSTRIAL ASSETS MANAGEMENT CO.,LTD. (兴证证券资产管理有限公司) has used RMB 650 million of the loan.

The Company has undertaken to provide net capital guarantee with total amount no greater than RMB 3 billion to its subsidiary: INDUSTRIAL ASSETS MANAGEMENT CO.,LTD. (兴证证券资产管理有限公司). As at 31 December 2019, INDUSTRIAL ASSETS MANAGEMENT CO.,LTD. (兴证证券资产管理有限公司) has used RMB 1 billion of the net capital guarantee.

The Company has undertaken to provide a Stand-by Letters of Credit for the issuance of bonds by IS ( Hong Kong ) Investment Limited. IS ( Hong Kong ) Investment Limited is a special purpose company under the Company's subsidiary Industrial Securities (Hong Kong), and the Company provides counter-guarantee with total amount no greater than HKD 2.5 billion to the Industrial and Commercial Bank, the term of the guarantee ends on 30 December 2022. As at 31 December 2019, USD 295 million of the credit has been used.

The Group’s subsidiary Industrial Securities International has undertaken to provide guarantees for its subsidiary Industrial Securities International Brokerage for bank loan application. The guarantee amount totaling HKD 250 million, the term of the guarantee ends on 6 January 2020. As at 31 December 2019, this credit has not been used.

The Group’s subsidiary Industrial Securities International Brokerage has undertaken to provide joint and several liability guarantee for the issuance of USD 200 million and USD 75 million of bonds by its parent company Industrial Securities International. The term of the guarantee ends on 28 August 2020. As at 31 December 2019, USD 275 million of the credit has been used.

X. Commitments and contingencies

1. Operating lease commitments

As at each balance sheet date, the future minimum lease payments under non-cancellable operating leases in respect of the leasing of properties and office equipment are payable as follows:

| | *The Group* | |
|---|---|---|
| | *31 December 2019* | *31 December 2018* |
| Within 1 year | 327,201,900.72 | 304,450,448.77 |
| 1 - 2 years | 304,284,029.66 | 266,480,659.38 |
| 2 - 3 years | 252,044,994.52 | 233,023,360.85 |
| Over 3 years | 500,126,918.47 | 662,964,398.66 |
| Total | 1,383,657,843.37 | 1,466,918,867.66 |

2. Contingencies

In October 2017, Guangdong Finance Trust Co., Ltd("Guangdong Finance Trust") (广东粤财信托股份有限公司) filed a lawsuit against Dandong Xintai Electric Co., Ltd, Liaoning Xintai Co.,Ltd. (" Liaoning Xintai ") (辽宁欣泰股份有限公司), Wen Deyi and the Company. Guangdong Finance Trust bought and held 11,035,768 shares of Dandong Xintai Electric Co., Ltd from 17 March 2016 to 20 April 2016, the plaintiff demanded the defendants to jointly repurchase the above-mentioned shares at RMB 15.37 per share, totaling RMB 169,619,754.16. In January 2019, the Intermediate People's Court of Liaoning identified the litigation request by Guangdong Finance Trust as a litigation regarding contract, and in accordance with the jurisdiction hierarchy, the case was transferred to the High People's Court of Liaoning. On 24 July 2019, the Company received the judgment from the High People's Court of Liaoning, stating the court refuted all Guangdong Finance Trust’s claims. SubsequentlyGuangdong Finance Trust filed an appeal. On 17 December 2019, the Supreme People’s Court made the second-instance judgment, refuted the appeal and upheld the original judgment.

As at 31 December 2019, the Company has recognised RMB 3.4 million provision for contingent fee for employing attorneys for this case. Otherwise, the Company believes other outflows of economic benefits are not probable, therefore, no other liabilities are estimated.

## XI. Subsequent events

### 1 Distribution of dividends on ordinary shares proposed after the balance sheet date

On 23 April 2020, the 28th shareholders' general meeting of the 5th board of directors approved the proposal of appropriation of a cash dividend of RMB 0.08 per share (including tax)) (2018: RMB 0.05 per share (including tax)) to the Company's ordinary shareholders, totaling RMB 535,733,733.92 (2018: RMB 334,833,583.70). The proposal is subject to approval by the shareholders' general meeting.

### 2 Corporate bonds issuance

The Company completed the issuance of its corporate bonds for 2020 (the first tranche) on 17 February 2020 (pandemic prevention and control bonds) with amount of RMB 3 billion, a coupon rate of 3.10%, for a maturity of three years.

### 3 Assessment of the impact of COVID-19

The prevention and control against COVID-19 have been carried out nationwide since its outbreak in China starting January 2020. The Group will implement requirements of the *Notice on Further Strengthening Financial Support for Prevention and Control of the COVID-19* jointly issued by the PBoC, MoF, CBIRC, CSRC and SAFE, to strengthen the financial support for the prevention and control against COVID-19.

Since the outbreak of COVID-19 in the country from January 2020, it has impacted the operation and the overall economic situation in some regions (including Hubei Province) or industries, to a certain extent, and therefore impact on asset quality or income level of the Group's investment assets. The level of impact depends on the situation, duration of prevention and control and the implementation of various control policies.

The Group will continue to pay close attention to the COVID-19 development, assess its impact on the Company's financial position, financial performance and other aspects of the Company and make proactive responses. As at the reporting date, the assessment was still in process.

## XII. Other significant items

### 1. Performance of social responsibilities

The Group fulfils its social responsibilities and the amounts it spent on charitable advertisement, donation to disaster relief, grant for education , charitable donation, etc. are as follows:

| | *2019* | *2018* |
|---|---|---|
| Charitable donation | 23,399,508.24 | 12,645,047.00 |
| Grant for education | 6,043,383.00 | 4,626,872.00 |
| Total | 29,442,891.24 | 17,271,919.00 |

### 2. Margin financing and securities lending

The Group's margin financing and securities lending businesses as at 31 December 2019 and 31 December 2018 are as follows:

| | *Notes* | *31 December 2019* | *31 December 2018* |
|---|---|---|---|
| Margin accounts | VI. 3 | 20,735,063,327.66 | 17,492,122,392.09 |
| Securities lending | VI. 13 | 79,134,979.18 | 32,758,163.60 |
| Total | | 20,814,198,306.84 | 17,524,880,555.69 |

### 3. Bond lending

As at 31 December 2019 and 31 December 2018, types and fair values of bonds borrowed from commercial banks by the Group are as follows:

| *Bond types* | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Treasury bonds | 2,600,854,700.00 | 1,746,079,200.00 |
| Local government bonds | 160,983,264.00 | 2,939,851,920.00 |
| Total | 2,761,837,964.00 | 4,685,931,120.00 |

As at 31 December 2019 and 31 December 2018, the fair values of the bonds pledged for the sale of repurchase agreement business among the bonds obtained by the Group through borrowing were RMB 2,760,805,993.00 and RMB 4,342,580,264.00, respectively.

5. Classification of financial instruments measurement basis

All the measurement basis for financial instruments adopted by the Groups are summarised in the table below

| | *Carrying amount at 31 December 2019* | | | | | |
|---|---|---|---|---|---|---|
| *Financial assets* | *Financial assets at amortised cost* | *Measured at fair value through other comprehensive income* | | *Measured at fair value through profit or loss* | | |
| | | *Financial assets measured at fair value through other comprehensive income* | *Non-held-for-trading equity instrument investment designated at fair value through other comprehensive income* | *Financial assets classified at fair value through profit or loss* | *Financial assets designated at fair value through profit or loss in accordance with Recognition and Measurement of Financial Instruments* | *Financial assets designated at fair value through profit or loss in accordance with Hedge Accounting* |
| Cash at bank and on hand | 47,637,137,011.81 | - | - | - | - | - |
| Clearing settlement funds | 6,640,493,386.17 | - | - | - | - | - |
| Margin accounts | 20,735,063,327.66 | - | - | - | - | - |
| Derivative financial assets | - | - | - | 15,379,993.11 | - | - |
| Refundable deposits | 4,174,674,771.44 | - | - | - | - | - |
| Accounts receivable | 2,412,086,360.68 | - | - | - | - | - |
| Financial assets held under resale agreements | 8,627,869,455.01 | - | - | - | - | - |
| Financial assets at fair value through profit or loss | - | - | - | 48,549,780,285.64 | - | - |
| Debt securities at fair value through other comprehensive income | - | 22,996,386,469.82 | - | - | - | - |
| Equity securities not held for trading | - | - | 2,495,987,365.42 | - | - | - |
| Other assets (financial assets) | 1,225,163,635.85 | - | - | - | - | - |

| *Financial liabilities* | *Carrying amount at 31 December 2019* | | | |
|---|---|---|---|---|
| | *Financial liabilities at amortised cost* | *Measured at fair value through profit or loss* | | |
| | | *Financial liabilities classified at fair value through profit or loss* | *Financial liabilities designated at fair value through profit or loss in accordance with Recognition and Measurement of Financial Instruments* | *Financial liabilities designated at fair value through profit or loss in accordance with Hedge Accounting* |
| Short-term loans | 5,883,211,119.82 | - | - | - |
| Short-term financing payables | 6,365,189,163.47 | - | - | - |
| Placements from banks and other financial institutions | 505,444,444.43 | - | - | - |
| Financial liabilities at fair value through profit or loss | - | 27,637,948.23 | 3,965,761,483.36 | - |
| Derivative financial liabilities | - | 18,023,444.60 | - | - |
| Financial assets sold under repurchase agreements | 25,756,432,946.93 | - | - | - |
| Accounts payable to brokerage and margin clients | 34,604,898,441.09 | - | - | - |
| Accounts payables | 2,133,791,582.74 | - | - | - |
| Long-term loans | 2,999,186,930.04 | - | - | - |
| Bonds payable | 45,375,193,660.59 | - | - | - |
| Other liabilities (financial liabilities) | 570,824,174.26 | - | - | - |

## XIII. Risk management

### 1. Risk management policy and risk governance structure

#### (1) Risk management policy

In 2019, the company implemented a neutral yet prudent-leaning risk appetite strategy. Guided by the strategic goal of creating a first-class securities financial group, and stay in compliance with regulatory requirements, the company further improved its comprehensive risk management system to manage risks comprehensively, and able to monitor, measure, analyse and response to risks. The improvements include sound organisational structure, operational management system, reliable information technology system and data management, quantitative risk indicator system, professional talent team, effective risk response mechanism and sound risk management culture.

#### (2) Risk governance structure

The Group attaches great importance to comprehensive risk management, and actively complies with external requirements and based on the Group's actual situation to establish a comprehensive risk management system that matches the Group's development, including practical management system, sound organisational structure, reliable information technology system, and quantitative comprehensive risk indicator system, professional team of talents and effective risk response mechanism.

The Group's comprehensive risk governance structure of the Company covers is composed by the Board of Directors, the Board of Supervisors, Operation Management, Risk Management Department, all departments, branches and subsidiaries (i.e. the Board of

Directors and its Risk Control Committee, the Board of Supervisors - company's Operation Management and its Risk Management Committee - Risk Management Department - all departments, branches and subsidiaries).

The Group has established three lines of defense for risk management. The effective self-control by each department, branch and subsidiary is the first line of defense; the implementation of professional risk management by the risk management department before and during an event as the second line of defense; subsequent supervision and evaluation by the audit department as the third line of defense. These "three lines of defense" in risk management governance structure is designed to effectively balance and limit the rights and responsibilities of risk management, to guarantee the efficiency and effectiveness of risk management.

2. Risk Analysis

The risks faced by the Group in its daily operations and management mainly include market risks, liquidity risks, credit risks and operational risk, etc. Through the establishment of the comprehensive risk management system, the company gradually optimises the organisational function, risk strategy, risk measure, and risk management process, cultivating a risk culture; establishes a scientific risk identification, monitoring, evaluation and control mechanism, and integrates risk management before, during, and after projects, ensuring that the risks are measurable, within control and bearable.

(1) Market risk

Market risk is the risk of loss of the company due to adverse changes in the market. Market risks mainly include equity and other price risks, interest rate risks and exchange rate risks and so on.

(a) Equity and other price risks

Equity and other price risks refer to the risk of losses in equity and other investments made by the company due to asset price fluctuations. The company's equity and other price risks are mainly arising from the company's proprietary business involving securities investment. The company has established a risk indicator monitoring system including sensitivity analysis, Options Greeks, value at risk (VaR) and stress testing. Relevant indicators are monitored through daily position monitoring. When these indicators reach or exceed the risk limit authorised by the Company, measures including lightening of positions in a timely manner will be taken for risk control.

Sensitivity analysis

Assuming that the market price of the above investment increases or decreases by 10%, with all other variables held constant, the effect of these assets at the balance sheet on the Group's shareholders' equity and net profit is listed as follows:

| | *31 December 2019* | | *31 December 2018* | |
|---|---|---|---|---|
| | *Shareholder's equity* (RMB '000) | *Net profit* (RMB '000) | *Shareholder's equity* (RMB '000) | *Net profit* (RMB '000) |
| Market prices increase by 10% | 1,473,524 | 1,286,325 | 966,543 | 630,167 |
| Market prices decrease by 10% | (1,473,524) | (1,286,325) | (966,543) | (630,167) |

The above sensitivity analysis may differ from actual result due to non-systematic risk of investment.

(b) Interest rate risk

Interest rate risk refers to the risk that movements in market interest rate will cause fluctuation in the company's financial position, cash flow and price of fixed income proprietary investment. The company's interest-bearing assets mainly include bank deposits, Clearing settlement funds, balance of margin financing, refundable deposits and bond investments, etc. The currency and maturity of customer deposits in securities brokerage and Accounts payable to brokerage and margin clients match each other. The currency and maturity structure of interest rate-sensitive assets and liabilities of corporate brokerage are basically matched. Therefore, the interest rate risk is within control. The company focuses its fixed income proprietary investment mainly in corporate bonds, enterprise bonds, etc. The company monitors interest rate risk through indicators such as duration, convexity, and basis point value. Possible losses arising from fixed income investment portfolios are assessed through stress testing mechanism.

The following tables indicate the interest rate risk of the Group on each balance sheet date. In the tables, financial assets and liabilities are presented at the carrying amount by the expected next repricing date or maturity date, whichever is earlier:

| | *31 December 2019* | | | | | |
|---|---|---|---|---|---|---|
| | *Within 3 months* | *More than 3 months but less than 1 year* | *More than 1 year but less than 5 years* | *More than 5 years* | *Non-interest-bearing* | *Total* |
| Financial assets | | | | | | |
| Cash at bank and on hand | 46,782,356,846.15 | 774,950,928.04 | - | - | 79,829,237.62 | 47,637,137,011.81 |
| Clearing settlement funds | 6,640,493,386.17 | - | - | - | - | 6,640,493,386.17 |
| Margin accounts | 5,592,415,795.10 | 12,709,353,055.39 | 2,214,026,502.94 | - | 219,267,974.23 | 20,735,063,327.66 |
| Derivative financial assets | 739,935.39 | - | - | - | 14,640,057.72 | 15,379,993.11 |
| Refundable deposits | 134,283,568.90 | - | - | - | 4,040,391,202.54 | 4,174,674,771.44 |
| Accounts receivables | - | - | - | - | 2,412,086,360.68 | 2,412,086,360.68 |
| Financial assets held under resale agreements | 3,868,329,683.13 | 3,502,579,017.94 | 716,369,562.65 | - | 540,591,191.29 | 8,627,869,455.01 |
| Financial assets at fair value through profit or loss | 1,326,563,674.27 | 4,093,236,944.63 | 13,303,781,675.09 | 3,917,174,422.09 | 25,909,023,569.56 | 48,549,780,285.64 |
| Debt securities at fair value through other comprehensive inco | 678,061,039.18 | 1,174,495,190.00 | 14,999,564,350.69 | 5,512,001,140.00 | 632,264,749.95 | 22,996,386,469.82 |
| Equity securities not held for trading | - | - | - | - | 2,495,987,365.42 | 2,495,987,365.42 |
| Other assets (financial assets) | - | - | - | - | 1,225,163,635.85 | 1,225,163,635.85 |
| Total financial assets | 65,023,243,928.29 | 22,254,615,136.00 | 31,233,742,091.37 | 9,429,175,562.09 | 37,569,245,344.86 | 165,510,022,062.61 |
| Financial liabilities | | | | | | |
| Short-term loans | 5,533,284,396.70 | 338,006,577.81 | - | - | 11,920,145.31 | 5,883,211,119.82 |
| Short-term financing payables | 4,323,478,248.00 | 1,985,988,490.62 | - | - | 55,722,424.85 | 6,365,189,163.47 |
| Placements from banks and other financial institutions | 500,000,000.00 | - | - | - | 5,444,444.43 | 505,444,444.43 |
| Financial liabilities held for trading | - | - | - | - | 3,993,399,431.59 | 3,993,399,431.59 |
| Derivative financial liabilities | - | - | - | - | 18,023,444.60 | 18,023,444.60 |
| Financial assets sold under repurchase agreements | 25,414,329,857.09 | 300,375,695.79 | - | - | 41,727,394.05 | 25,756,432,946.93 |
| Accounts payable to brokerage and margin clients | 22,693,413,078.69 | - | - | - | 11,911,485,362.40 | 34,604,898,441.09 |
| Accounts payables | - | - | - | - | 2,133,791,582.74 | 2,133,791,582.74 |
| Long-term loans | 2,995,129,660.37 | - | - | - | 4,057,269.67 | 2,999,186,930.04 |
| Bonds payable | 4,000,000,000.00 | 4,500,000,000.00 | 36,050,529,827.40 | - | 824,663,833.19 | 45,375,193,660.59 |
| Other liabilities (financial liabilities) | - | - | - | - | 570,824,174.26 | 570,824,174.26 |
| Total financial liabilities | 65,459,635,240.85 | 7,124,370,764.22 | 36,050,529,827.40 | - | 19,571,059,507.09 | 128,205,595,339.56 |
| Net exposure | (436,391,312.56) | 15,130,244,371.78 | (4,816,787,736.03) | 9,429,175,562.09 | 17,998,185,837.77 | 37,304,426,723.05 |

| | 31 December 2018 | | | | | |
|---|---|---|---|---|---|---|
| | *Within 3 months* | *More than 3 months but less than 1 year* | *More than 1 year but less than 5 years* | *More than 5 years* | *Non-interest-bearing* | *Total* |
| Financial assets | | | | | | |
| Cash at bank and on hand | 25,296,481,935.14 | 2,016,918,479.88 | - | - | - | 27,313,400,415.02 |
| Clearing settlement funds | 6,027,321,671.10 | - | - | - | - | 6,027,321,671.10 |
| Margin accounts | 9,541,840,269.00 | 7,914,728,774.83 | - | - | 35,553,348.26 | 17,492,122,392.09 |
| Derivative financial assets | - | - | - | - | 4,738,721.96 | 4,738,721.96 |
| Refundable deposits | - | - | - | - | 3,016,807,850.88 | 3,016,807,850.88 |
| Accounts receivables | - | - | - | - | 2,258,413,112.06 | 2,258,413,112.06 |
| Financial assets held under resale agreements | 5,530,038,501.71 | 10,937,104,461.98 | 4,114,878,775.80 | - | 553,185,312.48 | 21,135,207,051.97 |
| Financial assets at fair value through profit or loss | 799,351,846.40 | 2,930,939,088.11 | 18,344,763,038.34 | 1,053,181,194.23 | 17,346,031,313.39 | 40,474,266,480.47 |
| Available-for-sale financial assets | 587,825,430.00 | 295,813,789.08 | 13,320,505,607.32 | 11,404,991,850.00 | 5,533,284,298.89 | 31,142,420,975.29 |
| Other assets (financial assets) | 1,314,300.00 | 60,370,180.00 | 5,000,000.00 | - | 1,910,645,959.15 | 1,977,330,439.15 |
| Total financial assets | 47,784,173,953.35 | 24,155,874,773.88 | 35,785,147,421.46 | 12,458,173,044.23 | 30,658,659,917.07 | 150,842,029,109.99 |
| Financial liabilities | | | | | | |
| Short-term loans | 5,019,189,307.24 | 1,218,396,450.52 | - | - | - | 6,237,585,757.76 |
| Short-term financing payables | 587,797,877.00 | 54,894,280.48 | - | - | - | 642,692,157.48 |
| Placements from banks and other financial institutions | - | 1,000,000,000.00 | - | - | - | 1,000,000,000.00 |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 1,414,669,869.66 | 1,414,669,869.66 |
| Derivative financial liabilities | - | - | - | - | 10,849,807.14 | 10,849,807.14 |
| Financial assets sold under repurchase agreements | 24,624,584,167.35 | 263,463,851.76 | - | - | - | 24,888,048,019.11 |
| Accounts payable to brokerage and margin clients | 26,393,764,961.34 | - | - | - | - | 26,393,764,961.34 |
| Accounts payables | - | - | - | - | 963,705,331.55 | 963,705,331.55 |
| Long-term loans | 2,961,556,000.00 | - | - | - | - | 2,961,556,000.00 |
| Bonds payable | 4,630,693,673.33 | 14,974,830,496.14 | 28,895,952,973.57 | - | - | 48,501,477,143.04 |
| Other liabilities (financial liabilities) | - | - | - | - | 2,793,926,577.84 | 2,793,926,577.84 |
| Total financial liabilities | 64,217,585,986.26 | 17,511,585,078.90 | 28,895,952,973.57 | - | 5,183,151,586.19 | 115,808,275,624.92 |
| Net exposure | (16,433,412,032.91) | 6,644,289,694.98 | 6,889,194,447.89 | 12,458,173,044.23 | 25,475,508,330.88 | 35,033,753,485.07 |

The following table shows that the impact would have on net profit and shareholders' equity when the yield curve shifts upward or downward parallel by 25 basis points at the same time, based on the structure of financial assets and financial liabilities at balance sheet date.

| | *31 December 2019* | | *31 December 2018* | |
|---|---|---|---|---|
| | *Shareholders' equity (RMB'000)* | *Net profit (RMB'000)* | *Shareholders' equity (RMB'000)* | *Net profit (RMB'000)* |
| The yield curve shifts upward by 25 basis points | (204,215) | (107,277) | (199,469) | (85,254) |
| The yield curve shifts downward by 25 basis points | 207,686 | 108,388 | 201,802 | 85,766 |

The above prediction assumes that yield curves of assets and liabilities with all maturities shift upward or downward parallel. Therefore, it does not reflect the potential impact when certain yields change but the others remain constant. Such prediction is also based on other simplified assumptions, including that all positions will be held to maturity.

The Group considers this assumption does not represent the Group's fund utilisation and interest rate risks management policies, and therefore these impacts may differ from actual results.

In addition, the above analysis of impact of interest rate changes is just an example, which shows estimated changes in net profit and other comprehensive income under each expected revenue curve and the current interest rate risk of the Group. However, the analysis of the impact does not consider the risk management activities that the management may take to reduce interest rate risk.

(c) Foreign currency risk

Foreign currency risk is the risk that fluctuations in the exchange rate will affect the Group's foreign currency transactions. Apart from the assets and liabilities held by the Group's overseas subsidiaries which use Hong Kong dollars or U.S. dollars as their functional currency, other assets and liabilities denominated in foreign currencies mainly represent foreign currency monetary funds held by domestic enterprises, foreign currency financial assets and liabilities arising from cross-border business, as well as foreign currency financial assets acquired by subsidiaries. In respect of cash at bank and on hand, Clearing settlement funds, refundable deposits, Accounts payable to brokerage and margin clients and other assets and liabilities denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

As foreign currency transactions accounted for a relatively low proportion of the Group's total assets, liabilities and income, the Group's foreign exchange risk was not significant and therefore no sensitivity analysis was conducted.

(2) Liquidity risk

Liquidity risk refers to the risk of securities company not being able to obtain sufficient funds at a reasonable cost in time to meet due debts, perform other payment obligations and meet the capital requirements of normal businesses. With the increase of the leverage of the Company' business, the Company may face an increasing maturity mismatch of their assets and liabilities, which may result in a certain degree of liquidity risks in the future. The Company has established a liquidity risk management system to identify, measure, monitor, control and report the overall liquidity risk of the Company so as to improve the informatisation of liquidity risk management, enhance the capabilities in the identification, measurement and monitoring of liquidity risk, and strengthen the Company's ability in addressing liquidity risk. In addition, the Company also established a right-sized liquidity assets reserves based on the risk appetite and maintained sufficient liquidity assets with high quality to ensure the satisfaction of liquidity needs under stressful scenarios in a timely manner.

The following tables set out the remaining contractual maturities at the balance sheet date of the Group's each financial liability, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the period) and the earliest date the Group can be required to pay:

| | 31 December 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *On demand* | *Within 1 months* | *More than 1 month but less than 3 months* | *More than 3 months but less than 1 year* | *More than 1 year but less than 5 years* | *More than 5 years* | *Total* | *Carrying amount at balance sheet* |
| Short-term loans | - | 4,682,690,431.50 | 878,157,506.65 | 347,096,098.43 | - | - | 5,907,944,036.58 | 5,883,211,119.82 |
| Short-term financing payables | - | 4,340,629,312.44 | 14,633,097.25 | 2,086,614,164.12 | - | - | 6,441,876,573.81 | 6,365,189,163.47 |
| Placements from banks and other financial institutions | - | - | 508,847,222.22 | - | - | - | 508,847,222.22 | 505,444,444.43 |
| Financial liabilities held for trading | 1,163,297,545.65 | 1,209,138,014.17 | 12,381,738.47 | 127,390,787.67 | 1,481,191,345.63 | - | 3,993,399,431.59 | 3,993,399,431.59 |
| Derivative financial liabilities | - | 4,063,444.00 | 5,861,766.84 | 441,540.00 | 7,656,693.76 | - | 18,023,444.60 | 18,023,444.60 |
| Financial assets sold under repurchase agreements | 1,897,959,580.72 | 23,200,312,025.65 | 359,970,439.83 | - | 332,409,865.05 | - | 25,790,651,911.25 | 25,756,432,946.93 |
| Accounts payable to brokerage and margin client | 34,604,898,441.09 | - | - | - | - | - | 34,604,898,441.09 | 34,604,898,441.09 |
| Accounts payables | 2,125,791,582.74 | - | 8,000,000.00 | - | - | - | 2,133,791,582.74 | 2,133,791,582.74 |
| Long-term loans | - | 3,033,697,205.13 | - | - | - | - | 3,033,697,205.13 | 2,999,186,930.04 |
| Bonds payable | - | - | 4,643,000,000.00 | 5,819,765,364.99 | 38,157,160,557.39 | - | 48,619,925,922.38 | 45,375,193,660.59 |
| Other liabilities (financial liabilities) | 569,464,888.49 | 115,890.41 | - | 1,243,395.36 | - | - | 570,824,174.26 | 570,824,174.26 |
| Net position | 40,361,412,038.69 | 36,470,646,323.30 | 6,430,851,771.26 | 8,382,551,350.57 | 39,978,418,461.83 | - | 131,623,879,945.65 | 128,205,595,339.56 |

| | 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *On demand* | *Within 1 months* | *More than 1 month but less than 3 months* | *More than 3 months but less than 1 year* | *More than 1 year but less than 5 years* | *More than 5 years* | *Total* | *Carrying amount on balance sheet* |
| Short-term loans | - | 4,955,039,442.14 | 70,898,851.97 | 1,286,314,790.64 | - | - | 6,312,253,084.75 | 6,237,585,757.76 |
| Short-term financing payables | - | 83,983,336.82 | 514,605,771.86 | 56,541,108.89 | - | - | 655,130,217.57 | 642,692,157.48 |
| Placements from banks and other financial institutions | - | - | - | 1,021,558,904.11 | - | - | 1,021,558,904.11 | 1,000,000,000.00 |
| Financial liabilities at fair value through profit or loss | 548,889,153.66 | 5,772,599.09 | - | 720,466,610.47 | 139,541,506.44 | - | 1,414,669,869.66 | 1,414,669,869.66 |
| Derivative financial liabilities | - | 343,483.14 | (38,496.79) | 914,959.04 | 3,001,456.29 | (55,574.51) | 4,165,827.17 | 10,849,807.14 |
| Financial assets sold under repurchase agreements | - | 24,675,670,971.95 | - | 265,838,742.62 | - | - | 24,941,509,714.57 | 24,888,048,019.11 |
| Accounts payable to brokerage and margin client | 26,394,896,469.85 | - | - | - | - | - | 26,394,896,469.85 | 26,393,764,961.34 |
| Accounts payables | 167,824,664.85 | 286,458,864.76 | 240,624,780.65 | 160,367,014.34 | 27,456,754.46 | 80,973,252.49 | 963,705,331.55 | 963,705,331.55 |
| Bonds payable | - | 919,764,000.00 | 4,473,500,000.00 | 16,624,000,000.00 | 31,331,300,000.00 | - | 53,348,564,000.00 | 48,501,477,143.04 |
| Long-term loans | - | 2,966,530,873.59 | - | - | - | - | 2,966,530,873.59 | 2,961,556,000.00 |
| Other liabilities (financial liabilities) | - | 79,140,537.83 | 308,531,369.54 | 1,041,004,567.90 | 4,667,516.55 | - | 1,433,343,991.82 | 1,433,343,991.82 |
| Net position | 27,111,610,288.36 | 33,972,704,109.32 | 5,608,122,277.23 | 21,177,006,698.01 | 31,505,967,233.74 | 80,917,677.98 | 119,456,328,284.64 | 114,447,693,038.90 |

(3) Credit risk

Credit risk is the risk that debtor or counterparty will cause a loss for the Company by failing to perform its contractual obligations.

The Company mainly face four types of credit risks: (i) credit risk of brokerage business, namely the agent service for customers to carry out securities trading and futures trading. If the customers are not required to pay sufficient margin deposits in advance, but do not have sufficient funds to pay for the transaction at the settlement date, or face financing gaps due to other factors, the Company have to bear the credit losses from undertaking the settlement responsibility on behalf of customers; (ii) default risk of bond investments, namely the risk of asset loss and income change caused by the default and refusal of issuer of bonds invested to repay the principal and interest due; (iii) counterparty credit risk, namely the risk of the Company suffering from loss caused by the counterparty's failure to perform its contractual obligations. The Company's counterparty credit risk is mainly concentrated on interest rate swaps business and over-the-counter derivatives business; (iv) credit risk of financing business, namely loss caused by the customers' failure to make the full and timely repayment of the liability as agreed in the contract. Financing business is a general name of three businesses, i.e. margin trading and short selling business, contracted repurchasing securities trading business, and stock pledged repurchase business.

For the credit risks arising from brokerage business, the Company carries out securities trading on behalf of customers in the settlement of margin deposits. Through this way, the settlement risk related to trading volume is significantly under control. For the bonds repurchase business conducted by the customers, the Company has strict requirements on the qualification of customers that apply for conducting repurchase business, controls the proportion of standard bonds and repurchase arbitrage multiple used by the customers, and assigns a designated person to monitor on a real-time basis, so as to contact with customers and resolve the risk in time.

For default risk of bond investments, the Company has formulated Operating Procedures for Internal Rating of Fixed Income Investment of China Industrial Securities Co., Ltd.. The Company has strict requirements on bond ratings of bond investments. In addition to acquiring the external credit ratings, the Company developed internal credit rating model of bonds to assess the internal rating of the bonds invested by the Company. Through the comprehensive analysis and dynamic comparison between internal ratings and external ratings, the Company closely monitors the operations and credit level of bond issuers to identify credit risks in advance, modify the investment structure and avoid default risks. In addition, for the concentration risk of bond investments, the Company has established corresponding thresholds monitoring system and implemented decentralised investment strategy to avoid significant loss caused by the decrease of credit rating or default of a single bond. During the reporting period, defaults occurred under the Company's bonds invested, against which the Company has commenced litigation and applied for property preservation.

For counterparty credit risk, the Company will investigate and study potential counterparties in advance to set up internal ratings and credit limits respectively according to their industry position, asset scale and operations. During the reporting period, no scale of business developed between the Company and its counterparties exceeded the limits.

For credit risk of financing business, the Company established customer qualification review mechanism by reference to internal and external compliance requirements to review customers' financial position, credit standing, financing purpose, risk tolerance and their sensitivity to the fluctuation of securities market. The Company also established project risk management evaluation system to judge customers' willingness and capability to repay and assess the probability of default and related loss caused by them so as to put a limit on their transaction amount; the Company analyses the credit status of customers' financing project and controls the scale of individual investor and individual securities business, based on the analysis of customers' entities; the Company also takes related risk data as key monitoring values and designs early warning thresholds for risk management in the monitoring system to employ daily marking to market and early warning; the Company established quantitative analysis system for credit risks to assess credit risks through stress testing and other approaches. During the reporting period, defaults by customers occurred under the Company's financing business. The Company dealt with these defaults through negotiation with customers, according to the provisions of the agreement or through legal approaches to the mitigate risk.

The Company established expected credit loss model to measure impairment loss of financial instruments by comprehensively considering the time value of money and reasonable and supportable information that could be obtained at the balance sheet date without undue cost or effort about past events, current conditions and forecasts of future economic conditions based on the probability-weighted average, according to the classification and nature of financial instruments and its risk management practice.

The Company classifies the impairment stage based on individual financial instrument or financial instrument portfolio to effectively monitor credit risks and make regular adjustment: (1) Stage 1: financial instruments with low credit risk as at the balance sheet date or no significant increase in credit risk since initial recognition, impairment provision for which shall be measured by an amount equal to the next 12 months expected credit loss (or within the expected duration if it is less than 12 months); (2) Stage 2: financial instruments of which credit risk has increased significantly since initial recognition, but no credit impairment has occurred, i.e. no objective evidence of credit loss for financial instrument, impairment provision for which shall be measured by an amount equal to the lifetime expected credit loss; (3) Stage 3: financial instruments that have become credit-impaired subsequent to initial recognition, impairment provision for which shall be measured by an amount equal to the lifetime expected credit loss.

The Company adopts the probability of default/loss given default method and loss rate method to measure expected credit losses based on the risk characteristics and information of the assets. The probability of default/loss given default method refers to the method of measuring expected credit losses by estimating the exposure at default (EAD), probability of default (PD), and loss given default (LGD) of a single asset or asset portfolio. The loss rate method refers to the method of directly estimating the loss rate to measure the expected credit losses without estimating the probability of default and the loss given default. When measuring expected credit loss, the Company considers forward-looking information that is relevant and available without undue cost or effort, including macroeconomic factors, industrial policies and industrial environment, based on which, the Company determines adjustment coefficient and adjusts measurement result of expected credit loss.

The impairment loss of asset arising from the Company's stock pledged repurchase business is measured by adopting probability of default/loss given default method.

(1) According to the classification criteria, the impairment stage is classified as the stage 3 if any of the following conditions is met: current performance guarantee percentage lower than 100%; the number of overdue days over 30 days; asset that meets other internal definitions of default. The impairment stage is classified as stage 2 where none of the conditions of stage 3 is met but any of following conditions: current performance guarantee percentage lower than minimum performance guarantee percentage but higher than or equal to 100%; the number of overdue days less than or equal to 30 days; asset that meets other internal definitions of significant increase in credit loss. Stage 1: asset that does not meet conditions of stage 2 and stage 3.

(2) The impairment measurement method: the impairment provision for the Company's stock pledged repurchase business is determined according to the product of probability of default, loss given default and exposure at default after a forward-looking adjustment is made. For stock pledged repurchase business with no credit impaired, the probability of default is estimated and set up by roll rate analysis modelling; the loss given default is estimated and set up based on industrial benchmark experience. For stock pledged repurchase business with credit impaired, the amount of impairment loss is determined based on specific identification method. When evaluating expected receivable cash flows, the Company shall consider credit status and repayment ability of debtors and make comprehensive assessment on collaterals status and other factors.

(a) Maximum exposure to credit risk

The maximum credit risk exposure at the balance sheet date without taking account of any collateral and other credit enhancements refers to the carrying value of the relevant financial assets after impairment provision. The Group's maximum exposure to credit risk amounts is set out below:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Cash at bank and on hand | 47,637,083,467.81 | 27,313,157,215.02 |
| Clearing settlement funds | 6,640,493,386.17 | 6,027,321,671.10 |
| Margin accounts | 20,735,063,327.66 | 17,492,122,392.09 |
| Financial assets at fair value through profit or loss | 31,471,151,609.21 | - |
| Financial assets held for trading | - | 32,152,233,698.27 |
| Derivative financial assets | 15,379,993.11 | 4,738,721.96 |
| Financial assets held under resale agreements | 8,627,869,455.01 | 21,135,207,051.97 |
| Accounts receivables | 2,412,086,360.68 | 2,258,413,112.06 |
| Refundable deposits | 4,174,674,771.44 | 3,016,807,850.88 |
| Available-for-sale financial assets | - | 25,636,041,045.00 |
| Debt securities at fair value through other comprehensive income | 22,996,386,469.82 | - |
| Other assets (financial assets) | 1,225,163,635.85 | 1,977,330,439.15 |
| Total maximum exposure to credit risk amounts | 145,935,352,476.76 | 137,013,373,197.50 |

(b) Credit risk ratings of bond investments

The Group uses credit rating approach to monitor the credit risk of the bond investment portfolio. The following table illustrates the credit rating of the bond investments of the Group at the balance sheet date. Among them, unrated bond investments mainly include national bonds, interbank certificates of deposit and policy financial bonds.

The bond investments by short-term credit rating are as follows:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| A-1 | - | 289,011,100.00 |
| B | - | 31,211,996.40 |
| Total | - | 320,223,096.40 |

The bond investments by long-term credit rating are as follows:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| AAA | 27,005,575,555.82 | 25,269,788,015.97 |
| A to AA+ | 9,387,594,792.27 | 11,376,931,005.30 |
| A (inclusive) and lower ratings | 3,808,782,697.44 | 1,723,922,777.72 |
| Total | 40,201,953,045.53 | 38,370,641,798.99 |

Unrated bonds:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Unrated | 5,837,467,364.56 | 10,050,104,739.20 |

(4) Operational risk

Operational risk refers to the risk of direct or indirect losses arising from inadequate or problematic internal procedures, staffing, systems or external events.

In order to prevent such operational risk, the Company establishes a complete corporate governance structure and internal control system and sets up a complete operational risk identification and evaluation system to identify and evaluate the Group's operational risk points, and gradually improves measurement methods of operational risks to reduce probability of operational risks. The Company established an operational risk management system and gradually promotes on a pilot basis. It also gradually carries out self-assessment of operational risk and control, monitoring of key risk indicators and gathering of risk events and loss data and other approaches to optimise operational risk management through the application of systematic tools, collection and analysis of risk information of each business process and early warning of operational risk. During the reporting period, the reporting management of key risk indicators and monthly risk reports was further strengthened.

(5) Capital management

The Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group's capital structure is regularly reviewed and managed to achieve an optimal structure and return for shareholders. Factors for the Group's consideration include: its future funding requirements, capital efficiency, actual and expected profitability, expected cash flows, expected capital expenditure and risk level. Adjustments are made to the capital structure in light of changes in the factors mentioned above affecting the Group.

On 16 June 2016, the China Securities Regulatory Commission ("CSRC") issued the Measures for the Administration of Risk Control Indicators of Securities Companies (Order No. 125, CSRC) and the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies (Announcement No. 10 [2016], CSRC), which came into force on 1 October 2016 to revise the risk control indicators and criteria that securities companies must keep reviewing. Therefore, the Company is required to consistently meet the criteria for risk control indicators.

(6) Transferred financial assets

In the ordinary course of business, the Group transfers recognised financial assets to third parties or customers during some transactions, but retains the risks and rewards of the transferred financial assets. Therefore, the Group does not derecognise such financial assets in the balance sheet.

The Group receives payments from the transfer of investment in financial assets held for trading to counterparties and has signed agreements to repurchase such assets. According to the agreements, the counterparties have the right to receive contractual cash flows during the term of the agreements and use such securities again as collateral, and are obliged to return such securities to the Group on the due date specified in the agreements. The Group believes that the risks and rewards of such financial assets are not transferred and therefore it does not derecognise such financial assets in the balance sheet.

As at 31 December 2019, financial assets transferred but not derecognised and their related liabilities are as follows:

| | *Financial assets held for trading* | | *Total* |
|---|---|---|---|
| | Securities lending | *Financial assets sold under outright repurchase agreements* | |
| Carrying amount of transferred assets | 78,709,485.18 | 1,166,818,507.00 | 1,245,527,992.18 |
| Carrying amount of related liabilities | - | (1,098,824,724.53) | (1,098,824,724.53) |
| Net position | 78,709,485.18 | 67,993,782.47 | 146,703,267.65 |

As at 31 December 2018, financial assets transferred but not derecognised and their related liabilities are as follows:

| | *Available-for-sale financial assets* | | *Total* |
|---|---|---|---|
| | *Securities lending* | *Financial assets sold under outright repurchase agreements* | |
| Carrying amount of transferred assets | 26,904,368.60 | 585,405,143.00 | 612,309,511.60 |
| Carrying amount of related liabilities | - | (553,821,135.89) | (553,821,135.89) |
| Net position | 26,904,368.60 | 31,584,007.11 | 58,488,375.71 |

During 2019, Industrial Securities International Brokerage, a subsidiary of Industrial Securities International, issued structured notes to third parties to transfer income right of certain receivables from margin financing business. As the transfer of Industrial Securities International Brokerage meets the criteria for derecognition of financial assets listed in Note III. 9(5), Industrial Securities International Brokerage has derecognised related receivables from margin financing business.

## XIV. Fair values of financial assets and liabilities

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

### 1. Fair value of assets and liabilities measured at fair value at the end of the year

| | | *31 December 2019* | | | |
|---|---|---|---|---|---|
| | *Note* | *Level 1* | *Level 2* | *Level 3* | *Total* |
| Recurring fair value measurements | | | | | |
| Assets | | | | | |
| Financial assets at fair value through profit or loss | VI.10 | | | | |
| - Bonds | | 701,668,857.30 | 22,136,920,126.99 | 204,444,955.98 | 23,043,033,940.27 |
| - Public offering funds | | 9,948,329,365.89 | - | - | 9,948,329,365.89 |
| - Stock | | 8,537,318,624.23 | 580,634,839.73 | 279,198,133.62 | 9,397,151,597.58 |
| - Wealth management products of banks | | 1,311,686,025.21 | 200,000,000.00 | - | 1,511,686,025.21 |
| - Asset management product of securities firms | | 32,999,014.50 | 768,407,442.17 | - | 801,406,456.67 |
| - Trust plans | | 217,672,764.19 | 121,599,441.68 | 133,356,000.00 | 472,628,205.87 |
| - Asset management plans and others | | 210,112,473.25 | 1,935,957,541.50 | 1,229,474,679.40 | 3,375,544,694.15 |
| Debt securities at fair value through other comprehensive income | VI.11 | 1,304,623,360.02 | 21,691,763,109.80 | - | 22,996,386,469.82 |
| Equity securities not held for trading | VI.12 | - | 2,495,987,365.42 | - | 2,495,987,365.42 |
| Derivative financial assets | VI.4 | - | 15,379,993.11 | - | 15,379,993.11 |
| Total assets measured at fair value on a recurring basis | | 22,264,410,484.59 | 49,946,649,860.40 | 1,846,473,769.00 | 74,057,534,113.99 |
| Liabilities | | | | | |
| Financial liabilities at fair value through profit or loss | VI.25 | 590,962,513.40 | 3,402,436,918.19 | - | 3,993,399,431.59 |
| Derivative financial liabilities | VI.4 | - | 10,445,131.59 | 7,578,313.01 | 18,023,444.60 |
| Total liabilities measured at fair value on a recurring basis | | 590,962,513.40 | 3,412,882,049.78 | 7,578,313.01 | 4,011,422,876.19 |

| | | *31 December 2018* | | | |
|---|---|---|---|---|---|
| | *Note* | *Level 1* | *Level 2* | *Level 3* | *Total* |
| Recurring fair value measurements | | | | | |
| Assets | | | | | |
| Financial assets at fair value through profit or loss | VI.8 | | | | |
| Financial assets held for trading | | | | | |
| - Investment in debt instruments | | 13,733,251,082.05 | 9,187,067,121.70 | - | 22,920,318,203.75 |
| - Investment in equity instruments | | 13,014,657,110.14 | 2,615,576,983.06 | 289,553,724.41 | 15,919,787,817.61 |
| Financial assets designated at fair value through profit or loss | | - | 1,307,786,537.17 | 326,373,921.94 | 1,634,160,459.11 |
| Derivative financial assets | VI.4 | - | 4,738,721.96 | - | 4,738,721.96 |
| Available-for-sale financial assets | VI.9 | | | | |
| - Investment in debt instruments | | 15,249,070,980.00 | 10,360,065,696.40 | - | 25,609,136,676.40 |
| - Investment in equity instruments | | 123,217,080.16 | 3,868,061,828.31 | 493,740,850.30 | 4,485,019,758.77 |
| Total assets measured at fair value on a recurring basis | | 42,120,196,252.35 | 27,343,296,888.60 | 1,109,668,496.65 | 70,573,161,637.60 |
| Liabilities | | | | | |
| Financial liabilities at fair value through profit or loss | VI.26 | 91,582,176.40 | - | - | 91,582,176.40 |
| Financial liabilities designated at fair value through profit or loss | | - | 1,323,087,693.26 | - | 1,323,087,693.26 |
| Derivative financial liabilities | VI.4 | - | 10,108,502.17 | 741,304.97 | 10,849,807.14 |
| Total liabilities measured at fair value on a recurring basis | | 91,582,176.40 | 1,333,196,195.43 | 741,304.97 | 1,425,519,676.80 |

2. Basis of determining the market price for recurring and non-recurring fair value measurements categorised within Level 1

For financial assets held for trading, financial assets measured at fair value through profit or loss, other debt instruments and available-for-sale financial assets with an active market, their fair value is determined by the closing price of the active market at the last trading day before the balance sheet date.

3. Valuation techniques used and the qualitative and quantitative information of key parameters for recurring and non-recurring fair value measurements categorised within Level 2

The fair value of financial assets held for trading, financial assets measured at fair value through profit or loss, Debt securities at fair value through other comprehensive income and available-for-sale financial assets is the quoted price in the valuation system of relevant bond registration and settlement institutions. The relevant quotation institutions use observable inputs reflecting market conditions in the process of quotation.

For investments in equity instrument and investments in asset management plans and trust plans without an active market under the financial assets held for trading and investments in other equity instrument, if the manager regularly quotes the net value of the corresponding structural entity, the fair value of the corresponding structural entity shall be determined by the discount value of future cash flows. The discount rate used is derived from the relevant observable yield curve as at the end of the reporting period.

For forward and swap interest rate derivative contracts under the derivative financial assets and liabilities, their fair value is determined by the discount value of future cash flows at market rate according to the provisions and maturity date of each contract. The fair value of derivatives embedded in swap contracts is determined by the return calculated by relevant quoted market prices. The fair value of option business is determined by option pricing model where the volatility of the subject matter reflects the observable input of corresponding option.

4. Valuation techniques used and the qualitative and quantitative information of key parameters for recurring and non-recurring fair value measurements categorised within Level 3

The Group has established processes to determine appropriate valuation techniques and inputs for Level 3 fair value measurements. The risk management department of the Group regularly reviews relevant processes and the appropriateness of fair value determination.

Quantitative information about Level 3 fair value measurements is as follows:

| | *Fair value at 31 December 2019* | *Main valuation techniques* | *Unobservable inputs* | *Effect on fair value* |
|---|---|---|---|---|
| Financial assets held for trading | | | | |
| Bonds | 204,444,955.98 | Discounted cash flow model | Risk-adjusted discount rate | The higher the risk-adjusted discount rate, the lower the fair value |
| Stocks | 279,198,133.62 | Market approach | Discount for lack of marketability | The higher the discount, the lower the fair value |
| Trust plans | 133,356,000.00 | Discounted cash flow model | Risk-adjusted discount rate | The higher the risk-adjusted discount rate, the lower the fair value |
| Unlisted equity and private funds | 1,100,539,464.81 | Market approach | Discount for lack of marketability | The higher the discount, the lower the fair value |
| Unlisted equity | 128,935,214.59 | Discounted cash flow model | Risk-adjusted discount rate | The higher the risk-adjusted discount rate, the lower the fair value |
| Derivative financial liabilities | | | | |
| Credit derivatives | 7,578,313.01 | Interest rate spread approach | Debt spread | The higher the spread, the lower the fair value |

| | *Fair value at 31 December 2018* | *Main valuation techniques* | *Unobservable inputs* | *Effect on fair value* |
|---|---|---|---|---|
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Investment in equity instruments | 21,753,574.09 | Investment objective net value portfolio approach | Investment objective net value | The higher the net value, the higher the fair value |
| Investment in equity instruments | 594,174,072.26 | Market approach | Discount for lack of marketability | The higher the discount, the lower the fair value |
| Available-for-sale financial assets | | | | |
| Investment in equity instruments | 268,471,582.50 | Market approach | Discount for lack of marketability | The higher the discount, the lower the fair value |
| Investment in equity instruments | 225,269,267.80 | Discounted cash flow model | Risk-adjusted discount rate | The higher the risk-adjusted discount rate, the lower the fair value |
| Liabilities | | | | |
| Derivative financial liabilities | | | | |
| Over-the-counter options | 144,817.20 | Option pricing model | Expected Volatility | The greater the volatility, the higher the fair value |
| Credit derivatives | 596,487.77 | Interest rate spread approach | Debt spread | The higher the spread, the lower the fair value |

## 5. Reconciliation between carrying amount at the beginning of the year and that at the end of the year for items measured at recurring Level 3 fair value measurements

### (1) Reconciliation between carrying amount at the beginning of the year and that at the end of the year for items measured at recurring Level 3 fair value measurements:

| | | | | | | Total gains or losses for the year | | Purchases, issues, sales and settlements | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Balance at 31 December 2018* | *Changes in accounting policies* | *Balance at 1 January 2019* | *Transfer into Level 3* | *Transfer out of Level 3* | *Included in profit or loss (Note)* | *Included in other comprehensive income (Note)* | *Purchases* | *Issues* | *Sales* | *Settlements* | *Balance at 31 December 2019* | *Unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the period* |
| Assets | | | | | | | | | | | | | |
| Financial assets at fair value through profit or loss | | | | | | | | | | | | | |
| - Bonds | - | - | - | 25,000,000.00 | - | (158,067,847.02) | - | 348,512,803.00 | - | - | (11,000,000.00) | 204,444,955.98 | (158,067,847.02) |
| - Stock | 267,800,150.32 | 7,678.00 | 267,807,828.32 | 138,123,117.70 | (6,818,184.31) | (105,210,811.30) | - | 646,900.85 | - | (15,350,717.64) | - | 279,198,133.62 | (105,051,631.23) |
| - Trust plans | - | - | - | - | - | 4,356,000.00 | - | 129,000,000.00 | - | - | - | 133,356,000.00 | 4,356,000.00 |
| - Asset management plans and others | 348,127,496.03 | 1,260,282,918.06 | 1,608,410,414.09 | 154,307,702.25 | (140,010,710.00) | (318,631,472.48) | - | 16,655,728.97 | - | (91,256,983.43) | - | 1,229,474,679.40 | (324,962,672.48) |
| Available-for-sale financial assets | | | | | | | | | | | | | |
| - Stock | 7,678.00 | (7,678.00) | - | - | - | - | - | - | - | - | - | - | - |
| - Others | 493,733,172.30 | (493,733,172.30) | - | - | - | - | - | - | - | - | - | - | - |
| Derivative financial liabilities | | | | | | | | | | | | | |
| - Over-the-counter options | (144,817.20) | - | (144,817.20) | - | - | (474,747.60) | - | - | - | - | 619,564.80 | - | - |
| - Credit derivatives | (596,487.77) | - | (596,487.77) | - | - | (7,578,313.01) | - | - | - | - | 596,487.77 | (7,578,313.01) | (7,578,313.01) |
| Total | 1,108,927,191.68 | 766,549,745.76 | 1,875,476,937.44 | 317,430,819.95 | (146,828,894.31) | (585,607,191.41) | - | 494,815,432.82 | - | (106,607,701.07) | (9,783,947.43) | 1,838,895,455.99 | (591,304,463.74) |

| | | | | *Total gains or losses for the year* | | *Purchases, issues, sales and settlements* | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Balance at 1 January 2018* | *Transfer into Level 3* | *Transfer out of Level 3* | *Included in profit or loss (Note)* | *Included in other comprehensive income (Note)* | *Purchases* | *Issues* | *Sales* | *Settlements* | *Balance at 31 December 2018* | *Unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the period* |
| Assets | | | | | | | | | | | |
| Financial assets at fair value through pro or loss | | | | | | | | | | | |
| - Equity instruments products | 173,886,215.46 | 125,743,021.45 | (57,529,502.56) | 76,888,398.72 | - | 310,355,913.62 | - | (13,416,400.34) | - | 615,927,646.35 | 50,041,854.29 |
| Available-for-sale financial assets | | | | | | | | | | | |
| - Investment in equity instruments | 89,463,326.03 | 228,451,582.50 | - | - | 2,635,141.77 | 173,190,800.00 | - | - | - | 493,740,850.30 | - |
| Derivative financial liabilities | | | | | | | | | | | |
| - Over-the-counter options | - | - | - | 619,564.80 | - | (1,069,983.24) | - | 305,601.24 | - | (144,817.20) | 125,182.80 |
| - Credit derivatives | - | - | - | (596,487.77) | - | - | - | - | - | (596,487.77) | (596,487.77) |
| Total | 263,349,541.49 | 354,194,603.95 | (57,529,502.56) | 76,911,475.75 | 2,635,141.77 | 482,476,730.38 | - | (13,110,799.10) | - | 1,108,927,191.68 | 49,570,549.32 |

Note: The above gains or losses for the year included in profit or loss or other comprehensive income are as follows:

| | *2019* | *2018* |
|---|---|---|
| Realised gains or losses included in profit or loss for the year | | |
| - Investment income | 5,697,272.33 | 27,340,926.43 |
| Unrealised gains or losses included in profit or loss for the year | | |
| - Gains from changes in fair value | (591,304,463.74) | 49,570,549.32 |
| Total | (585,607,191.41) | 76,911,475.75 |
| Gains or losses included in other comprehensive income | | |
| - Gains arising from changes in fair value of available-for-sale financial assets | - | 2,635,141.77 |

6. Transfers between different levels of items measured at recurring fair value measurements

During 2019, the financial assets measured at fair value transferred into Level 3 of the Group amounted to RMB 317,430,819.95, which was mainly due to the change of the securities listed in National Equities Exchange and Quotations from market making transfer to agreement-based transfer or delisting; the financial assets measured at fair value transferred from Level 3 to Level 2 amounted to RMB 146,828,290.00, which was mainly due to the change of unlisted equity to restricted shares after financing or listing. During 2018, there were no significant transfers between different levels of the Group's above assets which are measured at fair value on a recurring basis.

7. Current changes in valuation techniques and the reasons

During 2019 and 2018, there were no significant changes in valuation techniques for the fair value measurements.

8. Fair values of financial assets and liabilities not measured at fair value

All financial instruments are carried at amounts not materially different from their fair value as at 31 December 2019 and 2018 except as follows:

| | *31 December 2019* | | *Fair value measurements as at 31 December 2019 categorised* | | |
|---|---|---|---|---|---|
| | *Carrying amount* | *Fair value* | *Level 1* | *Level 2* | *Level 3* |
| Bonds payable | 45,375,193,660.59 | 45,528,868,827.40 | - | 45,528,868,827.40 | - |

| | *31 December 2018* | | *Fair value measurements as at 31 December 2018 categorised* | | |
|---|---|---|---|---|---|
| | *Carrying amount* | *Fair value* | *Level 1* | *Level 2* | *Level 3* |
| Bonds payable | 48,501,477,143.04 | 48,547,444,529.17 | - | 48,547,444,529.17 | - |

# XV. Notes to the Parent Company's financial statements

## 1. Long-term equity investments

### (1) Long-term equity investments by category

| | *31 December 2019* | | | *31 December 2018* | | |
|---|---|---|---|---|---|---|
| *Item* | *Book value* | *Provision for impairment* | *Carrying amount* | *Book value* | *Provision for impairment* | *Carrying amount* |
| Investments in subsidiaries | 5,942,094,052.67 | - | 5,942,094,052.67 | 5,642,686,417.30 | - | 5,642,686,417.30 |
| Investments in associates | 43,370,400.01 | - | 43,370,400.01 | 42,705,981.57 | - | 42,705,981.57 |
| Total | 5,985,464,452.68 | - | 5,985,464,452.68 | 5,685,392,398.87 | - | 5,685,392,398.87 |

The Company has no material restriction on transfers of funds to investees.

## (2) Investments in subsidiaries

| *Subsidiary* | *Balance at the beginning of the year* | *Increase during the year* | *Decrease during the year* | *Balance at the end of the year* | *Provision made during the year* | *Impairment at the end of the year* |
|---|---|---|---|---|---|---|
| AEGON-Industrial Fund 兴证基金 | 62,428,839.73 | - | - | 62,428,839.73 | - | - |
| Industrial Futures 兴证期货 | 1,211,411,012.94 | - | - | 1,211,411,012.94 | - | - |
| China Industrial Securities Capital Management Co., Ltd. (兴证创新资本管理有限公司) | 700,000,000.00 | - | - | 700,000,000.00 | - | - |
| Industrial Securities (Hong Kong) | 1,667,754,200.00 | - | - | 1,667,754,200.00 | - | - |
| Fuzhou Industrial Securities Property Management Co., Ltd.(福州兴证物业管理有限公司) | 500,000.00 | - | - | 500,000.00 | - | - |
| INDUSTRIAL ASSETS MANAGEMENT CO.,LTD. (兴证证券资产管理有限公司) | 500,000,000.00 | 300,000,000.00 | - | 800,000,000.00 | - | - |
| China Industrial Securities Investment Management Co., Ltd.(兴证投资管理有限公司) | 1,500,000,000.00 | - | - | 1,500,000,000.00 | - | - |
| Shanghai Industrial Securities Management Consulting Co., Ltd. (上海兴证管理咨询有限公司) | 592,364.63 | - | (592,364.63) | - | - | - |
| Total | 5,642,686,417.30 | 300,000,000.00 | (592,364.63) | 5,942,094,052.67 | - | - |

For information about the subsidiaries of the Company, refer to Note V. 1.

## (3) Investments in associates

| *Name of investee* | *Balance at the beginning of the year* | *Movements during the year* | | | | | | | | *Balance at the end of the year* | *Impairment at the end of the year* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Increase in investments* | *Decrease in investments* | *Investment income under equity method* | *Other comprehensive income* | *Other changes in equity* | *Cash dividend or profit distribution* | *Provisions for impairment* | *Others* | | |
| Haixia Equity Exchange (Fujian) Co., Ltd (海峡股权交易中心（福建）有限公司) | 42,705,981.57 | - | - | 664,418.44 | - | - | - | - | - | 43,370,400.01 | - |

2. Employee benefits payable

| | Note | 31 December 2019 | 31 December 2018 |
|---|---|---|---|
| Employee benefits | (1) | 3,089,653,436.70 | 2,260,650,434.40 |
| Post-employment benefits - defined contribution plans | (2) | 189,563,822.03 | 9,976,395.85 |
| Total | | 3,279,217,258.73 | 2,270,626,830.25 |

(1) Employee benefits

| | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Salaries, bonuses, allowances | 2,236,212,235.63 | 2,695,845,703.91 | (1,864,049,240.70) | 3,068,008,698.84 |
| Staff welfare | - | 18,965,720.31 | (18,965,720.31) | - |
| Social insurance | 54,304.82 | 99,718,473.20 | (99,735,542.22) | 37,235.80 |
| - Medical insurance | 46,909.28 | 91,493,905.58 | (91,506,099.34) | 34,715.52 |
| - Work-related injury insurance | 10,343.35 | 1,282,334.48 | (1,286,971.28) | 5,706.55 |
| - Maternity insurance | (2,947.81) | 6,900,552.30 | (6,900,790.76) | (3,186.27) |
| - Other social insurance | - | 41,680.84 | (41,680.84) | - |
| Housing fund | (86,801.59) | 105,745,984.48 | (105,676,246.22) | (17,063.33) |
| Labour union fee, staff and workers' education fee | 24,470,695.54 | 28,057,239.78 | (30,903,369.93) | 21,624,565.39 |
| Others | - | 59,943.86 | (59,943.86) | - |
| Total | 2,260,650,434.40 | 2,948,393,065.54 | (2,119,390,063.24) | 3,089,653,436.70 |

(2) Post-employment benefits – defined contribution plans

| | Balance at the beginning of the year | Accrued during the year | Decreased during the year | Balance at the end of the year |
|---|---|---|---|---|
| Basic pension insurance | 9,964,933.74 | 143,640,347.45 | (144,664,722.48) | 8,940,558.71 |
| Unemployment insurance | 11,417.90 | 1,725,179.82 | (1,730,823.00) | 5,774.72 |
| Annuity | 44.21 | 299,915,853.08 | (119,298,408.69) | 180,617,488.60 |
| Total | 9,976,395.85 | 445,281,380.35 | (265,693,954.17) | 189,563,822.03 |

3. Net fee and commission income

| | *2019* | *2018* |
|---|---|---|
| **Net income from securities brokerage business** | **1,441,958,796.11** | **1,215,574,549.68** |
| - Income from securities brokerage business | 1,771,019,208.70 | 1,446,592,346.57 |
| - Agency securities trading | 1,114,629,881.51 | 805,256,542.23 |
| - Lease of trading membership | 457,021,193.38 | 457,616,091.11 |
| - Agency sale of financial product | 199,368,133.81 | 183,719,713.23 |
| - Expenses for securities brokerage business | (329,060,412.59) | (231,017,796.89) |
| - Agency securities trading | (329,060,412.59) | (231,017,796.89) |
| - Agency sale of financial product | - | - |
| Net income from investment banking business | 636,263,346.80 | 678,674,304.29 |
| - Income from investment banking business | 649,453,372.36 | 723,415,136.17 |
| - Securities underwriting business | 503,495,891.29 | 560,518,709.69 |
| - Securities sponsorship business | 37,856,603.77 | 21,035,849.00 |
| - Financial advisory business | 108,100,877.30 | 141,860,577.48 |
| - Expenses for investment banking business | (13,190,025.56) | (44,740,831.88) |
| - Securities underwriting business | (9,423,643.84) | (22,186,111.86) |
| - Securities sponsorship business | (2,215,470.76) | (16,308,936.95) |
| - Financial advisory busines | (1,550,910.96) | (6,245,783.07) |
| **Net income from investment advisory business** | **27,588,438.50** | **23,762,729.03** |
| - Income from investment advisory business | 27,588,438.50 | 23,762,729.03 |
| - Expenses on investment advisory business | - | - |
| **Other net fee and commission income** | **79,626,225.38** | **58,264,614.15** |
| - Other fee and commission income | 86,232,953.15 | 68,665,181.83 |
| - Other fee and commission expens | (6,606,727.77) | (10,400,567.68) |
| Total | 2,185,436,806.79 | 1,976,276,197.15 |
| Including: Total fee and commission income | 2,534,293,972.71 | 2,262,435,393.60 |
| Total fee and commission expenses | (348,857,165.92) | (286,159,196.45) |

4. Net interest income/(expenses)

| | *2019* | *2018* |
|---|---|---|
| Interest income | | |
| Including: Interest income from cash at bank and on hand and clearing settlement funds | 602,864,159.26 | 484,597,427.32 |
| Interest income from margin financing | 1,065,740,234.34 | 1,045,254,369.37 |
| Interest income from financial assets held under resale agreements | 724,084,779.12 | 1,463,990,386.15 |
| Including: Interest income from stock pledged repurchase business | 702,531,277.41 | 1,443,740,395.26 |
| Interest income from contracted repurchase | 450,453.40 | 3,885,979.20 |
| Interest income from debt securities at fair value through other comprehensive income | 1,099,722,629.68 | - |
| Others | 54,866,369.09 | 15,863,585.42 |
| Sub-total of interest income | 3,547,278,171.49 | 3,009,705,768.26 |
| Interest expense | | |
| Including: Interest expenses on short term financing payable | (39,581,854.22) | (265,872,148.76) |
| Interest expenses on placements from banks and other financial institutions | (60,611,681.30) | (50,040,470.96) |
| Including: Interest expenses on refinancing | (26,463,186.92) | (38,289,995.66) |
| Interest expenses on financial assets sold under repurchase agreement | (627,370,937.38) | (770,098,204.48) |
| Including: Interest expenses on securities-backed lending | (503,652.65) | (800,738.07) |
| Interest expenses on customers' deposits | (76,459,881.72) | (59,785,311.56) |
| Interest expenses on bonds payable | (2,103,548,354.95) | (2,565,556,393.38) |
| Including: Interest expenses on secondary bonds | (908,323,903.81) | (1,563,672,849.75) |
| Others | (16,292,372.56) | (12,194,834.89) |
| Sub-total of interest expenses | (2,923,865,082.13) | (3,723,547,364.03) |
| Net Interest income/(expenses) | 623,413,089.36 | (713,841,595.77) |

5. Investment income

(1) By category

| | 2019 | 2018 |
|---|---|---|
| Income from long-term equity investments accounted for using cost method | 458,255,512.46 | 1,162,701,150.48 |
| Income/(loss) from long-term equity investments accounted for using equity method | 664,418.44 | (3,168,768.33) |
| Investment income from financial instruments | 1,689,581,026.32 | 2,536,753,534.38 |
| Including: Income from holding financial instruments | 1,156,149,088.66 | 2,715,079,706.58 |
| - Financial instruments at fair value through profit or loss | 996,354,644.83 | - |
| - Equity securities not held for trading | 159,794,443.83 | - |
| - Financial instruments held for trading | - | 1,141,634,029.63 |
| - Available-for-sale financial assets | - | 1,573,445,676.95 |
| Income from disposal of financial asset | 533,431,937.66 | (178,326,172.20) |
| - Financial instruments at fair value through profit or loss | 515,904,706.98 | - |
| - Debt securities at fair value through other comprehensive income | 36,672,651.82 | - |
| - Derivative financial instruments | (19,145,421.14) | 68,947,349.16 |
| - Financial instruments held for trading | - | (273,716,404.74) |
| - Available-for-sale financial assets | - | 26,442,883.38 |
| Total | 2,148,500,957.22 | 3,696,285,916.53 |

Investment income from financial instruments held for trading are as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Financial assets classified at fair value through profit or loss | Investment income received in holding period | 998,886,412.90 | 1,144,604,984.68 |
| | Income/(loss) from disposals | 504,595,810.76 | (274,129,594.74) |
| Financial assets designated at fair value through profit or loss | Investment income received in holding period | - | - |
| | Income from disposals | - | - |
| Financial liabilities classified at fair value through profit or loss | Loss in holding period | (2,531,768.07) | (2,970,955.05) |
| | Income from disposals | 11,308,896.22 | 413,190.00 |
| Financial liabilities designated at fair value through profit or loss | Investment income received in holding period | - | - |
| | Income from disposals | - | - |
| Total | | 1,512,259,351.81 | 867,917,624.89 |

(2) Interest in the profit or loss of associates and joint ventures

See Note VI. 14(2).

(3) Significant restrictions on the remittance of investment returns

None of the above-mentioned investment income faces any significant restriction on the remittance of investment returns.

6. Gains/(losses) from changes in fair value

| | *2019* | *2018* |
|---|---|---|
| Financial assets at fair value through profit or loss | 1,894,821,189.72 | - |
| Including: Financial assets designated at fair value through profit or loss | - | - |
| Derivative financial instruments | (8,925,336.59) | 16,093,915.74 |
| Financial assets held for trading | - | (635,785,645.39) |
| Including: Financial assets designated at fair value through profit or loss | - | (33,907,222.51) |
| Total | 1,885,895,853.13 | (619,691,729.65) |

7. General and administrative expenses

| | *2019* | *2018* |
|---|---|---|
| Salaries, bonuses, allowances | 2,695,845,703.91 | 1,604,811,115.87 |
| Social insurance | 544,999,853.55 | 241,299,696.91 |
| Rental charge | 231,399,533.40 | 191,781,870.15 |
| Depreciation and amortisation expenses | 136,804,067.97 | 106,295,904.67 |
| Housing fund | 105,745,984.48 | 84,343,751.39 |
| Entertainment expenses | 85,928,879.30 | 88,650,364.15 |
| Business travel expenses | 72,321,856.04 | 61,390,849.63 |
| Postal and communication expenses | 67,372,865.33 | 58,768,681.25 |
| Trading seat unit fee | 64,060,161.52 | 49,905,283.15 |
| Office expenses | 62,811,809.32 | 39,819,139.50 |
| Other labour cost | 47,082,903.95 | 39,147,255.74 |
| Others | 295,840,319.52 | 283,158,073.69 |
| Total | 4,410,213,938.29 | 2,849,371,986.10 |

8. Supplement to cash flow statement

(1) Supplement to cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities:

| | *2019* | *2018* |
|---|---|---|
| Net profit | 1,807,255,406.14 | 1,043,927,525.38 |
| Add: Credit/asset losses | 184,525,855.62 | 644,457,434.95 |
| Depreciation of fixed assets | 66,177,008.50 | 52,697,994.82 |
| Depreciation of investment properties | 6,389,542.20 | 12,016,640.36 |
| Amortisation of intangible assets | 56,591,072.11 | 25,850,117.98 |
| Amortisation of long term deferred expenses | 41,301,464.79 | 36,692,080.84 |
| Losses/(gains) from disposal of fixed assets, intangible assets, and other long-term assets | 739,316.80 | (732,899.13) |
| Losses from scrapping of fixed assets (minus gains) | - | 43,418.16 |
| (Gains)/losses from changes in fair value | (1,885,895,853.13) | 619,691,729.65 |
| Exchange gains | (187,603.35) | (562,090.54) |
| Interest expense | 1,043,407,579.49 | 2,831,428,542.14 |
| Investment income | (655,387,026.55) | (1,219,673,738.11) |
| Decrease/(increase) in deferred tax assets | 228,256,972.59 | (304,751,537.53) |
| Decrease in financial assets held for tradir | - | 2,597,407,812.36 |
| Increase in financial assets at fair value through profit or loss | (1,971,592,608.12) | - |
| Increase in available-for-sale financial assets | - | (10,022,740,909.27) |
| Decrease in operating receivables | 8,647,181,704.55 | 12,555,743,192.58 |
| Increase in operating payables | 9,167,267,843.94 | 6,730,972,106.67 |
| Net cash inflow from operating activities | 16,736,030,675.58 | 15,602,467,421.31 |

(b) Significant investing and financing activities not requiring the use of cash:

During 2019, the Company has no significant investing and financing activities not requiring the use of cash.

(c) Change in cash:

| | *2019* | *2018* |
|---|---|---|
| Cash at the end of the year | 35,319,415,792.08 | 19,462,057,769.99 |
| Less: Cash at the beginning of the year | (19,462,057,769.99) | (17,154,910,122.46) |
| Net increase in cash | 15,857,358,022.09 | 2,307,147,647.53 |

(2) Details of cash:

| | *31 December 2019* | *31 December 2018* |
|---|---|---|
| Cash | | |
| Including: Bank deposits available on demand | 29,299,529,004.62 | 13,916,981,506.21 |
| Other monetary funds available on demand | 57,647,703.44 | 56,582,344.41 |
| Other Clearing settlement funds available on demand | 5,962,239,084.02 | 5,488,493,919.37 |
| Cash at the end of the year | 35,319,415,792.08 | 19,462,057,769.99 |

XVI. Approval for the financial statements

These financial statements were approved and authorised for issue by the board of directors on 23 April 2020.

Industrial Securities Co., Ltd.

Financial statements and auditor's report
For the year ended 31 December 2018

INDUSTRIAL SECURITIES CO., LTD.

Financial statements and auditor's report
For the year ended 31 December 2018

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|---|---|

# Auditor's report

De Shi Bao (Shen) Zi (19) No. P01756
(Page 1 of 6 pages)

To the Shareholders of Industrial Securities Co., Ltd.:

## 1. Opinion

We have audited the financial statements of Industrial Securities Co., Ltd. ("Industrial Securities"), which comprise the consolidated and Company's balance sheets as at 31 December 2018, and the consolidated and Company's income statements, the consolidated and Company's cash flow statements, and the consolidated and Company's statements of changes in owners' equity for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements of Industrial Securities Co., Ltd. is prepared and presented fairly, in all material respects, the consolidated and Company's financial position as at 31 December 2018, and the consolidated and the Company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

## 2. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Industrial Securities in accordance with the code of ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We determine the followings are key audit matters in need of communication in our report.

### (I) Consolidation of structured entities

1. Description of the matter

In determining whether the structured entities should be included in the scope of the consolidated financial statements, the management of Industrial Securities was required to make significant judgments as to whether Industrial Securities had control over the structured entities. Therefore we determined that such matter is a key audit matter.

In determining the scope of consolidation, Industrial Securities included the structured entities that meet the definition of control in the scope of its consolidated financial statements. There were three elements in determining whether control exists: (1) power over the investee; (2) exposures or rights to variable returns from involvement with the investee, and (3) the ability to use power over the investee to affect the amount of the investor's returns.

3. **Key Audit Matters** – continued

**(I) Consolidation of structured entities** – continued

In the course of its business, Industrial Securities and its subsidiaries managed and invested in various types of structured entities, such as securities investment funds, asset management schemes and partnership. Industrial Securities considered its power, arising from the rights entitled directly or indirectly, over the structured entities, and assessed whether the combination of investments it held together with its remuneration created exposure to variability of returns from the structured entities that were of such significance that it indicated Industrial Securities controlled the structured entities and should consolidate these structured entities.

Details of the structured entities included and not included in the scope of consolidation are set out in Note VI.1 and Note IX.4 to the financial statements.

2. Audit responses

We performed the following audit procedures to address the above matters:

(1) Understanding and evaluating the process and internal controls established by the management in determining whether the structured entities should be included in the scope of consolidation;

(2) For structured subjects newly established by Industrial Securities, or of which the contracts or agreements changed or shares held by Industrial Securities changed in 2018, checking the accuracy of the information used by the management in assessing the consolidation criteria for significant structured entities based on the relevant contracts or agreements, other investment service agreements and other facts and circumstances.

(3) Assessing the management's judgment on whether Industrial Securities has control over each significant structured entity and whether such entity should be included in the scope of consolidated financial statements.

**(II) Impairment assessment of investments in available-for-sale equity instruments measured at fair value**

1. Description of the matter

For investments in available-for-sale equity instruments measured at fair value, when assessing whether such investments were impaired, the management of Industrial Securities needed to make significant judgments on whether there was significant or non-temporary decrease in its fair value comparing with the investment costs initially recognized. Therefore we determined that such matter was a key audit matter.

As stated in Note VII.10 to the financial statements, as at 31 December 2018, the carrying amount of investments in available-for-sale equity instruments measured at fair value of Industrial Securities was RMB 4,485,020 thousands and corresponding provision for impairment amounted to RMB 43,969 thousands .

**3. Key Audit Matters** – continued

**(II) Impairment assessment of investments in available-for-sale equity instruments measured at fair value –** continued

2. Audit responses

We performed the following audit procedures to address the above matters:

(1) Understanding and evaluating the process and internal controls adopted by the management of Industrial Securities in identifying the investments in available-for-sale equity instruments measured at fair value with impairment indication;

(2) Assessing the judgement made by the management of Industrial Securities as to whether there was impairment indication in available-for-sale equity instruments measured at fair value;

(3) Checking, on a sample basis, the data used by the management of Industrial Securities in the calculation of provision for available-for-sale equity instruments measured at fair value, including market price and the duration for which the fair value continue to decline and fall below the initial investment cost, and checking the calculation process.

**(III) Impairment assessment of margin accounts and equity securities held under resale agreements**

1. Description of the matter

Industrial Securities and its subsidiaries were engaged in margin financing and securities lending business and stock-pledge repo business. The management of Industrial Securities were required to make significant judgments and estimates in determining the provision for impairment of margin accounts and equity securities held under resale agreements. Therefore we determined that such matter was a key audit matter.

Industrial Securities provided for impairment of the above financial assets based on a combination of individual and collective basis. For impairment provision made on an individual basis, Industrial Securities needed to consider various factors such as the collateral value of each financier and the expected future cash flows from the financier; for other impairment provision, Industrial Securities assessed the impairment on a collective basis.

As stated in Note VII.3 to the financial statements, as at 31 December 2018, the carrying amount of margin accounts arising from the margin financing and securities lending business of Industrial Securities was RMB17,768,713 thousands and the corresponding provision for impairment amounted to RMB276,590 thousands. As stated in Note VII.7 to the financial statements, as at 31 December 2018, the carrying amount of equity securities held under resale agreements arising from stock-pledge repo business was RMB 20,741,819 thousands and the corresponding provision for impairment amounted to RMB 691,899 thousands.

**3. Key Audit Matters** – continued

**(III) Impairment assessment of margin accounts and equity securities held under resale agreements–** continued

2. Audit responses

We performed the following audit procedures to address the above matters:

(1) Understanding and evaluating the process and internal controls established by the management of Industrial Securities in terms of the provision for margin accounts and equity securities held under resale agreements;

(2) For margin accounts and equity securities held under resale agreements for which the impairment provision was made individually, checking the lists of collaterals and others supplementary collaterals obtained by Industrial Securities as well as related documents, assessing whether the methods and assumptions adopted by the management in the assessment of recoverable amounts of the collaterals and others supplementary collaterals were appropriate and reasonable, comparing the key external data used by the management in the calculation of recoverable amounts with public information and reviewing the calculation of impairment. In addition, we also assessed the competency of the external valuation experts employed by the management in the process of assessing the estimated recoverable amount of the pledged equity for particular stock-pledge repo business, reviewed the valuation models, assumptions and parameters used by the external valuation experts, and assessed whether such valuation models, assumptions and parameters used were applicable in the assessment of the recoverable amount.

(3) For margin accounts and equity securities held under resale agreements for which the impairment provision was made on a collective basis, understanding the methods used by Industrial Securities in providing for impairment of margin accounts receivable and equity securities held under resale agreements, assessing whether such methods and assumptions were appropriate and reasonable, as well as checking the accuracy of calculation of the impairment provision.

**4. Others information**

The management of Industrial Securities is responsible for other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**V. Responsibilities of Management and Those Charged with Governance for the Financial Statements**

The management of Industrial Securities is responsible for the preparation and fair presentation of the financial statements in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control that is necessary to enable the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Industrial Securities' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate Industrial Securities or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Industrial Securities's financial reporting process.

**VI. Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Industrial Securities' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Industrial Securities to cease to continue as a going concern.

**VI. Auditor's Responsibilities for the Audit of the Financial Statements –** continued

(5) Evaluate the overall presentation, structure and content of the financial statements (including the disclosures), and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within Industrial Securities to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte Touche Tohmatsu CPA LLP

Shanghai, China

Chinese Certified Public Accountant:

Zeng Hao

(Engagement partner)

Chinese Certified Public Accountant:

Zhu Weiqi

1 April 2019

*The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.*

THE CONSOLIDATED AND COMPANY'S BALANCE SHEETS
AT 31 DECEMBER 2018

Unit: RMB

| | The consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| ASSETS | Note VII | Closing balance | Opening balance | Note VIII | Closing balance | Opening balance |
| | | | | | | |
| Cash and bank balances | 1 | 27,313,400,415.02 | 22,840,686,709.39 | | 13,974,349,848.46 | 12,973,475,713.83 |
| Including: customer deposits | 1 | 20,256,135,192.40 | 17,651,661,309.08 | | 10,393,113,900.12 | 10,442,544,293.25 |
| Clearing settlement funds | 2 | 6,027,321,671.10 | 4,506,562,332.45 | | 5,488,493,919.37 | 4,182,218,498.70 |
| Including: customer deposits | 2 | 3,884,164,599.83 | 2,991,737,332.65 | | 3,403,200,519.31 | 2,860,749,899.91 |
| Margin accounts | 3 | 17,492,122,392.09 | 18,098,113,148.77 | | 12,412,916,345.75 | 14,562,261,644.20 |
| Financial assets at fair value through profit or loss | 4 | 40,474,266,480.47 | 41,651,814,532.66 | | 24,495,261,369.69 | 27,728,454,827.44 |
| Derivative financial assets | 6 | 4,738,721.96 | 5,076,947.94 | | 296,149.53 | 2,407,099.21 |
| Financial assets held under resale agreements | 7 | 21,135,207,051.97 | 33,161,715,041.05 | | 20,956,505,501.97 | 33,035,938,558.05 |
| Accounts receivable | 8 | 2,258,413,112.06 | 1,423,003,736.39 | | 536,476,696.33 | 370,515,966.75 |
| Refundable deposits | 9 | 3,016,807,850.88 | 3,418,479,947.96 | | 474,266,298.65 | 485,709,278.11 |
| Available-for-sale financial assets | 10 | 31,142,420,975.29 | 24,149,729,125.61 | | 33,895,782,110.65 | 24,478,150,289.36 |
| Long-term equity investments | 11 | 1,711,928,961.78 | 268,216,450.09 | 1 | 5,685,392,398.87 | 5,002,314,054.26 |
| Investment properties | 12 | 244,057,825.35 | 251,715,519.86 | | 244,057,825.35 | 251,715,519.86 |
| Fixed assets | 13 | 533,096,766.35 | 516,345,736.42 | | 488,773,236.48 | 479,262,656.41 |
| Construction in progress | | 731,853.81 | - | | 731,853.81 | - |
| Intangible assets | 14 | 122,136,230.78 | 92,881,164.41 | | 96,821,718.89 | 70,539,998.10 |
| Goodwill | 15 | 12,264,149.78 | 12,264,149.78 | | - | - |
| Deferred tax assets | 16 | 1,299,854,541.44 | 742,573,805.29 | | 1,079,377,514.23 | 634,361,917.65 |
| Other assets | 17 | 2,349,046,880.49 | 1,916,222,604.86 | | 2,428,865,331.59 | 1,522,021,017.46 |
| **TOTAL ASSETS** | | **155,137,815,880.62** | **153,055,400,952.93** | | **122,258,368,119.62** | **125,779,347,039.39** |

(Continued)

## THE CONSOLIDATED AND COMPANY'S BALANCE SHEETS (CONTINUED)
## AT 31 DECEMBER 2018

Unit: RMB

| | The consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| LIABILITIES | Note VII | Closing balance | Opening balance | Note VIII | Closing balance | Opening balance |
| | | | | | | |
| Short-term loans | 19 | 6,237,585,757.76 | 5,582,598,975.61 | | - | - |
| Short-term financing payables | 20 | 642,692,157.48 | 12,538,527,928.07 | | 587,797,877.00 | 12,486,241,841.15 |
| Placements from banks and other financial institutions | 21 | 1,000,000,000.00 | 1,000,000,000.00 | | 1,000,000,000.00 | 1,000,000,000.00 |
| Financial liabilities at fair value through profit or loss | 22 | 1,414,669,869.66 | 1,531,288,132.64 | | - | - |
| Derivative financial liabilities | 6 | 10,849,807.14 | 23,931,316.23 | | 296,149.53 | 19,040,329.19 |
| Financial assets sold under repurchase agreements | 23 | 24,888,048,019.11 | 17,772,335,884.48 | | 23,488,231,035.89 | 16,671,335,815.06 |
| Accounts payable to brokerage and margin clients | 24 | 26,393,764,961.34 | 23,614,658,921.42 | | 13,636,993,806.23 | 13,320,103,966.96 |
| Employee benefits payable | 25 | 3,223,861,458.12 | 3,471,733,779.03 | | 2,270,626,830.25 | 2,533,519,358.98 |
| Taxes payable | 26 | 597,651,101.13 | 723,422,969.21 | | 292,668,322.43 | 515,601,475.99 |
| Accounts payable | 27 | 963,705,331.55 | 1,201,770,975.27 | | 472,021,750.94 | 383,399,276.27 |
| Bonds payable | 28 | 48,501,477,143.04 | 46,530,596,849.63 | | 48,501,477,143.04 | 46,530,596,849.63 |
| Long-term loans | 29 | 2,961,556,000.00 | - | | - | - |
| Provisions | 30 | 4,461,811.81 | 12,480,538.81 | | 4,461,811.81 | 12,480,538.81 |
| Deferred tax liabilities | 16 | 27,878,385.34 | 11,909,776.95 | | - | - |
| Other liabilities | 31 | 2,961,783,979.11 | 3,161,852,579.79 | | 1,490,816,674.47 | 1,412,685,469.90 |
| **TOTAL LIABILITIES** | | **119,829,985,782.59** | **117,177,108,627.14** | | **91,745,391,401.59** | **94,885,004,921.94** |
| | | | | | | |
| SHAREHOLDERS' EQUITY | | | | | | |
| Share capital | 32 | 6,696,671,674.00 | 6,696,671,674.00 | | 6,696,671,674.00 | 6,696,671,674.00 |
| Capital reserve | 33 | 14,372,689,029.26 | 14,370,248,578.67 | | 14,234,115,813.82 | 14,234,115,813.82 |
| Other comprehensive income | 34 | 130,209,693.76 | 186,936,660.53 | | (375,345,259.70) | 45,446,914.00 |
| Surplus reserve | 35 | 1,559,994,821.18 | 1,455,602,068.64 | | 1,559,994,821.18 | 1,455,602,068.64 |
| General risk reserve | 36 | 1,460,411,678.01 | 1,356,018,925.47 | | 1,460,411,678.01 | 1,356,018,925.47 |
| Transaction risk reserve | 37 | 1,440,812,074.95 | 1,336,419,322.41 | | 1,440,812,074.95 | 1,336,419,322.41 |
| Retained earnings | 38 | 6,844,659,423.43 | 8,026,990,360.95 | | 5,496,315,915.77 | 5,770,067,399.11 |
| Total equity attributable to shareholders of the Company | | 32,505,448,394.59 | 33,428,887,590.67 | | | |
| Non-controlling interests | | 2,802,381,703.44 | 2,449,404,735.12 | | | |
| **TOTAL SHAREHOLDERS' EQUITY** | | **35,307,830,098.03** | **35,878,292,325.79** | | **30,512,976,718.03** | **30,894,342,117.45** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **155,137,815,880.62** | **153,055,400,952.93** | | **122,258,368,119.62** | **125,779,347,039.39** |

The accompanying notes form part of the financial statements.

The financial statements on pages 7 to 141 were signed by the following:

| Yang Huahui | Xia Jinliang | Lin Hongzhen |
|---|---|---|
| Legal Representative | Chief Accountant | Person in Charge of the Accounting Body |

INDUSTRIAL SECURITIES CO., LTD.

## THE CONSOLIDATED AND COMPANY'S INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| | The consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| ITEM | Note VII | Amount recognized in the current year | Amount recognized in the prior year | Note VIII | Amount recognized in the current year | Amount recognized in the prior year |
| | | | | | | |
| **I. Operating income** | | **6,499,373,437.14** | **8,820,388,610.14** | | **4,456,460,950.73** | **6,111,308,543.11** |
| Net fee and commission income | 39 | 4,322,309,322.49 | 4,542,100,358.63 | 2 | 1,976,276,197.15 | 2,510,092,855.70 |
| Including: | | | | | | |
| Net income from brokerage business | | 1,349,236,180.21 | 1,503,132,215.52 | | 1,215,574,549.68 | 1,342,616,343.14 |
| Net income from investment banking business | | 835,766,179.80 | 1,155,385,398.52 | | 678,674,304.29 | 1,102,876,450.69 |
| Net income from asset management business | | 285,687,262.44 | 415,086,668.82 | | - | - |
| Net interest income/(expenses) | 40 | (333,744,552.70) | 418,862,437.51 | 3 | (713,841,595.77) | (30,699,379.96) |
| Including: | | | | | | |
| Interest income | | 3,723,665,217.33 | 3,703,023,384.59 | | 3,009,705,768.26 | 3,102,463,853.41 |
| Interest expenses | | 4,057,409,770.03 | 3,284,160,947.08 | | 3,723,547,364.03 | 3,133,163,233.37 |
| Investment gains | 41 | 2,860,080,736.32 | 3,590,355,427.54 | 4 | 3,696,285,916.53 | 3,623,569,149.01 |
| Including: Income from investments in associates and joint ventures | 41 | 85,634,636.20 | 13,527,496.12 | 4 | (3,168,768.33) | 1,283,771.82 |
| Gains / (losses) from changes in fair values | 42 | (1,071,298,543.25) | 162,444,366.72 | 5 | (619,691,729.65) | (21,738,816.18) |
| Foreign exchange gains | | 6,005,333.05 | 68,616,739.66 | | 562,090.54 | (670,442.87) |
| Other operating income | 43 | 513,839,479.45 | 20,720,885.89 | | 19,298,506.86 | 15,644,034.16 |
| Other income | 44 | 201,739,554.80 | 18,562,765.87 | | 96,838,665.94 | 16,288,568.51 |
| Gains /(losses) on disposal of property and equipment | | 442,106.98 | (1,274,371.68) | | 732,899.13 | (1,177,425.26) |
| | | | | | | |
| **II. Operating costs** | | **5,833,283,780.30** | **5,670,302,632.63** | | **3,550,728,580.49** | **3,857,320,668.36** |
| Taxes and surcharges | 45 | 61,871,424.00 | 67,344,855.34 | | 44,871,519.05 | 53,290,084.88 |
| General and administrative expenses | 46 | 4,568,394,053.08 | 5,249,325,241.91 | 6 | 2,849,371,986.10 | 3,711,643,428.71 |
| Impairment losses | 47 | 689,713,027.28 | 335,631,719.65 | | 644,457,434.95 | 81,999,682.22 |
| Other operating costs | 48 | 513,305,275.94 | 18,000,815.73 | | 12,027,640.39 | 10,387,472.55 |
| | | | | | | |
| **III. Operating profit** | | **666,089,656.84** | **3,150,085,977.51** | | **905,732,370.24** | **2,253,987,874.75** |
| Add: Non-operating income | 49 | 9,041,037.10 | 194,323,404.55 | | 8,183,619.63 | 90,852,855.92 |
| Less: Non-operating expenses | 50 | 21,861,621.30 | 56,042,388.49 | | 10,226,571.26 | 42,290,094.78 |
| | | | | | | |
| **IV. Profit before tax** | | **653,269,072.64** | **3,288,366,993.57** | | **903,689,418.61** | **2,302,550,635.89** |
| Less: Income tax expense | 51 | 77,875,448.22 | 653,324,360.22 | | (140,238,106.77) | 359,860,283.08 |
| | | | | | | |
| **V. Net profit** | | **575,393,624.42** | **2,635,042,633.35** | | **1,043,927,525.38** | **1,942,690,352.81** |
| (I) Classified by the continuity of operations | | | | | | |
| 1.Net profit from continuing operations | | 575,393,624.42 | 2,635,042,633.35 | | 1,043,927,525.38 | 1,942,690,352.81 |
| (II) Classified by the ownership | | | | | | |
| Shareholders of the Company | | 135,348,071.20 | 2,284,896,126.79 | | | |
| Non-controlling interests | | 440,045,553.22 | 350,146,506.56 | | | |

(Continued)

THE CONSOLIDATED AND COMPANY'S INCOME STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| ITEM | The consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Note VII | Amount recognized in the current year | Amount recognized in the prior year | Note VIII | Amount recognized in the current year | Amount recognized in the prior year |
| | | | | | | |
| **VI. Earnings per share** | | | | | | |
| Basic earnings per share (RMB/per share) | 52 | 0.02 | 0.34 | | | |
| Diluted earnings per share (RMB/per share) | 52 | 0.02 | 0.34 | | | |
| | | | | | | |
| **VII. Other comprehensive income, net of tax** | **34** | **(24,087,713.67)** | **(96,433,203.70)** | | **(420,792,173.70)** | **4,529,425.23** |
| Other comprehensive income attributable to shareholders of the Company, net of tax | | (56,726,966.77) | 1,465,297.98 | | | |
| Other comprehensive income that will be reclassified to profit or loss in subsequent accounting periods when the condition is satisfied | | | | | | |
| Changes in fair value of available-for-sale financial assets | | (156,038,295.70) | 134,619,099.70 | | (420,792,173.70) | 4,529,425.23 |
| Other comprehensive income that will be reclassified to profit or loss under the equity method | | 118,907.53 | - | | | |
| Exchange differences on translation of financial statements in foreign currencies | | 99,192,421.40 | (133,153,801.72) | | | |
| Other comprehensive income attributable to non-controlling interests, net of tax | | 32,639,253.10 | (97,898,501.68) | | | |
| | | | | | | |
| **VIII. Total comprehensive income** | | **551,305,910.75** | **2,538,609,429.65** | | **623,135,351.68** | **1,947,219,778.04** |
| | | | | | | |
| Total comprehensive income attributable to owners of the Company | | 78,621,104.43 | 2,286,361,424.77 | | | |
| Total comprehensive income attributable to non-controlling interests | | 472,684,806.32 | 252,248,004.88 | | | |

The accompanying notes form part of the financial statements.

# THE CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS
# FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| ITEM | The consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Note VII | Amount recognized in the current year | Amount recognized in the prior year | Note VIII | Amount recognized in the current year | Amount recognized in the prior year |
| I. Cash Flows from Operating Activities: | | | | | | |
| Net increase from disposals of financial assets at fair value through profit or loss | | 1,149,794,908.77 | - | | 3,507,550,453.16 | 6,029,945,419.34 |
| Net increase in financial liabilities at fair value through profit or loss | | 152,559,321.02 | - | | - | - |
| Net increase in repurchases businesses | | 18,545,911,961.01 | - | | 18,300,020,114.21 | - |
| Net cash from accounts payable to brokerage clients | | 3,331,055,742.60 | - | | 1,170,209,704.49 | - |
| Net decrease in margin accounts | | 582,570,792.92 | - | | 2,147,346,683.85 | - |
| Proceeds from interest, fees and commissions | | 9,412,012,609.97 | 9,251,397,811.84 | | 5,562,317,422.51 | 6,226,100,379.33 |
| Proceeds from other operating activities | 53 | 978,733,051.05 | 263,692,356.64 | 7 | 166,770,762.03 | 149,575,714.07 |
| Sub-total of cash inflows from operating activities | | 34,152,638,387.34 | 9,515,090,168.48 | | 30,854,215,140.25 | 12,405,621,512.74 |
| | | | | | | |
| Net decrease in repurchases businesses | | - | 3,556,515,664.42 | | - | 4,953,450,130.84 |
| Net increase in purchase of financial assets at fair value through profit or loss | | - | 1,438,693,678.01 | | - | - |
| Net decrease in financial liabilities at fair value through profit or loss | | - | 1,817,893,973.09 | | 2,557,765.05 | 1,971,065,887.66 |
| Net increase in available-for-sale financial assets | | 6,519,692,076.00 | 4,430,903,304.60 | | 8,800,166,837.47 | 9,607,504,862.87 |
| Net decrease in accounts payable to brokerage clients | | - | 6,593,055,276.58 | | - | 4,307,528,763.76 |
| Net decrease in accounts payable for securities underwriting | | - | 995,700,000.00 | | - | 995,700,000.00 |
| Net increase in margin accounts | | - | 2,828,476,405.68 | | - | 2,318,162,269.38 |
| Payment for interest, fee and commission expenses | | 1,930,448,248.66 | 1,490,793,797.74 | | 1,223,553,201.87 | 1,054,377,461.22 |
| Cash payments to and on behalf of employees | | 3,431,572,283.28 | 3,509,744,260.13 | | 2,288,196,602.41 | 2,516,662,446.13 |
| Payments of various taxes | | 2,110,990,432.67 | 2,500,715,180.95 | | 1,493,991,323.77 | 2,001,942,784.39 |
| Other cash payments relating to operating activities | 53 | 2,552,899,228.09 | 1,898,069,494.83 | 7 | 1,443,281,988.37 | 987,175,733.84 |
| Sub-total of cash outflows from operating activities | | 16,545,602,268.70 | 31,060,561,036.03 | | 15,251,747,718.94 | 30,713,570,340.09 |
| | | | | | | |
| **Net cash generated from/(used in) operating activities** | **54** | **17,607,036,118.64** | **(21,545,470,867.55)** | **8** | **15,602,467,421.31** | **(18,307,948,827.35)** |
| | | | | | | |
| II. Cash Flows from Investing Activities: | | | | | | |
| Cash receipts from disposals and recovery of investments | | 127,353,797.08 | 6,100,584.66 | | - | - |
| Cash receipts from investment income | | 391,565,833.40 | 59,592,111.23 | | 1,251,151,150.48 | 271,500,000.00 |
| Net proceeds from disposals of fixed assets, intangible assets and other long-term assets | | 3,227,778.59 | 1,566,808.40 | | 3,052,522.53 | 1,272,928.09 |
| Sub-total of cash inflows from investing activities | | 522,147,409.07 | 67,259,504.29 | | 1,254,203,673.01 | 272,772,928.09 |
| | | | | | | |
| Payment for acquisition of investments | | 1,462,130,826.55 | 230,953,711.00 | | 686,247,112.94 | 700,592,364.63 |
| Payment for acquisition of fixed assets, intangible assets and other long-term assets | | 252,698,835.19 | 212,658,066.53 | | 198,001,340.67 | 153,067,206.98 |
| Payment for other investing activities | | 86,181,922.26 | 690,151,269.40 | | - | - |
| Sub-total of cash outflows from investing activities | | 1,801,011,584.00 | 1,133,763,046.93 | | 884,248,453.61 | 853,659,571.61 |
| | | | | | | |
| **Net cash used in investing activities** | | **(1,278,864,174.93)** | **(1,066,503,542.64)** | | **369,955,219.40** | **(580,886,643.52)** |

(Continued)

THE CONSOLIDATED AND COMPANY'S CASH FLOW STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| ITEM | The consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Note VII | Amount recognized in the current year | Amount recognized in the prior year | Note VIII | Amount recognized in the current year | Amount recognized in the prior year |
| | | | | | | |
| III. Cash Flows from Financing Activities: | | | | | | |
| Proceeds from capital contributions | | 3,001,500.06 | - | | - | - |
| Including: Proceeds from non-controlling shareholders of subsidiaries | | 3,001,500.06 | - | | - | - |
| Proceeds from issuance of bonds and short-term debt instruments | | 16,368,038,762.48 | 45,596,208,567.19 | | 16,313,144,482.00 | 45,514,921,263.00 |
| Proceeds from borrowings | | 36,300,230,978.94 | 31,247,346,144.34 | | - | - |
| Proceeds from other financing activities | | 179,200,000.00 | 630,185,029.09 | | - | 444,140,868.22 |
| Sub-total of cash inflows from financing activities | | 52,850,471,241.48 | 77,473,739,740.62 | | 16,313,144,482.00 | 45,959,062,131.22 |
| | | | | | | |
| Cash repayments of borrowings | | 58,967,637,030.71 | 60,638,547,281.61 | | 26,231,662,747.00 | 31,188,813,506.00 |
| Payment for dividends, profit distributions or interest | | 4,410,340,684.70 | 3,344,491,603.93 | | 3,747,318,818.72 | 2,967,573,580.47 |
| Including: Dividends and profits paid to non-controlling interests | | 217,320,208.57 | 255,551,443.84 | | - | - |
| Other cash payments relating to financing activities | | 308,673,992.37 | 8,106,495.84 | | - | - |
| Sub-total of cash outflows from financing activities | | 63,686,651,707.78 | 63,991,145,381.38 | | 29,978,981,565.72 | 34,156,387,086.47 |
| | | | | | | |
| **Net cash (used in)/generated from financing activities** | | **(10,836,180,466.30)** | **13,482,594,359.24** | | **(13,665,837,083.72)** | **11,802,675,044.75** |
| | | | | | | |
| **IV. Effect of Foreign Exchange Rate Changes** | | **105,202,379.62** | **(188,765,023.67)** | | **562,090.54** | **(670,442.87)** |
| | | | | | | |
| **V. Net Increase in Cash and Cash Equivalents** | | **5,597,193,857.03** | **(9,318,145,074.62)** | | **2,307,147,647.53** | **(7,086,830,868.99)** |
| **Add: Cash and cash equivalents at the beginning of the year** | **54** | **26,688,812,174.03** | **36,006,957,248.65** | **8** | **17,154,910,122.46** | **24,241,740,991.45** |
| | | | | | | |
| **VI. Cash and cash equivalents at the end of the year** | **54** | **32,286,006,031.06** | **26,688,812,174.03** | **8** | **19,462,057,769.99** | **17,154,910,122.46** |

The accompanying notes form part of the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| | Amount for the current year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to shareholders of the Company | | | | | | | | |
| | Share capital | Capital reserve | Other comprehensive income | Surplus reserve | General risk reserve | Transaction risk reserve | Retained earnings | Non-controlling interests | Total shareholders' equity |
| | | | | | | | | | |
| I. Balance at 1 January 2018 | 6,696,671,674.00 | 14,370,248,578.67 | 186,936,660.53 | 1,455,602,068.64 | 1,356,018,925.47 | 1,336,419,322.41 | 8,026,990,360.95 | 2,449,404,735.12 | 35,878,292,325.79 |
| II. Changes for the year | - | 2,440,450.59 | (56,726,966.77) | 104,392,752.54 | 104,392,752.54 | 104,392,752.54 | (1,182,330,937.52) | 352,976,968.32 | (570,462,227.76) |
| (I)Net profit | - | - | - | - | - | - | 135,348,071.20 | 440,045,553.22 | 575,393,624.42 |
| (II)Other comprehensive income | - | - | (56,726,966.77) | - | - | - | - | 32,639,253.10 | (24,087,713.67) |
| Total comprehensive income | - | - | (56,726,966.77) | - | - | - | 135,348,071.20 | 472,684,806.32 | 551,305,910.75 |
| (III) Shareholders' contributions and reduction in capital | - | 2,440,450.59 | - | - | - | - | - | (46,937,629.43) | (44,497,178.84) |
| 1. Shareholders' contributions and reduction in capital | - | - | - | - | - | - | - | (48,939,841.87) | (48,939,841.87) |
| 2. Others | | 2,440,450.59 | - | - | - | - | - | 2,002,212.44 | 4,442,663.03 |
| (IV)Profit distribution | - | - | - | 104,392,752.54 | 104,392,752.54 | 104,392,752.54 | (1,317,679,008.72) | (72,770,208.57) | (1,077,270,959.67) |
| 1. Appropriation to surplus reserve | - | - | - | 104,392,752.54 | - | - | (104,392,752.54) | - | - |
| 2. Appropriation to general risk reserve | - | - | - | - | 104,392,752.54 | - | (104,392,752.54) | - | - |
| 3. Appropriation to transaction risk reserve | - | - | - | - | - | 104,392,752.54 | (104,392,752.54) | - | - |
| 4. Distribution to shareholders | - | - | - | - | - | - | (1,004,500,751.10) | (72,770,208.57) | (1,077,270,959.67) |
| III. Balance at 31 December 2018 | 6,696,671,674.00 | 14,372,689,029.26 | 130,209,693.76 | 1,559,994,821.18 | 1,460,411,678.01 | 1,440,812,074.95 | 6,844,659,423.43 | 2,802,381,703.44 | 35,307,830,098.03 |

(Continued)

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| | Amount for the prior year | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to shareholders of the Company | | | | | | | | | |
| | Share capital | Capital reserve | Less: Treasury shares | Other comprehensive income | Surplus reserve | General risk reserve | Transaction risk reserve | Retained earnings | Non-controlling interests | Total shareholders' equity |
| I. Balance at 1 January 2017 | 6,696,671,674.00 | 14,470,483,941.75 | 544,206,246.06 | 185,471,362.55 | 1,261,333,033.36 | 1,161,749,890.19 | 1,142,150,287.13 | 7,319,202,054.65 | 2,605,194,684.68 | 34,298,050,682.25 |
| II. Changes for the year | - | (100,235,363.08) | (544,206,246.06) | 1,465,297.98 | 194,269,035.28 | 194,269,035.28 | 194,269,035.28 | 707,788,306.30 | (155,789,949.56) | 1,580,241,643.54 |
| (I)Net profit | - | - | - | - | - | - | - | 2,284,896,126.79 | 350,146,506.56 | 2,635,042,633.35 |
| (II)Other comprehensive income | - | - | - | 1,465,297.98 | - | - | - | - | (97,898,501.68) | (96,433,203.70) |
| Total comprehensive income | - | - | - | 1,465,297.98 | - | - | - | 2,284,896,126.79 | 252,248,004.88 | 2,538,609,429.65 |
| (III) Shareholders' contributions and reduction in capital | - | (100,235,363.08) | (544,206,246.06) | - | - | - | - | - | (7,936,510.60) | 436,034,372.38 |
| 1. Shareholders' contributions and reduction in capital | - | - | - | - | - | - | - | - | (8,106,495.84) | (8,106,495.84) |
| 2. Amount recognized in shareholders' equity under employee stock ownership plan | - | (100,065,377.84) | (544,206,246.06) | - | - | - | - | - | - | 444,140,868.22 |
| 3. Others | - | (169,985.24) | - | - | - | - | - | - | 169,985.24 | - |
| (IV)Profit distribution | - | - | - | - | 194,269,035.28 | 194,269,035.28 | 194,269,035.28 | (1,577,107,820.49) | (400,101,443.84) | (1,394,402,158.49) |
| 1.Appropriation to surplus reserve | - | - | - | - | 194,269,035.28 | - | - | (194,269,035.28) | - | - |
| 2.Appropriation to general risk reserve | - | - | - | - | - | 194,269,035.28 | - | (194,269,035.28) | - | - |
| 3.Appropriation to transaction risk reserve | - | - | - | - | - | - | 194,269,035.28 | (194,269,035.28) | - | - |
| 4. Distribution to shareholders | - | - | - | - | - | - | - | (994,300,714.65) | (400,101,443.84) | (1,394,402,158.49) |
| III. Balance at 31 December 2017 | 6,696,671,674.00 | 14,370,248,578.67 | - | 186,936,660.53 | 1,455,602,068.64 | 1,356,018,925.47 | 1,336,419,322.41 | 8,026,990,360.95 | 2,449,404,735.12 | 35,878,292,325.79 |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY
## FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| | Amount for the current year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Other comprehensive income | Surplus reserve | General risk reserve | Transaction risk reserve | Retained earnings | Total shareholders' equity |
| I. Balance at 1 January 2018 | 6,696,671,674.00 | 14,234,115,813.82 | 45,446,914.00 | 1,455,602,068.64 | 1,356,018,925.47 | 1,336,419,322.41 | 5,770,067,399.11 | 30,894,342,117.45 |
| II. Changes for the year | - | - | (420,792,173.70) | 104,392,752.54 | 104,392,752.54 | 104,392,752.54 | (273,751,483.34) | (381,365,399.42) |
| (I)Net profit | - | - | - | - | - | - | 1,043,927,525.38 | 1,043,927,525.38 |
| (II)Other comprehensive income | - | - | (420,792,173.70) | - | - | - | - | (420,792,173.70) |
| Total comprehensive income | - | - | (420,792,173.70) | - | - | - | 1,043,927,525.38 | 623,135,351.68 |
| (III) Shareholders' contributions and reduction in capital | - | - | - | - | - | - | - | - |
| 1. Shareholders' contributions and reduction in capital | - | - | - | - | - | - | - | - |
| (IV)Profit distribution | - | - | - | 104,392,752.54 | 104,392,752.54 | 104,392,752.54 | (1,317,679,008.72) | (1,004,500,751.10) |
| 1. Appropriation to surplus reserve | - | - | - | 104,392,752.54 | - | - | (104,392,752.54) | - |
| 2. Appropriation to general risk reserve | - | - | - | - | 104,392,752.54 | - | (104,392,752.54) | - |
| 3. Appropriation to transaction risk reserve | - | - | - | - | - | 104,392,752.54 | (104,392,752.54) | - |
| 4. Distribution to shareholders | - | - | - | - | - | - | (1,004,500,751.10) | (1,004,500,751.10) |
| III. Balance at 31 December 2018 | 6,696,671,674.00 | 14,234,115,813.82 | (375,345,259.70) | 1,559,994,821.18 | 1,460,411,678.01 | 1,440,812,074.95 | 5,496,315,915.77 | 30,512,976,718.03 |

(Continued)

INDUSTRIAL SECURITIES CO., LTD.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE COMPANY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Unit: RMB

| | Amount for the prior year | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Less: Treasury shares | Other comprehensive income | Surplus reserve | General risk reserve | Transaction risk reserve | Retained earnings | Total shareholders' equity |
| I. Balance at 1 January 2017 | 6,696,671,674.00 | 14,334,181,191.66 | 544,206,246.06 | 40,917,488.77 | 1,261,333,033.36 | 1,161,749,890.19 | 1,142,150,287.13 | 5,404,484,866.79 | 29,497,282,185.84 |
| II. Changes for the year | - | (100,065,377.84) | (544,206,246.06) | 4,529,425.23 | 194,269,035.28 | 194,269,035.28 | 194,269,035.28 | 365,582,532.32 | 1,397,059,931.61 |
| (I)Net profit | - | - | - | - | - | - | - | 1,942,690,352.81 | 1,942,690,352.81 |
| (II)Other comprehensive income | - | - | - | 4,529,425.23 | - | - | - | - | 4,529,425.23 |
| Total comprehensive income | - | - | - | 4,529,425.23 | - | - | - | 1,942,690,352.81 | 1,947,219,778.04 |
| (III) Shareholders' contributions and reduction in capital | - | (100,065,377.84) | (544,206,246.06) | - | - | - | - | - | 444,140,868.22 |
| 1. Shareholders' contributions and reduction in capital | - | - | - | - | - | - | - | - | - |
| 2. Amount recognized in shareholders' equity under employee stock ownership plan | - | (100,065,377.84) | (544,206,246.06) | - | - | - | - | - | 444,140,868.22 |
| (IV)Profit distribution | - | - | - | - | 194,269,035.28 | 194,269,035.28 | 194,269,035.28 | (1,577,107,820.49) | (994,300,714.65) |
| 1. Appropriation to surplus reserve | - | - | - | - | 194,269,035.28 | - | - | (194,269,035.28) | - |
| 2. Appropriation to general risk reserve | - | - | - | - | - | 194,269,035.28 | - | (194,269,035.28) | - |
| 3.Appropriation to transaction risk reserve | - | - | - | - | - | - | 194,269,035.28 | (194,269,035.28) | - |
| 4. Distribution to shareholders | - | - | - | - | - | - | - | (994,300,714.65) | (994,300,714.65) |
| III. Balance at 31 December 2017 | 6,696,671,674.00 | 14,234,115,813.82 | - | 45,446,914.00 | 1,455,602,068.64 | 1,356,018,925.47 | 1,336,419,322.41 | 5,770,067,399.11 | 30,894,342,117.45 |

The accompanying notes form part of the financial statements.

# I. BASIC INFORMATION ABOUT THE COMPANY

## 1. Historical Evolution and Restructuring

Industrial Securities Co., Ltd. (the "Company") was formerly named as Fujian Industrial Securities Company. Fujian Industrial Bank established the Securities Business Department in October 1991, and then was restructured to Fujian Industrial Securities Company with registered capital of RMB 100 million, which was a wholly-owned professional securities subsidiary of Fujian Industrial Bank, based on the Securities Business Department of Fujian Industrial Bank as approved by the People's Bank of China in the Reply on the Establishment of Fujian Industrial Securities Company (Yin Fu [1994] No. 160) on 29 April 1994.

As approved by China Securities Regulatory Commission (the "CSRC") in the Reply on the Plan of Decoupling and Capital Increase of Fujian Industrial Securities Company and Fujian Industrial Bank (Zheng Jian Ji Gou Zi [1999] No. 73) on 9 August 1999, Fujian Industrial Securities Company was decoupled with Fujian Industrial Bank for restructuring and capital increase. On 19 December 1999, Industrial Securities Co., Ltd. convened its founding meeting. As approved by CSRC in the Reply on Approving the Capital Increase, Restructuring and Renaming of Fujian Industrial Securities Company (Zheng Jian Ji Gou Zi [2000] No. 52) on 15 March 2000, Fujian Industrial Securities Company was restructured to an integrated securities company, and as approved by Fujian Provincial Economic System Reform Commission in the Reply on Approving the Preparation of Industrial Securities Co., Ltd. (Min Ti Gai [1999] No. 125) at the same time, the Company was registered as Industrial Securities Co., Ltd. under the examination and approval of Fujian Provincial Administration for Industry and Commerce, with registered capital of RMB 908 million.

In accordance with the Reply of CSRC on the Capital Increase of Industrial Securities Co., Ltd. (Zheng Jian Ji Gou Zi [2007] No. 246) on 28 September 2007, the registered capital of the Company was increased to RMB 1,490 million by RMB 582 million after the change.

In accordance with the Reply of CSRC on Approving the Change of Registered Capital of Industrial Securities Co., Ltd. (Zheng Jian Xu Ke [2008] No. 1441) on 24 December 2008, the Company allotted 447 million of shares with a par value of RMB 1.00 each to all the shareholders by way of capital increase from retained earnings, increasing the registered capital by RMB 447 million to RMB 1,937 million after the change.

As approved by CSRC in the Reply on Approving the Initial Public Offering of Industrial Securities Co., Ltd. (Zheng Jian Xu Ke [2010] No. 1240) on 9 September 2010, the Company issued ordinary 263 million shares of common stocks to the public. The Company had total registered capital of RMB 2.2 billion after the issuance. On 13 October 2010, the Company was listed at Shanghai Stock Exchange (abbreviation of securities: Industrial Securities; code of securities: 601377).

As approved by CSRC in the Reply on Approving the Private Placement of Stocks of Industrial Securities Co., Ltd. (Zheng Jian Xu Ke [2013] No. 161) on 16 February 2013, the Company is allowed to issue no more than 400 million shares of common stocks (A Share) by private placements. As at 26 April 2013, the Company completed private placement of 400 million shares of common stocks (A Share) and the total registered capital was increased to RMB 2.6 million.

I. BASIC INFORMATION ABOUT THE COMPANY - continued

1. Historical Evolution and Restructuring - continued

On 5 September 2014, in accordance with the Proposal on the Company's Semi-Annual Transfer of Capital Reserve to Share Capital deliberated and approved at the 2nd Extraordinary Shareholders' Meeting in 2014, the Company transferred shares to all shareholders by capital reserve at a ratio of 10 shares for every 10 converted shares, increasing the share capital by RMB 2.6 billion. On 22 September 2014, the Company completed the transfer of capital reserve to share capital, and the total registered capital increased to RMB 5.2 billion.

On 13 July 2015, CSRC approved the Company's share placement to A-share shareholders at the ratio of 3 shares allotted for every 10 shares with the "Reply for Approving the Share Placement of Industrial Securities Co., Ltd. (Zheng Jian Xu Ke [2015] No. 1631). After share placement on 7 January 2016, 1,496,671,674 shares of RMB common stocks (A share) were allotted in total to the original shareholders actually, and the total registered capital of the Company increased to RMB 6,696,671,674.00 after the completion of the share placement.

On 18 February 2016, the Company convened the 1st extraordinary shareholders' meeting in 2016 and deliberated and approved the Proposal of Industrial Securities on Share Repurchase to implement a share repurchase plan, and the repurchased shares would be used as a source of shares for the implementation of the employee stock ownership plan of the Company. The cumulative number of shares repurchased by the Company was 68,000,243 shares. On 17 August 2017, the Company completed the share transfer procedures for the employee stock ownership plan.

As at 31 December 2018, Fujian Provincial Department of Finance was the first majority shareholder of the Company. The Company had 6,869 employees in total, including 6 senior executives.

2. Place of incorporation, form of organization and address of headquarters of the Company

As at 31 December 2018, the Company has set up 62 branches, 140 business departments and several subsidiaries in total. The basic information of the Company's subsidiaries is set forth in Note VI.

The Company's uniform social credit code was 91350000158159898D. The Company was incorporated and headquartered at "No. 268, Hudong Road, Fuzhou City, Fujian Province", and its legal representative was Yang Huahui.

I. BASIC INFORMATION ABOUT THE COMPANY - continued

3. Business scope, major products and services of the Company and its subsidiaries (the "Group" collectively)

Securities brokerage; securities investment consulting; financial advisory related to securities trading and securities investment activities; securities underwriting and sponsorship; proprietary investment; margin financing and securities lending business; securities investment fund distribution; distribution of financial products; securities investment fund custody business; intermediary introduction business for futures companies; Internet information services excluding news, publishing, education, health care, drugs and medical devices and other content and electronic announcements services; securities asset management; commodity futures brokerage, and financial futures brokerage; fund raising, fund sales, asset management, and specific client asset management business; private investment fund business; property management services; lending business; business management consulting, business information consulting, market information consulting and survey business; financial product investment, equity investment, project investment, investment management; and investment consulting, etc. (ITEM subject to approval by law, business activities can be carried out only after the approval by the relevant departments.)

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Basis of preparation of financial statements

The Group has adopted the Accounting Standards for Business Enterprises (the "ASBEs") issued by the Ministry of Finance and relevant regulations, the Formats and Notes of Financial Statements of a Securities Company (Cai Kuai [2013] No. 26) and the regulations thereon. In addition, the Group has also disclosed relevant financial information pursuant to the CSRC Preparation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15—General Provisions on Financial Reports (2014 Revision), the Standards on the Contents and Format of an Annual Report of a Securities Company (2013 Revision) (Zheng Jian Hui Gong Gao [2013] No. 41), and the Notice of the Revised Format of Financial Statements for General Business Enterprise (Cai Kuai (2018) No. 15).

The Group assessed its ability to continue as a going concern for the 12 months from 31 December 2018 and did not notice any events or circumstances that may cast significant doubt upon its ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

2. Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

Under historical cost, assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds or assets received in exchange for the present obligation, or the amount payable under contract for assuming the present obligation, or at the amount of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

2. Basis of accounting and principle of measurement - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Regardless of whether that price is directly observable or estimated using another valuation technique, fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

Fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs: inputs that are unobservable inputs for the asset or liability.

3. Statement of compliance with the ASBE

The financial statements of the Company have been prepared in accordance with ASBEs, and present truly and completely, the Company's and consolidated financial position as at 31 December 2018, and the Company's and consolidated results of operations and cash flows for the year ended.

4. Accounting period

The Group has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

5. Operating period

The Company has no clearly identifiable operating period as it is a financial enterprise.

6. Functional currency

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiaries choose the currency determined on the basis of the primary economic environment in which they operate as its functional currency. The Group adopts RMB to prepare its financial statements.

7. The accounting treatment of business combination

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

7. The accounting treatment of business combination - continued

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination is adjusted to the capital premium in the capital reserve. If the capital premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

Business combinations not involving enterprises under common control and goodwill

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities, acquired by the acquirer in a business combination, that meet the recognition criteria shall be measured at fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is treated as an asset and recognized as goodwill, which is measured at cost on initial recognition. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer firstly reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination. If after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately in profit or loss for the current period. Goodwill arising on a business combination is measured at cost less accumulated impairment losses, and is presented separately in the consolidated financial statements.

8. Preparation of consolidated financial statements

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is the power over the investee, exposures or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes of the above elements of the definition of control.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

8. Preparation of consolidated financial statements - continued

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All intra-group transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "non-controlling interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to non-controlling interests is presented as "profit or loss attributable to non-controlling interests" in the consolidated statement of profit or loss and other comprehensive income below the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount is still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess is adjusted against retained earnings.

When the control over a former subsidiary is lost due to disposal of certain equity investment or other reasons, any retained equity interest is re-measured at the fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received from disposal of equity interests and the fair value of any retained equity interest and (ii) the share of the assets of the former subsidiary attributable to the Company cumulatively calculated based on the former shareholding proportion from the acquisition date, is recognized in investment income and charged against goodwill at the period when control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

9. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

10. Translation of transactions and financial statements denominated in foreign currencies

10.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction, or the exchange rate that approximates the actual spot exchange rate on the date of transaction determined by a systematic and reasonable method.

At the balance sheet date, foreign currency monetary items are translated into [RMB] using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange difference arising from changes in the carrying amounts of available-for-sale non-monetary items (such as stocks), and exchange differences arising from changes in the carrying amounts (other than the amortized cost) of available-for-sale monetary items are recognized as other comprehensive income.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit and loss or as other comprehensive income.

10.2 Translation of financial statements denominated in foreign currencies

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the spot exchange rates on the dates of the transactions; the difference between the translated assets and the aggregate of liabilities and shareholders' equity items is recognized as other comprehensive income and included in shareholders' equity.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at an exchange rate which approximates the spot exchange rate on the date of the cash flows. The effect of foreign exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of foreign exchange rate changes on cash and cash equivalents".

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

10. Translation of transactions and financial statements denominated in foreign currencies - continued

10.2 Translation of financial statements denominated in foreign currencies - continued

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation attributable to the owners' equity of the Company and presented under owners' equity, to profit or loss in the period in which the disposal occurs.

In case of a disposal of part equity investments or other reason leading to lower interest percentage in foreign operations but does not result in the Group's losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to minority interests and are not recognized in profit and loss. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

11. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts.

11.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

11.2 Classification, recognition and measurement of financial assets

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Financial instruments - continued

11.2 Classification, recognition and measurement of financial assets - continued

*11.2.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL")*

Financial assets at FVTPL include financial assets held for trading and those designated as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognizing the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis. (3) The qualified hybrid financial instrument combines financial asset with embedded derivatives.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

*11.2.2 Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

*11.2.3 Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Financial instruments - continued

11.2 Classification, recognition and measurement of financial assets - continued

*11.2.4 Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale， and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognized in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost.

11.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

(1) Significant financial difficulty of the issuer or obligor;
(2) A breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
(3) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting a concession to the borrower;
(4) It becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
(5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
(6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group. Such observable data includes:
   - Adverse changes in the payment status of borrower in the group of assets;
   - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Financial instruments - continued

11.3 Impairment of financial assets - continued

(7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
(8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
(9) Other objective evidence indicating there is an impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

If financial assets carried at amortized cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortized cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognized are not included in a collective assessment of impairment.

- Impairment of available-for-sale financial assets

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized in other comprehensive income is reclassified to profit or loss. The amount of the cumulative loss that is reclassified from other comprehensive income 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 on that financial asset previously recognized in profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognized in profit or loss.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Financial instruments - continued

11.3 Impairment of financial assets - continued

- Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

11.4 Transfer of financial assets

The Group derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset is transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

11.5 Classification, recognition and measurement of financial liabilities

Financial instruments issued by the Group or their components are classified into financial liabilities or equity instruments on the basis of not only the legal form but also the contractual arrangements and their economic substance, together with the definition of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Financial instruments - continued

11.5 Classification, recognition and measurement of financial liabilities - continued

*11.5.1 Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include held-for-trading financial liabilities and financial liabilities designated at fair value through profit or loss.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognizing the gains or losses on them on different bases; (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis. (3) The qualified hybrid financial instrument combines financial liability with embedded derivatives.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognized in profit or loss.

*11.5.2 Other financial liabilities*

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities except for financial guarantee contracts liability are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

11.6 Derecognition of financial liabilities

The Group derecognizes a financial liability (or part of it) when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

11. Financial instruments - continued

11.7 Derivatives and embedded derivatives

Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value, unless the derivative is designated and highly effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship. Financial assets and liabilities recognized associated with certain derivative instruments and relevant temporary receipts and payments of derivative instruments are offset and presented in the balance sheet on a net basis due to no liability settled each day.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a stand-alone derivative if 1) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and 2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

11.8 Offsetting financial assets and financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

11.9 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued (including refinanced), repurchased, sold and cancelled by the Group are recognized as changes of equity. Change of fair value of equity instruments is not recognized by the Group. Transaction costs related to equity transactions are deducted from equity.

The Group recognizes the distribution to holders of the equity instruments as distribution of profits, and dividends paid do not affect total amount of shareholders equity.

12. Receivables

12.1 Bad debt provision assessed individually

For the receivables that is individually significant or for which there is a certain indication that they are impaired, the Group assesses the receivables individually for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed receivable, it includes the receivable in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Receivables for which an impairment loss is individually recognized are not included in a group of receivables with similar credit risk characteristics and collectively reassessed for impairment.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

12. Receivables - continued

12.2 Bad debt provision collectively assessed on a portfolio basis

The Group classifies the receivables that are not individually significant and those that are individually significant but are not impaired individually into groups of financial assets according to the similarity and relevance of credit risk characteristics. These credit risks usually reflect the debtors' ability to pay the amounts due at maturity under contractual terms of related assets and are related to the estimation of future cash flows of the assets subject to assessment. In terms of related balances of the domestic companies, the Company, makes bad debt provision for receivables that are not individually significant and those that are individually significant but are not impaired individually on a portfolio basis.

*12.2.1 Portfolios that aging analysis is used for bad debt provision:*

| Aging | Proportion to receivables and other receivables |
|---|---|
| | % |
| Within 1 year (inclusive) | 0-0.50 |
| 1-2 years (2 years inclusive) | 10.00 |
| 2-3 years (3 years inclusive) | 20.00 |
| Over 3 years | 50.00 |

13. Long-term equity investments

13.1 Determination criteria of control, joint control and significant influence

Control is achieved when the Group has the power over the investee, is exposed or, has the rights to, variable returns from its involvement with the investee; and has the ability to use its power to affect its return. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee (for example, warrants and convertible debts) held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

13.2 Determination of initial investment cost

For a long-term equity investment formed under business combination and a long-term equity investment acquired through business combination not involving enterprises under common control, the investment cost of the long-term equity investment is the cost of acquisition at the date of combination.

Long-term equity investment acquired otherwise than through a business combination is initially measured at its cost. When the entity is able to exercise significant influence or joint control (but not control) over an investee due to [additional investment], the cost of long-term equity investments is the sum of the fair value of previously-held equity investments determined in accordance with *Accounting Standard for Business Enterprises No. 22 - Financial Instruments; Recognition and Measurement* (CAS 22) and the additional investment cost.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

13. Long-term equity investments – continued

13.3 Subsequent measurement and recognition of profit or loss

*13.3.1 Long-term equity investment accounted for using the cost method*

The Company's separate financial statements adopted cost method to account for the long-term equity investments of subsidiaries. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at initial investment cost. When additional investment is made or the investment is recouped, the cost of the long-term equity investment is adjusted accordingly. Investment income is recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

*13.3.2 Long-term equity investment accounted for using the equity method*

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture is an entity over which the Group exercises joint control along with other investors.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognized in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share of the net profit or loss and other comprehensive income of the investee for the period as investment income and other comprehensive income for the period. Meanwhile, carrying amount of long-term equity investment is adjusted: the carrying amount of long-term equity investment is decreased in accordance with its share of the investee's declared profit or cash dividends; Other changes in owners' equity of the investee other than net profit or loss and other comprehensive income are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized in the capital reserve. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's individual identifiable assets, etc. at the acquisition date after making appropriate adjustments. When the investors' accounting policies and accounting period are inconsistent with those of the Company, the Company recognizes investment income and other comprehensive income after making appropriate adjustments to conform to the Company's accounting policies and accounting period. However, unrealized gains or losses resulting from the Group's transactions with its associates and joint ventures, which do not constitute a business, are eliminated based on the proportion attributable to the Group and then investment gains or losses or is recognized. However, unrealized losses are not eliminated if they result from the Group's transactions with its associates and joint ventures which represent impairment losses on the transferred assets.

The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

13. Long-term equity investments - continued

13.3 Subsequent measurement and recognition of profit or loss - continued

*13.3.3 Disposal of long-term equity investments*

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognized in profit or loss for the period.

14. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. The investment properties of the Group consisted of buildings that are leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortization policy for the investment property which is consistent with that for buildings or land use rights.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

15. Fixed assets

15.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

15. Fixed assets - continued

15.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

| Category | Useful life | Estimated net residual value rate | Annual depreciation rate |
|---|---|---|---|
| | | | % |
| Buildings | 5-35 years | 5% | 2.71 - 19.00 |
| Machinery and equipment | 2-11 years | 1%, 5% | 8.64 - 49.50 |
| Transportation vehicles | 6-8 years | 5% | 11.88 - 15.83 |
| Others | 5 years | 5% | 19.00 |

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

15.3 Other explanations

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year-end, and account for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

16. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

17. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Other borrowing costs are recognized as an expense in the period in which they are incurred.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

17. Borrowing costs - continued

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

18. Intangible assets

18.1 Intangible assets

Intangible assets include trading seat rights, software and trademark, etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized. Intangible assets with a finite useful life are amortized averagely within 3 years to 10 years since the month when they are used.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the year-end at least. The amortization period and method should be changed if the useful life and amortization method of intangible assets are different with those estimated previously.

18.2 Internal research and development expenditure

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized in profit or loss for the period.

(1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
(2) the Group has the intention to complete the intangible asset and use or sell it;
(3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
(4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
(5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

19. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortized over the current and subsequent periods (together of more than one year). Long-term prepaid expenses are amortized using the straight-line method over the expected periods in which benefits are derived.

20. Impairment of long-term assets

The Group reviews the Long-term equity investments, investment properties at cost, fixed assets, construction in progress and intangible assets with a finite useful life at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The recoverable amount of an asset or asset group is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. If such recoverable amount is less than its carrying amount, a provision for impairment losses in respect of the deficit is recognized in profit or loss for the period. It is tested for impairment at least at the end of each year. For the purpose of impairment testing, goodwill is considered together with the related assets group(s), i.e., goodwill is reasonably allocated to the related assets group(s) or each of assets group(s) expected to benefit from the synergies of the combination. An impairment loss is recognized if the recoverable amount of the assets group or sets of assets groups (including goodwill) is less than its carrying amount. The impairment loss is firstly allocated to reduce the carrying amount of any goodwill allocated to such assets group or sets of assets groups, and then to the other assets of the group pro-rata on the basis of the carrying amount of each asset (other than goodwill) in the group.

Once the impairment loss of such assets is recognized, it is not reversed in any subsequent period.

21. Assets transferred under repurchase agreements

21.1 Financial assets held under resale agreements

Financial assets to be sold back on certain future date according to agreement are not recognized in balance sheet. Cost paid to purchase such assets, is presented in balance sheet as financial assets held under resale agreements. The difference between price to purchase and price to sell is calculated by effective interest method and recognized in interest income.

21.2 Financial assets sold under repurchase agreements

Financial assets to be repurchased on future certain date according to agreement are not recognized in balance sheet. Cash received from sale of such assets, is presented in balance sheet as financial assets sold under repurchase agreements. The difference between price to repurchase and price to sell is calculated by effective interest method and recognized in interest expense.

Bonds financed through bond lending and stocks financed through margin operations are recorded off balance sheet, and the related expenses are recognized as interest expense over the term of the agreements using the effective interest method.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

22. Margin financing and securities lending businesses

Margin financing and securities lending businesses refer to operating activities that the Group lends funds to customers for purchase of securities or lends securities to customers for sale, for which customers are required to provide relevant collaterals. Margin financing and securities lending businesses of the Group are distinguished into two categories: financing businesses and securities lending businesses.

The Group recognizes receivables for loans to margin clients and present them as margin accounts in the balance sheet, and recognizes corresponding interest income; securities to margin clients are classified as held-for-trading financial assets or available-for-sale financial assets at initial recognition, and securities that have been financed are not derecognized as such, but are still accounted for under the original category of financial assets, and corresponding interest income is recognized.

Funds borrowed from securities finance companies for financing business are presented in the balance sheet as placements from banks and other financial institutions and interest expense is recognized at amortized cost multiplied by the effective interest rate. Securities borrowed from securities finance companies for securities lending business are not recognized in the balance sheet as such, but are only recorded off-balance sheet, and the related expenses are recognized as interest expenses over the term of the agreement based on the effective interest method.

23. Employee benefits

23.1 Short-term employee benefits

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the short-term employee benefits for that service as a liability, and the related expenditures are either charged to profit or loss in the period when they are incurred or included in cost of related assets. Employee benefits in non-monetary assets are measured at fair value.

Payment made by the Group of social security contributions for employees such as premiums or contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period or the costs of relevant assets in the accounting period in which employees provide services.

23.2 Post-employment benefits

Post-employment benefits are all defined contribution plan.

During the accounting period of rendering service to employees of the Group, amount which should be paid according to defined contribution plans is recognized as liabilities, and recognized in profit or loss.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

23. Employee benefits - continued

23.3 Termination benefits

A liability for a termination benefit is recognized in profit or loss at the earlier of when the Group cannot unilaterally withdraw from the termination plan or the redundancy offer and when it recognizes any related restructuring costs.

24. Provisions

Provisions are recognized when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

25. Share repurchase

The consideration and transaction costs paid by the Group for the repurchase of its own equity instruments are recorded in the treasury shares item, which reduces shareholders' equity. Other than share-based payments, the issuance (including refinancing), repurchase, sale or cancellation of own equity instruments are accounted for as changes in equity.

26. Share-based payments

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments include equity-settled share-based payments and cash-settled share-based payments.

26.1 Equity-settled share-based payments

Equity-settled share-based payments granted to employees

Equity-settled share-based payments in exchange for services rendered by employees are measured at the fair value of the equity instruments granted to employees at the grant date.

26.2 Cash-settled share-based payments

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group re-measures the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

27. Revenue

27.1 Fee and commission income

Fee and commission income is recognized on an accrual basis when the services have been rendered and the amounts received can be measured reliably, in which:

(1) Revenue from brokerage of securities is recognized as revenue on the date of brokerage of securities.
(2) Revenue from securities underwriting and sponsorship is recognized as revenue based on the amount or proportion agreed upon in the contractual agreements when the services have been rendered and the amount received can be measured reliably.
(3) Revenue from financial advisory business and investment consulting business is recognized as revenue in the current period based on the contractual agreement after the related services are rendered.
(4) Revenue from asset management business and fund management business is recognized as revenue in the current period based on the contractual agreement after the related services are rendered.

Revenue from base rate management fee is calculated and recognized on an accrual basis based on the contractual base and annual fee rate; performance compensation is calculated and recognized in accordance with the contractual agreements of the asset management plan upon termination of the asset management plan, upon dividend distribution or upon withdrawal of the investors.

27.2 Interest income

Interest income is calculated and determined based on the time to use the Group's fund and the effective interest rate.

27.3 Other revenue

(1) Revenue from commodity trading is recognized as revenue when the clients obtain control of the commodity/warehouse receipt.
(2) Other revenues are recognized on an accrual basis when the services are rendered.

28. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. Government grants are classified as government grants related to assets and government grants related to income in accordance with the nature of grantees as defined in related government documents.

A government grant is recognized only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

28. Government grants - continued

A government grant related to an asset should be charged against carrying amount of related assets or recognized as deferred income. A government grant related to an asset that is recognized as deferred income should be included in profit or loss over the useful life of the related asset with a reasonable and systemic method. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income and recognized in profit or loss or charged against the related cost over the periods in which the related costs or losses are recognized; if the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss or charged against related cost for the period.

A government grant related to an enterprise's daily activities is recognized in other income or written off related cost and expense based on the nature of economic activities; a government grant not related to an enterprise's daily activities is recognized in non-operating income and expenses.

For repayment of a government grant already recognized, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized immediately in profit or loss for the period.

29. Income tax

The income tax expenses include current income tax and deferred income tax.

29.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

29.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

29. Income tax - continued

29.2 Deferred tax assets and deferred tax liabilities - continued

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income or in shareholders' equity, in which case they are recognized in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

29.3 Income tax offsetting

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

30. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

30.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

30.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

III. SIGNIFICANT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES USED IN ACCOUNTING ESTIMATES

In the application of the Group's accounting policies, the Group is required to make judgements, estimates and assumptions about the carrying amounts about the carrying amounts of items in the financial statements that cannot be measured accurately due to the inherent uncertainty of operation. These judgments, estimates and assumptions are based on historical experience of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed on the basis of going concern. 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.

The preparation of the financial statements requires management to make judgments, estimates and assumptions that will affect the reported amounts and disclosure of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. However, uncertainty about these estimates and assumptions could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In the process of applying the Company's accounting policies, management has made the following judgments which have significant effect on the amounts recognized in the financial statements:

- Significant judgments in applying accounting policies

Determination of scope of consolidation

All facts and circumstances must be considered when assessing whether the Group controls an investee as an investor. The definition of control includes the following three elements: (a) power over the investee; (b) variable returns through participation in the investee's underlying activities; and (c) ability to use its power over the investee to affect the amount of its returns. If facts and circumstances indicate that one or more of these elements have changed, the Group is required to reassess whether it has control over the investee.

III. SIGNIFICANT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES USED IN ACCOUNTING ESTIMATES - continued

- Significant judgments in applying accounting policies - continued

A structured entity is an entity designed for not regarding voting rights or similar rights as the decisive factor in determining its controlling party. For structured entities that the Group manages and/or invests in (e.g. securities investment funds, asset management schemes and partnerships, etc.), the Group assesses whether the maximum exposure to variable returns generated by the structured entities that the Group holds, together with their managers' compensation, is sufficiently significant to indicate that the Group has control over the structured entity. In making this assessment, the Group is required to estimate the structured entity's rate of return, management fee, performance compensation, share of ownership and other variable factors, and then measure the variable returns to which the Company is entitled and the variability of such returns in order to analyse and assess whether the Group has control. If the Group has control over the structured entities under management, the structured entities are included in the scope of consolidation in the consolidated financial statements.

- Key assumptions and uncertainties used in accounting estimates

The followings are the key assumptions and uncertainties at the balance sheet date, which may cause material adjustments to the carrying amounts of assets and liabilities in future periods.

Fair value of financial assets

If there is not an active trading market for financial instruments, fair value is measured through various valuation method. The Group's valuation methods include discount cash flow model analysis, etc. The Group needs to estimate regard as its own and counterparty credit risk, market volatility and correlations, etc. Changes of these related factors assumptions will have an impact in fair value of financial instruments.

Impairment of available-for-sale financial assets

The Group relies heavily on management's judgment in determining whether available-for-sale financial assets are impaired. The Group is required to distinguish different types of investments and trading markets and to make judgments based on the extent to which their fair value is below cost and the duration of the condition. If there is objective evidence of a "significant" or "non-temporary" decline in the fair value of an investment in an equity instrument classified as an available-for-sale financial asset, the Company provides for impairment of the instrument. Generally, if the fair value of a single investment in an available-for-sale equity instrument is 40% or more below cost, or continues to be below cost for 12 months or more, objective evidence of impairment exists.

For investments in debt, an assessment on the investee's financial position and short-term business outlook is require, including industry conditions, technical change, credit rating, default rates and counterparty risk.

## III. SIGNIFICANT JUDGEMENT IN APPLYING ACCOUNTING POLICIES AND KEY ASSUMPTIONS AND UNCERTAINTIES USED IN ACCOUNTING ESTIMATES - continued

- Key assumptions and uncertainties used in accounting estimates - continued

Impairment of debt instruments from financing businesses

At the balance sheet date, the Group reviews the value of funds and securities as collateral provided by customers on an individual basis for debt instruments arising from financing businesses at risks (including accounts such as margin accounts, securities to margin clients and financial assets held under resale agreements), and if additional collateral exists, the Group estimates the future recoverable amount of the additional collateral, summarizes the collateral and determines whether there is impairment, and then assesses on a portfolio basis. In estimating the future recoverable amount of each type of collateral, the Group makes reasonable inferences about factors such as the expected time of disposal of the collateral and the manner of disposal, in conjunction with past results of similar collateral disposals, and changes in assumptions about these relevant factors may have an impact on the future recoverable amount of the collateral. The Group periodically reviews the impairment methods and assumptions for debt instruments from financing businesses to reduce the difference between the estimated loss and the actual loss.

Income tax

In the normal course of the Group's business activities, there are certain transactions whose final tax treatment and calculation are subject to certain uncertainties. To the extent that the final verification of these tax matters differs from the amounts initially estimated, the difference will affect current and deferred income taxes over the period in which they are finally verified.

Deferred tax assets

The realization of deferred tax assets mainly depends on future earned profit and effective interest rate of temporary differences in the future years in which they are utilized. If the profit generated in the future is less than the expected, or the effective tax rate is lower than the expected, the deferred tax assets previously recognized will be reversed and recognized in the consolidated income statement for the period in which they are reversed.

## IV. NEW FORMAT OF FINANCIAL STATEMENTS

The Group has prepared the financial statements for the year 2018 in accordance with the "Notice of the Revised Format of 2018 Financial Statements for General Business Enterprises" (Cai Kuai (2018) No. 15, hereinafter referred to as the "Cai Kuai No. 15 Document") released by the Ministry of Finance on 15 June 2019. Cai Kuai No. 15 Document revised the presenting accounts in the balance sheet and income statement. The Group has restated comparable data for prior year in respect of the above changes in presenting accounts.

## V. TAXATION

### 1. Income tax

(1) The enterprise income tax of the Company for 2018 is 25%.

Income tax is levied in accordance with the Enterprise Income Tax Law of the People's Republic of China and the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China since 1 January 2018. Income tax is calculated and paid in accordance with the Announcement of the State Administration of Taxation on Issuing the Measures for the Consolidated Collection of Enterprise Income Tax on Trans-regional Business Operations (Guo Jia Shui Wu Zong Ju Gong Gao [2012] No. 57).

(2) Fuzhou Industrial Securities Property Management Co., Ltd., a domestic subsidiary of the Company, is subject to tax rate of 10%, while AEGON-Industrial Fund Management Co., Ltd., Industrial Securities Futures Co., Ltd., INDUSTRIAL ASSETS MANAGEMENT CO., LTD., China Industrial Securities Capital Management Co., Ltd. and Industrial Securities Investment Management Co., Ltd., etc. are subject to tax rate of 25%.

(3) The subsidiaries set up by the Company in Hong Kong are subject to tax rate of 16.5% in accordance with the local tax system in Hong Kong.

### 2. VAT

VAT payable is the balance of VAT-output less deductible VAT-input. VAT-output is calculated as per the sales volume calculated in accordance with relevant tax laws and regulations. The financial services provided by the Company are subject to tax rate of 6%.

### 3. Others

| Tax category | Tax base | Tax rate |
|---|---|---|
| City maintenance and construction tax | Turnover tax paid actually | 5%, 7% |
| Educational surcharge | Turnover tax paid actually | 4.5%, 5% |

## VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

### 1. Information of subsidiaries

#### (1) Subsidiaries acquired by setting up, investment or other forms

| Full name of subsidiary | Type of subsidiary | Place of incorporation | Nature of business and scope of business | Registered capital | Actual capital contribution made by the Company or its subsidiaries at the end of year | Shareholding ratio | Voting ratio | Included into consolidated financial statements |
|---|---|---|---|---|---|---|---|---|
| | | | | | | % | % | |
| | | | | | | | | |
| 1. China Industrial Securities Capital Management Co., Ltd. | Limited company | Fuzhou | Equity investment, and financial consultancy service | RMB 700 million | RMB 700 million | 100.00 | 100.00 | Yes |
| 1) Fujian Xingtan Private Equity Investment Management Co., Ltd. | Limited company | Pingtan, Fuzhou | Equity investment management and consulting | RMB 10 million | RMB 4 million | 80.00 | 80.00 | Yes |
| 2) Zhuhai Industrial Securities Liuhe Venture Capital Management Co., Ltd. | Limited company | Zhuhai, Guangdong | Equity investment management and consulting | RMB 1 million | RMB 560,000.00 | 56.00 | 56.00 | Yes |
| | | | | | | | | |
| 2. Industrial Securities (Hong Kong) Financial Holdings Limited | Limited company | Hong Kong | Holding, etc. | N/A | HKD 2 billion | 100.00 | 100.00 | Yes |
| 1) Industrial Securities Consultancy Service (Shenzhen) Company Limited | Limited company | Shenzhen, Guangdong | Consulting service | HKD 10 million | HKD 10 million | 100.00 | 100.00 | Yes |
| 2) China Industrial Securities International Holdings Limited | Limited company | Cayman Islands | Investment holding | N/A | HKD 1,991,441,800.00 | 100.00 | 100.00 | Yes |
| (1) China Industrial Securities International Financial Group Limited (Note 1) | Limited company | Cayman Islands | Investment holding | N/A | HKD 2,016,293,100.00 | 51.84 | 51.84 | Yes |
| ① China Industrial Securities International Brokerage Limited | Limited company | Hong Kong | Securities trading, etc. | N/A | HKD 2.5 billion | 51.84 | 51.84 | Yes |
| ② China Industrial Securities International Asset Management Limited | Limited company | Hong Kong | Asset management, etc. | N/A | HKD 20 million | 51.84 | 51.84 | Yes |
| ③China Industrial Securities International Futures Limited | Limited company | Hong Kong | Futures and option contract sale services, etc. | N/A | HKD 50 million | 51.84 | 51.84 | Yes |
| ④ China Industrial Securities International Capital Limited | Limited company | Hong Kong | Financing service, etc. | N/A | HKD 20 million | 51.84 | 51.84 | Yes |
| ⑤ China Industrial Securities International Finance Limited | Limited company | Hong Kong | Lending business | N/A | HKD 210,000.00 | 51.84 | 51.84 | Yes |
| ⑥ China Industrial Securities International Investment Limited | Limited company | Hong Kong | Investment | N/A | HKD 20 million | 51.84 | 51.84 | Yes |
| - CISI Investment Limited | Limited company | BVI | Proprietary investment | N/A | USD 2.5 million | 51.84 | 51.84 | Yes |
| - CISI Capital Management Limited | Limited company | BVI | Proprietary investment | N/A | USD 1.00 | 51.84 | 51.84 | Yes |
| ⑦ China Industrial Securities International Wealth Management Limited | Limited company | Hong Kong | Private wealth management | N/A | HKD 1 million | 51.84 | 51.84 | Yes |
| (2) Wisdom Creation International Limited | Limited company | BVI | Out of business | N/A | USD 200.00 | 100.00 | 100.00 | Yes |

(Continued)

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS - continued

1. Information of subsidiaries - continued

(1) Subsidiaries acquired by setting up, investment or other forms - continued

| Full name of subsidiary | Type of subsidiary | Place of incorporation | Nature of business and scope of business | Registered capital | Actual capital contribution made by the Company or its subsidiaries at the end of year | Shareholding ratio | Voting ratio | Included into consolidated financial statements |
|---|---|---|---|---|---|---|---|---|
| | | | | | | % | % | |
| | | | | | | | | |
| 3. INDUSTRIAL ASSETS MANAGEMENT CO., LTD. | Limited company | Pingtan, Fuzhou | Securities asset management | RMB 500 million | RMB 500 million | 100.00 | 100.00 | Yes |
| 4. Industrial Securities Investment Management Co., Ltd. (Note 2) | Limited company | Pingtan, Fuzhou | Financial product investment, and investment consulting, etc. | RMB 3 billion | RMB 1.5 billion | 100.00 | 100.00 | Yes |
| 5. Shanghai Industrial Securities Management Consulting Co., Ltd. | Limited company | Shanghai | Enterprise management consulting, and investment consulting, etc. | RMB 500,000.00 | RMB 592 thousands | 100.00 | 100.00 | Yes |
| 6. Fuzhou Industrial Securities Property Management Co., Ltd. | Limited company | Fuzhou | Property management service | RMB 500,000.00 | RMB 500,000.00 | 100.00 | 100.00 | Yes |
| 7. AEGON-INDUSTRIAL Capital Management (Shanghai) Co., Ltd. (Note 3) ("AEGON-INDUSTRIAL Capital ") | Limited company | Shanghai | Specific client asset management business | RMB 80 million | RMB 80 million | 51.00 | 51.00 | Yes |
| 8. Industrial Securities Risk Management Co., Ltd. (Note 4) | Limited company | Shanghai | Enterprise management consulting, and financial consulting, etc. | RMB 200 million | RMB 200 million | 99.55 | 99.55 | Yes |

Note 1: The Group held 51.84% of shares of China Industrial Securities International Financial Group Limited, increasing 0.43% from 51.41% as at the beginning of year as China Industrial Securities International Holdings Limited, the subsidiary of the Group, acquired a part of non-controlling interests of its subsidiary, China Industrial Securities International Financial Group Limited. For the details, refer to Note IX. 2.

Note 2: As Industrial Securities Investment Management Co., Ltd. has not completed contribution in full as at the end of current year, shareholding ratio and voting ratio are calculated in accordance with proportion of subscription.

Note 3: AEGON-INDUSTRIAL Capital Management (Shanghai) Co., Ltd. is a subsidiary incorporated and 100% directly held by AEGON-Industrial Fund Management Co., Ltd., a holding subsidiary of the Company.

Note 4: Industrial Securities Risk Management Co., Ltd. is a subsidiary incorporated and 100% directly held by Industrial Securities Futures Co., Ltd., a holding subsidiary of the Company in the current year.

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS - continued

1. Information of subsidiaries - continued

(2) Subsidiaries acquired by business combination not involving enterprises under common control

| Full name of subsidiary | Type of subsidiary | Place of incorporation | Nature of business and scope of business | Registered capital | Actual capital contribution made by the Company or its subsidiaries at the end of year | Shareholding ratio | Voting ratio | Included into consolidated financial statements |
|---|---|---|---|---|---|---|---|---|
| | | | | | | % | % | |
| | | | | | | | | |
| AEGON-Industrial Fund Management Co., Ltd. ("AEGON-Industrial Fund") | Limited company | Shanghai | Fund raising, fund sales, asset management and other businesses licensed by CSRC | RMB 150 million | RMB 62,429 thousands | 51.00 | 51.00 | Yes |
| Industrial Securities Futures Co., Ltd. ("Industrial Securities Futures") (Note 2) | Limited company | Fuzhou | Commodity futures brokerage, financial futures brokerage, fund sales and asset management | RMB 1.2 billion | RMB 1,211,411 thousands | 99.55 | 99.55 | Yes |

Note 1: Actual capital contribution made by the Company at the end of year has no necessary proportional relationship with the registered capital of the subsidiary due to the effects of stock purchase or capital increase at a premium/discount, transfer of retained earnings to paid-in capital or other factors.

Note 2: The actual capital contribution made by the Group to Industrial Securities Futures Co., Ltd. increased from RMB 525,163,900.00 at the beginning of year to RMB 1,211,411,000.00 at the end of year, together with the shareholding ratio increased from 97.18% at the beginning of year to 99.55% at the end of year as the Group increased capital in and purchased non-controlling interests of Industrial Securities Futures Co., Ltd. For the details, refer to Note VIII.1 and Note IX.2.

## VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS - continued

### 1. Information of subsidiaries - continued

(3) Structured entities included into the scope of consolidation

| Full name | Type | Place of incorporation | Nature of business and scope of business | Actual capital contribution made by the Company or its subsidiaries at the end of year | Included into consolidated financial statements |
|---|---|---|---|---|---|
| | | | | | |
| Fujian Industrial Securities Strategic Venture Capital (Limited Partnership) | Partnership | Jinjiang, Fujian | Venture capital investment | RMB 13,696 thousands | Yes |
| Fujian Xinghang Strategic Venture Capital (Limited Partnership) | Partnership | Shanghang, Fujian | Venture capital investment | RMB 30 million | Yes |
| Pingtan Eagle Venture Capital Partnership (Limited Partnership) | Partnership | Pingtan, Fuzhou | Venture capital investment | RMB 57 million | Yes |
| Pingtan Eyas Venture Capital Partnership (Limited Partnership) | Partnership | Pingtan, Fuzhou | Venture capital investment | RMB 17.4 million | Yes |
| Pingtan Xinghang Longteng Equity Investment Partnership (Limited Partnership) | Partnership | Pingtan, Fuzhou | Venture capital investment | RMB 25.1 million | Yes |
| Pingtan Xinghang Jingcai Equity Investment Partnership (Limited Partnership) | Partnership | Pingtan, Fuzhou | Venture capital investment | RMB 25 million | Yes |
| Zhangzhou Industrial Securities Pientzehuang Equity Investment Partnership (Limited Partnership) | Partnership | Zhangzhou, Fujian | Venture capital investment | RMB 42,861 thousands | Yes |
| Pingtan Industrial Securities Dawei Equity Investment Partnership (Limited Partnership) | Partnership | Pingtan, Fuzhou | Venture capital investment | RMB 3,192 thousands | Yes |
| Pingtan Xinghang Longqing Equity Investment Partnership (Limited Partnership) (Note 2) | Partnership | Pingtan, Fuzhou | Venture capital investment | RMB 0.00 | Yes |
| Jinjiang Industrial Securities Intelligent Equipment Industry Investment Partnership (Limited Partnership)* | Partnership | Jinjiang, Fujian | Equity investment management and consulting | RMB 19.8 million | Yes |
| Pingtan Industrial Securities Xinze Equity Investment Partnership (Limited Partnership)* | Partnership | Pingtan, Fuzhou | Equity investment management and consulting | RMB 14.25 million | Yes |
| CIS Resources Fund Segregated Portfolio | Investment fund | Cayman Islands | Securities investment | HKD 375 million | Yes |
| WVCIS Value Growth Fund Segregated Portfolio | Investment fund | Cayman Islands | Securities investment | HKD 200 million | Yes |
| CIS USD Fixed Income Fund Segregated Portfolio | Investment fund | Cayman Islands | Securities investment | USD 100 million | Yes |
| CIS The Belt and Road PE Fund SP* | Investment fund | Cayman Islands | Securities investment | USD 20 million | Yes |
| CIS Multi-Tranche Money Market Fund SP* | Investment fund | Cayman Islands | Securities investment | USD 4 million | Yes |
| Asset management plan managed by the Group (Note 3) | Asset management plan | N/A | Securities investment | RMB 6,939,238 thousands | Yes |

Note 1: Those with * are the structured entities newly incorporated in the current year.
Note 2: As these structured entities are under liquidation as at the end of current year, the capital contribution was null as at the end of year.
Note 3: As the Group had controls over a part of asset management schemes as the asset management plan manager as at the end of current year, these asset management schemes were included into the scope of consolidation of the Group's consolidated financial statements.

VI. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS - continued

1. Information of subsidiaries - continued

(4) Subsidiaries and structured entities no longer included into the scope of consolidation

| Full name | Type | Place of incorporation | Nature of business and scope of business |
|---|---|---|---|
| | | | |
| Pingtan Industrial Securities Chuangpai Equity Investment Management Co., Ltd. (Note 1) | Limited company | Pingtan, Fuzhou | Equity investment management and consulting |
| Pingtan Industrial Securities Zehong Equity Investment Management Co., Ltd. (Note 1) | Limited company | Pingtan, Fuzhou | Equity investment management and consulting |
| Pingtan Industrial Securities Minshang Investment Management Co., Ltd. (Note 1) | Limited company | Pingtan, Fuzhou | Equity investment management and consulting |
| Pingtan Industrial Securities Xinyuan Equity Investment Management Co., Ltd. (Note 1) | Limited company | Pingtan, Fuzhou | Equity investment management and consulting |
| Pingtan Industrial Securities Furi Investment Management Co., Ltd. (Note 1) | Limited company | Pingtan, Fuzhou | Equity investment management and consulting |
| Fujian Industrial Securities Chuangfu Equity Investment Management Co., Ltd. (Note 1) | Limited company | Jinjiang, Fujian | Equity investment management and consulting |
| Fujian Industrial Securities Xinghang Equity Investment Management Co., Ltd. (Note 1) | Limited company | Shanghang, Fujian | Equity investment management and consulting |
| Zhangzhou Industrial Securities Pientzehuang Equity Investment Management Co., Ltd. (Note 1) | Limited company | Zhangzhou, Fujian | Equity investment management and consulting |
| Pingtan Industrial Securities Innovation Equity Investment Management Co., Ltd. (Note 1) | Limited company | Pingtan, Fuzhou | Equity investment management and consulting |
| Xiamen Industrial Securities Preferred Equity Investment Fund Management Co., Ltd. (Note 1) | Limited company | Xiamen, Fujian | Equity investment management and consulting |
| Suzhou Industrial Securities Chuanghe Equity Investment Management Co., Ltd. (Note 1) | Limited company | Suzhou, Jiangsu | Equity investment management and consulting |
| Shanghai Industrial Securities Saifu Investment Management Partnership (General Partnership) (Note 1) | Partnership | Shanghai | Equity investment management and consulting |
| CIS Excellent Select Fund (Note 2) | Investment fund | Cayman Islands | Securities investment |
| Asset management plan managed by the Group (Note 2) | Asset management plan | N/A | Securities investment |

Note 1: These companies have been cancelled with industrial and commercial administrations in the current year.
Note 2: A part of asset management schemes or funds were no longer included into the scope of consolidation as the Group lost controls over them in the current year due to their liquidation upon maturity or decline in variable returns.

2. Exchange rates for translation of the major items in the financial statements of overseas operating entities

| | Exchange rate at the end of year | |
|---|---|---|
| | 31 December 2018 | 31 December 2017 |
| USD | 6.86320 | 6.53420 |
| HKD | 0.87620 | 0.83591 |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash and bank balances

#### (1) By categories

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Cash on hand | 243,200.00 | 28,100.00 |
| Bank balances | 27,253,238,872.77 | 22,780,519,440.77 |
| Including: Customer deposits | 20,256,135,192.40 | 17,651,661,309.08 |
| Self-owned deposits | 6,997,103,680.37 | 5,128,858,131.69 |
| Other monetary funds | 59,918,342.25 | 60,139,168.62 |
| Total | 27,313,400,415.02 | 22,840,686,709.39 |

#### (2) By currencies

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Original currency | Exchange rate | Equivalent RMB | Original currency | Exchange rate | Equivalent RMB |
| | | | | | | |
| Cash on hand | | | 243,200.00 | | | 28,100.00 |
| RMB | 243,200.00 | 1.00000 | 243,200.00 | 28,100.00 | 1.00000 | 28,100.00 |
| | | | | | | |
| Customer deposits | | | 20,256,135,192.40 | | | 17,651,661,309.08 |
| RMB | 15,813,010,724.65 | 1.00000 | 15,813,010,724.65 | 14,724,525,646.60 | 1.00000 | 14,724,525,646.60 |
| HKD | 2,414,844,309.73 | 0.87620 | 2,115,886,584.19 | 2,030,447,920.82 | 0.83591 | 1,697,271,721.50 |
| USD | 326,641,327.23 | 6.86320 | 2,241,804,757.04 | 188,048,172.49 | 6.53420 | 1,228,744,368.63 |
| EUR | 75,632.70 | 7.85710 | 594,253.69 | 102,707.96 | 7.80230 | 801,358.28 |
| Others | | | 84,838,872.83 | | | 318,214.07 |
| | | | | | | |
| Self-owned deposits | | | 6,997,103,680.37 | | | 5,128,858,131.69 |
| RMB | 5,709,929,092.21 | 1.00000 | 5,709,929,092.21 | 4,208,280,149.60 | 1.00000 | 4,208,280,149.60 |
| HKD | 827,736,977.38 | 0.87620 | 725,263,139.58 | 719,005,321.65 | 0.83591 | 601,023,738.42 |
| USD | 81,592,032.47 | 6.86320 | 559,982,437.24 | 48,172,426.32 | 6.53420 | 314,768,268.04 |
| EUR | 117,525.70 | 7.85710 | 923,411.18 | 1,291.51 | 7.80230 | 10,076.74 |
| Others | | | 1,005,600.16 | | | 4,775,898.89 |
| | | | | | | |
| Other monetary funds | | | | | | 60,139,168.62 |
| RMB | 59,918,342.25 | 1.00000 | 59,918,342.25 | 60,139,168.62 | 1.00000 | 60,139,168.62 |
| | | | | | | |
| Total | | | 27,313,400,415.02 | | | 22,840,686,709.39 |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 1. Cash and bank balances - continued

#### (2) By currencies - continued

Including: Margin financing and securities lending business

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Original currency | Exchange rate | Equivalent RMB | Original currency | Exchange rate | Equivalent RMB |
| | | | | | | |
| Customer credit funds | | | 1,565,831,198.01 | | | 1,434,676,218.58 |
| RMB | 1,565,831,198.01 | 1.00000 | 1,565,831,198.01 | 1,434,676,218.58 | 1.00000 | 1,434,676,218.58 |
| | | | | | | |
| Self-owned credit funds | | | 629,803,166.74 | | | 517,645,180.06 |
| RMB | 629,803,166.74 | 1.00000 | 629,803,166.74 | 517,645,180.06 | 1.00000 | 517,645,180.06 |

Note: As at 31 December 2018, the self-owned funds included restricted cash and bank balances amounting to RMB 1,054,716,055.06 (31 December 2017: RMB 658,436,867.81).

### 2. Clearing settlement funds

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Original currency | Exchange rate | Equivalent RMB | Original currency | Exchange rate | Equivalent RMB |
| | | | | | | |
| Self-owned clearing settlement fund | | | 1,694,691,496.55 | | | 1,034,930,208.87 |
| RMB | 1,694,691,496.55 | 1.00000 | 1,694,691,496.55 | 1,034,930,208.87 | 1.00000 | 1,034,930,208.87 |
| | | | | | | |
| Clearing settlement fund held on behalf of customers | | | 3,884,164,599.83 | | | 2,991,737,332.65 |
| RMB | 3,858,603,660.02 | 1.00000 | 3,858,603,660.02 | 2,953,791,103.71 | 1.00000 | 2,953,791,103.71 |
| HKD | 10,210,730.54 | 0.87620 | 8,946,642.10 | 15,894,163.55 | 0.83591 | 13,286,090.25 |
| USD | 2,420,780.06 | 6.86320 | 16,614,297.71 | 3,774,010.39 | 6.53420 | 24,660,138.69 |
| | | | | | | |
| Credit clearing settlement fund | | | 448,465,574.72 | | | 479,894,790.93 |
| RMB | 448,465,574.72 | 1.00000 | 448,465,574.72 | 479,894,790.93 | 1.00000 | 479,894,790.93 |
| | | | | | | |
| Total | | | 6,027,321,671.10 | | | 4,506,562,332.45 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

3. Margin accounts

(1) By categories

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Loans to margin clients for margin financing and securities lending businesses | 12,425,341,687.44 | 14,576,838,482.68 |
| Margin loans | 5,343,371,112.69 | 3,778,595,221.76 |
| Less: Provision for impairment loss | 276,590,408.04 | 257,320,555.67 |
| Margin accounts - net | 17,492,122,392.09 | 18,098,113,148.77 |

(2) By institutions/individuals

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Institution | 2,627,094,311.45 | 1,392,994,615.38 |
| Individual | 14,865,028,080.64 | 16,705,118,533.39 |
| Total | 17,492,122,392.09 | 18,098,113,148.77 |

(3) Analysed by financing maturity

| | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Ratio | Bad debt provision | Ratio | Carrying amount | Ratio | Bad debt provision | Ratio |
| | RMB | % | RMB | % | RMB | % | RMB | % |
| | | | | | | | | |
| 1-3 months | 4,658,162,495.23 | 26.22 | 3,158,478.60 | 1.14 | 9,689,975,471.74 | 52.79 | 7,975,387.22 | 3.10 |
| 3-6 months | 2,513,084,052.21 | 14.14 | 1,576,961.27 | 0.57 | 2,972,918,291.68 | 16.20 | 2,346,121.09 | 0.91 |
| 6 months - 1 year | 5,579,237,576.26 | 31.40 | 4,195,645.09 | 1.52 | 2,205,381,179.44 | 12.01 | 1,494,801.96 | 0.58 |
| Over 1 year | 5,018,228,676.43 | 28.24 | 267,659,323.08 | 96.77 | 3,487,158,761.58 | 19.00 | 245,504,245.40 | 95.41 |
| Total | 17,768,712,800.13 | 100.00 | 276,590,408.04 | 100.00 | 18,355,433,704.44 | 100.00 | 257,320,555.67 | 100.00 |

Collateral assets obtained from margin financing and securities lending businesses are detailed in Note XVI. 2(2). Margin accounts as collateral under repurchase agreement are detailed in Note XVI.1(1).

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

4. Financial assets at fair value through profit or loss

(1) Details of financial assets at fair value through profit or loss

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Cost | Fair value | Cost | Fair value |
| | RMB | RMB | RMB | RMB |
| | | | | |
| Held-for-trading financial assets | | | | |
| Including: Bonds | 23,152,197,970.25 | 22,920,318,203.75 | 21,103,615,125.08 | 20,916,661,827.16 |
| Stocks | 6,032,299,444.69 | 5,292,110,961.46 | 7,257,029,951.09 | 7,503,374,024.80 |
| Funds | 10,693,995,128.89 | 10,627,676,856.15 | 10,356,581,322.83 | 10,368,898,563.81 |
| Financial assets designated at fair value through profit or loss | | | | |
| Including: Equity instruments | 1,503,630,795.11 | 1,422,645,704.67 | 2,501,950,336.30 | 2,545,603,261.71 |
| Debt instruments | 207,108,912.39 | 211,514,754.44 | 25,000,000.00 | 25,000,000.00 |
| Structured notes | - | - | 291,459,983.03 | 292,276,855.18 |
| | | | | |
| Total | 41,589,232,251.33 | 40,474,266,480.47 | 41,535,636,718.33 | 41,651,814,532.66 |

(2) Financial assets at fair value through profit or loss with restriction on realization

| ITEM | Restrictions on sale or other significant restrictions on realization | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Bonds | Collateral for sales under repurchase agreements | 12,366,158,536.90 | 10,009,896,328.42 |
| Bonds | Collateral for bonds lending | 475,629,105.00 | - |
| Bonds | Collateral for pledged loans | 1,241,701,721.50 | 810,969,036.59 |

Note: The carrying amounts of held-for-trading financial assets held as collaterals under sale and repurchase agreements and bond lending agreements are detailed in Note XVI.1.

(3) Financial assets at fair value through profit or loss with restricted sales periods

As at 31 December 2018, the financial assets at fair value through profit or loss with restricted sales periods held by the Group were stocks with carrying amount of RMB 47,221,854.41 (31 December 2017: RMB 442,354,714.52).

5. Details of securities trading

| ITEM | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Securities to margin clients | 32,758,163.60 | 22,063,989.50 |
| —Available-for-sale financial assets | 26,904,368.60 | 17,157,429.50 |
| —Securities from refinancing | 5,853,795.00 | 4,906,560.00 |
| | | |
| Refinancing - Total | 10,525,200.00 | 4,906,560.00 |

Note: The carrying amounts of assets held as collateral under refinancing agreements are detailed in Note XVI.1(2).

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

6. Derivative financial instruments

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Non-hedging instruments | | | Non-hedging instruments | | |
| | Nominal amount / Contract value | Fair value | | Nominal amount / Contract value | Fair value | |
| | | Assets | Liabilities | | Assets | Liabilities |
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Interest rate derivatives: | | | | | | |
| Interest rate swap contract (Note 1) | 2,140,000,000.00 | 296,149.53 | 296,149.53 | 3,930,000,000.00 | 2,407,099.21 | 2,476,699.51 |
| Treasure bond futures contract (Note 2) | 3,133,045,492.00 | - | - | 498,098,750.00 | - | - |
| Equity derivatives: | | | | | | |
| Stock index futures contract (Note 2) | 98,852,380.50 | - | - | 3,323,080.00 | - | - |
| Equity income swap | - | - | - | 31,000,000.00 | - | 16,563,629.68 |
| Other derivatives | | | | | | |
| Commodity futures contract (Note 2) | 885,275,225.00 | - | - | 23,480,400.00 | - | - |
| Commodity options contract | 6,339,600.00 | - | 144,817.20 | - | - | - |
| Foreign exchange futures contract | 103,090,559.48 | - | - | - | - | - |
| Forward derivatives | 216,909,923.69 | 2,035,023.54 | - | 1,437,524,000.00 | - | 4,392,067.67 |
| Credit derivatives | 1,753,776,000.00 | 2,407,548.89 | 10,408,840.41 | 816,775,000.00 | 2,669,848.73 | 498,919.37 |
| Total | 8,337,289,180.67 | 4,738,721.96 | 10,849,807.14 | 6,740,201,230.00 | 5,076,947.94 | 23,931,316.23 |

Note 1: The balance of interest rate swap derivative financial assets and liabilities was the fair value of interest rate swap contract executed before 1 July 2014.

Note 2: The Group's treasury bond futures, stock index futures, commodity futures, foreign exchange futures and the interest rate swap (after 1 July 2014) were cleared daily without liabilities. The position profit or loss from treasury bond futures, stock index futures, commodity futures and foreign exchange futures contracts held by the Group at 31 December 2018 were transferred in and out through the account for clearing settlement funds daily; while position profit or loss from interest rate swap contracts after 1 July 2014 were cleared in a concentrated manner through Shanghai Clearing House daily. Therefore, no balance was left after treasury bond futures, stock index futures, commodity futures, foreign exchange futures and interest rate swap investment under derivative financial instruments offset with the temporary receipts and payments (position profit or loss from clearing) of related treasury bond futures, stock index futures, commodity futures, foreign exchange futures and interest rate swap.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

6. Derivative financial instruments - continued

Treasury bond futures contracts, stock index futures contracts, commodity futures contracts, foreign exchange futures contracts and interest rate swap contracts (after 1 July 2014) under derivative financial instruments were presented at a net amount after offset, which was RMB 0.00. The closing balances of derivative financial assets/liabilities before offset as well as the temporary receipts/payments of treasury bond futures, stock index futures, commodity futures, foreign exchange futures and interest rate swap are set out as below:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Derivative financial assets / Temporary receipts | Derivative financial liabilities / Temporary payments | Derivative financial assets / Temporary receipts | Derivative financial liabilities / Temporary payments |
| | RMB | RMB | RMB | RMB |
| | | | | |
| Interest rate swap contract | 15,534,450.29 | - | 12,257,081.24 | - |
| Treasury bond futures contract | 6,771,019.50 | - | 16,683.34 | 1,821,534.81 |
| Stock index futures contract | 740,169.95 | 916,520.00 | - | 4,140.00 |
| Commodity futures contract | 2,866,575.00 | - | - | 40,035.56 |
| Foreign exchange futures contract | 238,328.06 | - | - | - |

7. Financial assets held under resale agreements

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| (1) By categories of subject matters | | |
| Stocks | 20,773,956,300.49 | 31,027,592,746.19 |
| Bonds | 1,053,181,550.00 | 2,229,706,930.68 |
| Funds | - | 38,000.00 |
| Less: Provision for impairment loss | 691,930,798.52 | 95,622,635.82 |
| Total | 21,135,207,051.97 | 33,161,715,041.05 |
| | | |
| (2) By categories of businesses | | |
| Equity securities held under resale agreements (Note 1) | 20,741,819,240.49 | 30,961,760,746.19 |
| Agreed-upon repurchase of securities (Note 2) | 32,137,060.00 | 65,870,000.00 |
| Stock exchange repo | 698,001,550.00 | 259,376,483.00 |
| Inter-bank repo | 355,180,000.00 | 1,970,330,447.68 |
| Less: Provision for impairment loss | 691,930,798.52 | 95,622,635.82 |
| Total | 21,135,207,051.97 | 33,161,715,041.05 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

7. Financial assets held under resale agreements - continued

Note 1: Residual term of contract and balances of equity securities held under resale agreements included in financial assets held under resale agreements are analysed as below:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| | RMB | % | RMB | % |
| | | | | |
| Within 1 month | 1,456,216,580.16 | 7.02 | 1,572,152,981.70 | 5.08 |
| 1-3 months | 3,359,945,288.00 | 16.20 | 2,887,343,395.55 | 9.33 |
| 3 months – 1 year | 11,772,205,454.49 | 56.76 | 11,570,564,790.94 | 37.37 |
| Over 1 year | 2,591,155,100.06 | 12.49 | 14,714,509,578.00 | 47.52 |
| Overdue | 1,562,296,817.78 | 7.53 | 217,190,000.00 | 0.70 |
| Total | 20,741,819,240.49 | 100.00 | 30,961,760,746.19 | 100.00 |
| Less: Provision for impairment loss | 691,898,661.46 | | 95,556,765.82 | |
| Net book value | 20,049,920,579.03 | | 30,866,203,980.37 | |

The Company performed a separate impairment test for the equity securities held under resale agreements with indications of impairment among the financial assets held under resale agreements. The difference between the carrying amount and the estimated recoverable amount was recognized as an impairment loss after the recoverable amount of related equity securities held under resale agreements was estimated in accordance with its equity pledged and other supplementary collaterals. In the current year, the total impairment losses of assets of the equity securities held under resale agreements for which provision for impairment was made individually was RMB 607,615 thousands, and the total provision for impairment recognized was RMB 672,420 thousands as at 31 December 2018, and pledged stocks involved including Changsheng Bio-technology (002680) and Zhonghong Holding(000979).

Note 2: Residual term and balances of agreed-upon repurchase of securities included in financial assets held under resale agreements are analysed as below:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| | RMB | % | RMB | % |
| | | | | |
| 1-3 months | 19,947,050.00 | 62.07 | - | - |
| 3 months – 1 year | 12,190,010.00 | 37.93 | 65,870,000.00 | 100.00 |
| Total | 32,137,060.00 | 100.00 | 65,870,000.00 | 100.00 |
| Less: Provision for impairment loss | 32,137.06 | | 65,870.00 | |
| Net book value | 32,104,922.94 | | 65,804,130.00 | |

Note 3: Collateral assets acquired from repo are detailed in Note XVI.2(1). The carrying amounts of financial assets held under resale agreements held as collateral assets under repo are detailed in Note XVI.1(1).

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 8. Accounts receivable

(1) By details

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Fee and commission receivable | 562,212,862.49 | 601,037,140.73 |
| Asset management fee receivable | 116,361,361.54 | 99,354,234.00 |
| Clearing funds receivable | 1,591,450,106.48 | 730,881,022.02 |
| Total | 2,270,024,330.51 | 1,431,272,396.75 |
| Less: Bad debt provision | 11,611,218.45 | 8,268,660.36 |
| Accounts receivables - Carrying amount | 2,258,413,112.06 | 1,423,003,736.39 |

(2) By aging

| | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Ratio | Bad debt provision | Ratio | Carrying amount | Ratio | Bad debt provision | Ratio |
| | RMB | % | RMB | % | RMB | % | RMB | % |
| | | | | | | | | |
| Within 1 year | 2,221,422,672.36 | 97.86 | 4,597,870.05 | 0.21 | 1,392,152,278.86 | 97.26 | 3,728,339.80 | 0.27 |
| 1-2 years | 34,026,627.43 | 1.50 | 3,635,188.90 | 10.68 | 32,309,753.56 | 2.26 | 3,178,247.69 | 9.84 |
| 2-3 years | 13,171,378.23 | 0.58 | 2,676,333.25 | 20.32 | 6,810,364.33 | 0.48 | 1,362,072.87 | 20.00 |
| Over 3 years | 1,403,652.49 | 0.06 | 701,826.25 | 50.00 | - | - | - | - |
| Total | 2,270,024,330.51 | 100.00 | 11,611,218.45 | 0.51 | 1,431,272,396.75 | 100.00 | 8,268,660.36 | 0.58 |

(3) By assessment methods

| | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Ratio | Bad debt provision | Ratio | Carrying amount | Ratio | Bad debt provision | Ratio |
| | RMB | % | RMB | % | RMB | % | RMB | % |
| | | | | | | | | |
| Receivables for which bad debt provision has been assessed individually | 310,934.40 | 0.01 | 310,934.40 | 100.00 | - | - | - | - |
| Receivables for which bad debt provision is assessed on a portfolio basis | 2,269,713,396.11 | 99.99 | 11,300,284.05 | 0.50 | 1,431,272,396.75 | 100.00 | 8,268,660.36 | 0.58 |
| Total | 2,270,024,330.51 | 100.00 | 11,611,218.45 | 0.51 | 1,431,272,396.75 | 100.00 | 8,268,660.36 | 0.58 |

(4) Receivables from shareholders holding over 5% (5% included) of voting rights of the Company are as follows:

| ITEM | Related party | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Fee and commission receivable | Fujian Investment & Development Group Co., Ltd. | 250,000.00 | - |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 8. Accounts receivable - continued

#### (5) Name / Nature of the top five debtors in the receivables

| Name of the entity | Amount | Aging | Bad debt provision | Nature or content | Ratio to total receivables |
|---|---|---|---|---|---|
| | RMB | | RMB | | % |
| | | | | | |
| Euroclear Bank S.A./N.V. | 229,883,738.38 | Within one year | - | Clearing funds receivable | 10.13 |
| Nomura International PLC | 194,077,279.81 | Within one year | - | Clearing funds receivable | 8.55 |
| Xinghua City Construction Investment Co., Ltd. | 100,000,000.00 | Within one year | 500,000.00 | Clearing funds receivable | 4.41 |
| Hong Kong Securities Clearing Company Ltd. | 91,233,197.77 | Within one year | - | Clearing funds receivable | 4.02 |
| Right Time Global Investment SPC- for the account of Right Time New Era Investment SPC | 86,674,906.76 | Within one year | - | Clearing funds receivable | 3.82 |

### 9. Refundable deposits

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Original currency | Exchange rate | Equivalent RMB | Original currency | Exchange rate | Equivalent RMB |
| | | | | | | |
| Trading deposit | | | 2,600,309,551.33 | | | 3,005,430,165.32 |
| RMB | 2,278,695,986.81 | 1.00000 | 2,278,695,986.81 | 2,947,615,078.52 | 1.00000 | 2,947,615,078.52 |
| HKD | 12,132,259.45 | 0.87620 | 10,630,285.73 | 14,361,721.35 | 0.83591 | 12,005,106.49 |
| USD | 45,311,702.82 | 6.86320 | 310,983,278.79 | 7,010,801.68 | 6.53420 | 45,809,980.31 |
| | | | | | | |
| Performance bond | | | 398,379,189.72 | | | 387,457,233.50 |
| RMB | 386,509,352.80 | 1.00000 | 386,509,352.80 | 377,705,356.04 | 1.00000 | 377,705,356.04 |
| HKD | 13,546,949.23 | 0.87620 | 11,869,836.92 | 11,666,181.12 | 0.83591 | 9,751,877.46 |
| | | | | | | |
| Credit deposit | | | 18,119,109.83 | | | 25,592,549.14 |
| RMB | 18,119,109.83 | 1.00000 | 18,119,109.83 | 25,592,549.14 | 1.00000 | 25,592,549.14 |
| | | | | | | |
| Total | | | 3,016,807,850.88 | | | 3,418,479,947.96 |

### 10. Available-for-sale financial assets

#### (1) Details of available-for-sale financial assets

| | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | Changes in fair value | Provision for impairment loss | Carrying amount | Cost | Changes in fair value | Provision for impairment loss | Carrying amount |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | | | |
| Measured at fair value | | | | | | | | |
| Bonds | 25,585,142,136.14 | 67,701,357.62 | 43,706,817.36 | 25,609,136,676.40 | 18,278,919,354.00 | (365,629,644.58) | - | 17,913,289,709.42 |
| Stocks (Note 1) | 391,338,523.87 | 39,279,308.08 | 34,473,236.75 | 396,144,595.20 | 244,029,644.84 | 649,971,217.30 | 6,945,952.53 | 887,054,909.61 |
| Asset management schemes of securities companies | 716,406,065.98 | 13,888,919.87 | 5,275,350.46 | 725,019,635.39 | 781,949,376.01 | 28,447,015.56 | - | 810,396,391.57 |
| Funds and segregated accounts (Note 1) | 745,462,585.31 | (18,882,316.63) | 4,220,795.06 | 722,359,473.62 | 574,788,813.07 | 91,584,723.87 | 3,159,587.19 | 663,213,949.75 |
| Others (Note 2) | 2,694,770,359.15 | (53,274,304.59) | - | 2,641,496,054.56 | 2,569,463,326.03 | 268,801,034.73 | - | 2,838,264,360.76 |
| Measured at cost | | | | | | | | |
| Equity investment (Note 3) | 1,048,344,540.12 | - | 80,000.00 | 1,048,264,540.12 | 1,037,589,804.50 | - | 80,000.00 | 1,037,509,804.50 |
| Total | 31,181,464,210.57 | 48,712,964.35 | 87,756,199.63 | 31,142,420,975.29 | 23,486,740,318.45 | 673,174,346.88 | 10,185,539.72 | 24,149,729,125.61 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

10. Available-for-sale financial assets - continued

(2) Cost (amortized cost), fair value, changes in fair value accumulatively included in other comprehensive income, and accrued provision for impairment loss of available-for-sale financial assets as at the end of reporting

| Categories of available-for-sale financial assets | Available-for-sale equity instruments | Available-for-sale debt instruments | Total |
|---|---|---|---|
| | RMB | RMB | RMB |
| | | | |
| Cost of equity instruments / Amortized cost of debt instruments | 5,596,322,074.43 | 25,585,142,136.14 | 31,181,464,210.57 |
| Fair value | 5,533,284,298.89 | 25,609,136,676.40 | 31,142,420,975.29 |
| Changes in fair value accumulatively included in other comprehensive income | (18,988,393.27) | 67,701,357.62 | 48,712,964.35 |
| Accrued provision for impairment loss | 44,049,382.27 | 43,706,817.36 | 87,756,199.63 |

(3) Changes in impairment of available-for-sale financial assets during the reporting period

| Categories of available-for-sale financial assets | Available-for-sale equity instruments | Available-for-sale debt instruments | Total |
|---|---|---|---|
| | RMB | RMB | RMB |
| | | | |
| Provision for impairment loss at the beginning of year | 10,185,539.72 | - | 10,185,539.72 |
| Provision | 34,334,424.02 | 43,706,817.36 | 78,041,241.38 |
| Including: Transfer from other comprehensive income | 34,334,424.02 | 43,706,817.36 | 78,041,241.38 |
| Decrease | 470,581.47 | - | 470,581.47 |
| Including: Subsequent reversal of fair value | - | - | - |
| Provision for impairment loss at the end of year | 44,049,382.27 | 43,706,817.36 | 87,756,199.63 |

Note 1: As at 31 December 2018, available-for-sale financial assets-Stocks included stocks to margin clients carrying an amount of RMB 9,514,579.46, while available-for-sale financial assets – Funds included funds to margin clients carrying an amount of RMB 0.00. (Stocks to margin clients as at 31 December 2017: RMB 11,078,179.81; funds to margin clients as at 31 December 2017: RMB 429,602.80).

Note 2: As at 31 December 2018, available-for-sale financial assets included the Company's investment in a special account with China Securities Finance Corporation Limited ("CSFC"). This special account was operated and managed by CSFC, and the Company shared the investment risk and investment income with other securities companies that invested in this special account in proportion to their investments. The Company determined the year-end carrying amount of the investments in the special account based on the asset reports provided by CSFC.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

10. Available-for-sale financial assets - continued

Note 3: A part of investments in unlisted equity instruments were measured at cost as they were not traded in any trading market and their fair value could not be measured reliably.

Note 4: Available-for-sale financial assets with restrictions on sale periods held by the Group are presented as below:

① As at 31 December 2018, stocks with restrictions on sales periods carried an amount of RMB 0.00 (31 December 2017: RMB 638,696,985.20).

② As at 31 December 2018, available-for-sale financial assets with commitments held by the Group carried an amount of RMB 389,699,396.93 (31 December 2017: RMB 233,426,654.63).

Note 5: Carrying amounts of assets held as collateral under repo and bonds lending agreements in the available-for-sale financial assets are detailed in Note XVI.1.

11. Long-term equity investments

(1) By categories

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Joint ventures | 1,323,828,556.17 | - |
| Associates | 388,100,405.61 | 268,216,450.09 |
| Less: Provision for impairment loss | - | - |
| Long-term equity investments - net | 1,711,928,961.78 | 268,216,450.09 |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

## 11. Long-term equity investments - continued

### (2) Details of long-term equity investments are as below:

| Name of investee | Accounting method | Investment cost | Opening balance | Changes for the year | | | | | | | Closing balance | Shareholding ratio at the end of year | Voting ratio at the end of year | Closing balance of provision for impairment loss |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Additional investment | Investment reduction | Investment income or loss recognized under equity method | Adjustment of other comprehensive income | Other changes in equity | Cash dividends or profit declared | Others | | | | |
| | | RMB | RMB | RMB | RMB | RMB | | | RMB | RMB | RMB | % | % | RMB |
| | | | | | | | | | | | | | | |
| I. Joint ventures | | | | | | | | | | | | | | |
| Fujian Bailout No.1 Equity Investment Partnership(L.P.) (Note 1) | Equity method | 1,290,000,000.00 | - | 1,290,000,000.00 | - | (811,364.60) | - | - | - | - | 1,289,188,635.40 | 64.50 | N/A | - |
| CIS New China Ever- Growing Fund SP (Note 1) | Equity method | 35,076,879.55 | - | 35,076,879.55 | - | (442,254.95) | - | - | - | 5,296.17 | 34,639,920.77 | 28.62 | N/A | - |
| Joint ventures - Sub-total | | | - | 1,325,076,879.55 | - | (1,253,619.55) | - | - | - | 5,296.17 | 1,323,828,556.17 | | | - |
| | | | | | | | | | | | | | | |
| II. Associates | | | | | | | | | | | | | | |
| Straits Equity Exchange Center (Fujian) Co., Ltd. | Equity method | 45,355,000.00 | 45,874,749.90 | - | - | (3,168,768.33) | - | - | - | - | 42,705,981.57 | 21.43 | 21.43 | - |
| Fujian Funeng Industrial Equity Investment Management Co., Ltd. | Equity method | 56,208,236.28 | 62,982,741.48 | - | - | 3,930,167.60 | 600,862.50 | 1,513,105.14 | (2,910,134.77) | - | 66,116,741.95 | 24.50 | 24.50 | - |
| Fujian Pientzehuang Medical Device Technology Co., Ltd. | Equity method | 2,980,599.48 | 2,156,373.24 | - | - | (250,870.25) | - | - | - | - | 1,905,502.99 | 25.00 | 25.00 | - |
| Beijing Increase Pharmaceutical Co., Ltd. | Equity method | 100,000,000.00 | 112,215,448.97 | - | - | 3,873,282.82 | - | 40,821,148.77 | - | - | 156,909,880.56 | 20.32 | 20.32 | - |
| Zhuhai Industrial Securities Liuhe Qihang Equity Investment Partnership (Limited Partnership) (Note 2) | Equity method | 981,992.33 | 958,785.98 | - | (7,662.84) | (56,134.31) | - | - | - | - | 894,988.83 | 0.36 | N/A | - |
| Ningbo Xingfu Zhiyuan Equity Investment Partnership (Limited Partnership) | Equity method | 31,800,996.31 | 33,895,759.84 | - | (2,121,619.03) | 82,049,653.13 | - | - | - | - | 113,823,793.94 | 41.96 | N/A | - |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) (Note 2) | Equity method | 4,035,803.40 | 8,015,984.42 | - | (3,877,536.60) | 407,835.49 | - | - | - | - | 4,546,283.31 | 0.44 | N/A | - |
| Pingtan Industrial Securities Saifu I Equity Investment Partnership (Limited Partnership) (Note 2) | Equity method | 1,064,196.60 | 2,116,604.26 | - | (1,022,463.40) | 103,090.00 | - | - | - | - | 1,197,230.86 | 0.44 | N/A | - |
| Pingtan Xinghang Guohong Equity Investment Partnership (Limited Partnership) (Note 2) | Equity method | 1.00 | 1.00 | - | - | - | - | - | - | - | 1.00 | 0.00 | N/A | - |
| Pingtan Industrial Securities Chuangpai Culture Investment Partnership (Limited Partnership) (Note 2) | Equity method | 1.00 | 1.00 | - | - | (0.40) | - | - | - | - | 0.60 | 0.00 | N/A | - |
| Associates - Sub-total | | | 268,216,450.09 | - | (7,029,281.87) | 86,888,255.75 | 600,862.50 | 42,334,253.91 | (2,910,134.77) | - | 388,100,405.61 | | | - |
| | | | | | | | | | | | | | | |
| Long-term equity investments - net | | | 268,216,450.09 | 1,325,076,879.55 | (7,029,281.87) | 85,634,636.20 | 600,862.50 | 42,334,253.91 | (2,910,134.77) | 5,296.17 | 1,711,928,961.78 | | | - |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

11. Long-term equity investments - continued

Note 1: According to the partnership agreement or fund agreement, the Group, as the general partner or fund manager, jointly managed the partnership or fund with another general partner or fund manager jointly and was able to exercise joint control over it, so the Group accounted for the partnership or fund as a joint venture under the equity method.

Note 2: According to the partnership agreement, the Group was the general partner and managing partner of Zhuhai Industrial Securities Liuhe Qihang Equity Investment Partnership (Limited Partnership), Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership), Pingtan Industrial Securities Saifu I Equity Investment Partnership (Limited Partnership), Pingtan Xinghang Guohong Equity Investment Partnership (Limited Partnership) and Pingtan Industrial Securities Chuangpai Culture Investment Partnership (Limited Partnership), over which the Group had significant influence, so the Group accounted for these partnerships as associates under the equity method.

(3) As at 31 December 2018, the investee's ability to transfer funds to the Group was not restricted.

12. Investment properties

| ITEM | Buildings | Total |
|---|---|---|
| | RMB | RMB |
| | | |
| I. COST | | |
| 1. Opening balance | 315,163,308.72 | 315,163,308.72 |
| 2. Increase | 9,563,437.66 | 9,563,437.66 |
| (1) Transfer from fixed assets | 8,434,570.04 | 8,434,570.04 |
| (2) Others | 1,128,867.62 | 1,128,867.62 |
| 3. Closing balance | 324,726,746.38 | 324,726,746.38 |
| | | |
| II. Accumulated depreciation | | |
| 1. Opening balance | 63,447,788.86 | 63,447,788.86 |
| 2. Increase | 17,221,132.17 | 17,221,132.17 |
| (1) Charge for the year | 12,016,640.36 | 12,016,640.36 |
| (2) Transfer from fixed assets | 5,204,491.81 | 5,204,491.81 |
| 3. Closing balance | 80,668,921.03 | 80,668,921.03 |
| | | |
| III. Provision for impairment loss of investment properties | | |
| 1. Opening balance | - | - |
| 2. Closing balance | - | - |
| | | |
| IV. Carrying amount of investment properties | | |
| 1. Carrying amount at the beginning of year | 251,715,519.86 | 251,715,519.86 |
| 2. Carrying amount at the end of year | 244,057,825.35 | 244,057,825.35 |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 13. Fixed assets

| ITEM | Buildings | Machinery and equipment | Transportation vehicles | Others | Total |
|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB |
| I. COST | | | | | |
| 1. Opening balance | 542,214,099.22 | 310,931,322.41 | 21,624,589.90 | 15,190,713.91 | 889,960,725.44 |
| 2. Increase for the year | 60,787.17 | 79,688,580.67 | 9,486,141.58 | 1,945,972.86 | 91,181,482.28 |
| (1) Purchase | 60,787.17 | 79,688,580.67 | 9,486,141.58 | 1,945,972.86 | 91,181,482.28 |
| 3. Decrease for the year | 8,622,831.39 | 18,772,264.63 | 2,221,216.57 | 1,910,752.23 | 31,527,064.82 |
| (1) Disposal or retirement | - | 18,772,264.63 | 2,221,216.57 | 1,910,752.23 | 22,904,233.43 |
| (2) Transfer to investment properties | 8,434,570.04 | - | - | - | 8,434,570.04 |
| (3) Others | 188,261.35 | - | - | - | 188,261.35 |
| 4. Difference in exchange rate | - | 845,027.39 | 30,995.39 | 43,958.14 | 919,980.92 |
| 5. Closing balance | 533,652,055.00 | 372,692,665.84 | 28,920,510.30 | 15,269,892.68 | 950,535,123.82 |
| | | | | | |
| II.Accumulated depreciation | | | | | |
| 1. Opening balance | 128,391,289.07 | 215,896,767.96 | 9,868,478.35 | 9,749,542.44 | 363,906,077.82 |
| 2. Increase for the year | 11,902,989.46 | 53,636,985.77 | 2,571,921.28 | 1,289,586.37 | 69,401,482.88 |
| (1) Charge for the year | 11,902,989.46 | 53,636,985.77 | 2,571,921.28 | 1,289,586.37 | 69,401,482.88 |
| 3. Decrease for the year | 5,204,491.81 | 17,253,457.03 | 2,101,044.74 | 1,784,590.78 | 26,343,584.36 |
| (1) Disposal or retirement | - | 17,253,457.03 | 2,101,044.74 | 1,784,590.78 | 21,139,092.55 |
| (2) Transfer to investment properties | 5,204,491.81 | - | - | - | 5,204,491.81 |
| 4. Difference in exchange rate | - | 764,922.53 | (12,796.33) | 13,343.73 | 765,469.93 |
| 5. Closing balance | 135,089,786.72 | 253,045,219.23 | 10,326,558.56 | 9,267,881.76 | 407,729,446.27 |
| | | | | | |
| III. Provision for impairment loss | | | | | |
| 1. Opening balance | 9,708,911.20 | - | - | - | 9,708,911.20 |
| 2. Closing balance | 9,708,911.20 | - | - | - | 9,708,911.20 |
| | | | | | |
| IV. Carrying amount | | | | | |
| 1. Carrying amount at the beginning of year | 404,113,898.95 | 95,034,554.45 | 11,756,111.55 | 5,441,171.47 | 516,345,736.42 |
| 2. Carrying amount at the end of year | 388,853,357.08 | 119,647,446.61 | 18,593,951.74 | 6,002,010.92 | 533,096,766.35 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

14. Intangible assets

| ITEM | Trading seat rights | Software | Trademark | Total |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| I. COST | | | | |
| 1.Opening balance | 20,305,484.17 | 253,267,302.26 | 240,492.02 | 273,813,278.45 |
| 2. Increase for the year | - | 80,443,415.50 | 99,056.60 | 80,542,472.10 |
| (1)Purchase | - | 54,243,787.93 | 99,056.60 | 54,342,844.53 |
| (2)Internal R&D | - | 26,199,627.57 | - | 26,199,627.57 |
| 3. Decrease for the year | - | 5,354,682.45 | - | 5,354,682.45 |
| (1)Disposal or retirement | - | 5,354,682.45 | - | 5,354,682.45 |
| 4. Translation differences | 40,290.00 | 200,788.62 | - | 241,078.62 |
| 5.Closing balance | 20,345,774.17 | 328,556,823.93 | 339,548.62 | 349,242,146.72 |
| | | | | |
| II. Accumulated depreciation | | | | |
| 1.Opening balance | 18,383,740.97 | 162,437,420.09 | 110,952.98 | 180,932,114.04 |
| 2. Increase for the year | 157,999.98 | 50,398,839.77 | 58,574.45 | 50,615,414.20 |
| (1) Charge for the year | 157,999.98 | 50,398,839.77 | 58,574.45 | 50,615,414.20 |
| 3. Decrease for the year | - | 4,633,431.89 | - | 4,633,431.89 |
| (1)Disposals or retirement | - | 4,633,431.89 | - | 4,633,431.89 |
| 4. Translation differences | - | 191,819.59 | - | 191,819.59 |
| 5. Closing balance | 18,541,740.95 | 208,394,647.56 | 169,527.43 | 227,105,915.94 |
| | | | | |
| III. Impairment provision | - | - | - | - |
| | | | | |
| IV. Carrying amount | | | | |
| 1.Carrying amount at the beginning of the year | 1,921,743.20 | 90,829,882.17 | 129,539.04 | 92,881,164.41 |
| 2.Carrying amount at the end of the year | 1,804,033.22 | 120,162,176.37 | 170,021.19 | 122,136,230.78 |

15. Goodwill

| | Closing balance & opening balance |
|---|---|
| | RMB |
| | |
| Goodwill of AEGON-Industrial Fund | 1,317,291.24 |
| Goodwill of Industrial Securities Futures | 10,946,858.54 |
| Less: Provision for Impairment | - |
| Total | 12,264,149.78 |

Note: Goodwill arising from business combination involving enterprise not under common control is not impaired.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

16. Deferred tax assets/ deferred tax liabilities

(1) Deferred tax assets and liabilities presented at total amount:

| ITEM | Deductible temporary differences | | Deferred tax assets | |
|---|---|---|---|---|
| | Closing balance | Opening balance | Closing balance | Opening balance |
| | RMB | RMB | RMB | RMB |
| | | | | |
| Financial assets/liabilities at FVTPL | 706,318,733.36 | 84,747,484.97 | 176,579,683.34 | 21,186,069.88 |
| Available-for-sale financial assets | 657,339,820.08 | 13,995,764.25 | 164,334,955.02 | 3,498,941.07 |
| Employee benefits payable | 2,764,030,539.36 | 2,835,753,958.99 | 690,945,977.83 | 708,931,235.89 |
| Provision for impairment of receivables | 55,185,065.84 | 47,477,536.07 | 13,796,266.45 | 11,869,384.02 |
| Provision for impairment of fixed assets | 5,376,436.32 | 5,718,612.16 | 1,344,109.08 | 1,429,653.04 |
| Provision for impairment of financial assets held under resale agreements | 691,930,798.52 | 95,622,635.82 | 172,982,699.64 | 23,905,658.96 |
| Provision for impairment of margin accounts | 12,425,341.68 | 14,576,838.48 | 3,106,335.42 | 3,644,209.62 |
| Provisions | 246,617,425.80 | 12,480,538.81 | 61,654,356.45 | 3,120,134.70 |
| Others | 63,978,649.12 | 93,373,919.54 | 15,994,662.28 | 23,344,118.58 |
| Total | 5,203,202,810.08 | 3,203,747,289.09 | 1,300,739,045.51 | 800,929,405.76 |

| ITEM | Taxable temporary difference | | Deferred tax liabilities | |
|---|---|---|---|---|
| | Closing balance | Opening balance | Closing balance | Opening balance |
| | RMB | RMB | RMB | RMB |
| | | | | |
| Financial assets/liabilities at FVTPL | 3,623,529.84 | 22,323,757.88 | 905,882.46 | 5,580,939.47 |
| Available-for-sale financial assets | 49,106,775.24 | 216,499,132.45 | 12,276,693.81 | 54,124,783.11 |
| Others | 65,524,427.98 | 43,774,244.06 | 15,580,313.14 | 10,559,654.84 |
| Total | 118,254,733.06 | 282,597,134.39 | 28,762,889.41 | 70,265,377.42 |

(2) Deferred tax assets and liabilities of each entity within the Group are offset and presented on a net basis as follows:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Deferred tax assets | 1,299,854,541.44 | 742,573,805.29 |
| Deferred tax liabilities | 27,878,385.34 | 11,909,776.95 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

16. Deferred tax assets/ deferred tax liabilities

(3) Details of deferred tax assets not recognized:

| ITEM | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Deductible losses | 190,388,792.66 | 73,864,109.66 |

17. Other assets

By categories

| | | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Other receivables | (1) | 293,201,246.15 | 399,100,153.99 |
| Loans and receivables | (2) | 66,659,480.00 | 98,874,239.00 |
| Long-term prepaid expenses | (3) | 142,452,186.07 | 92,112,539.93 |
| Deferred expenses | | 43,249,462.15 | 40,799,243.12 |
| Commodity trading inventories | | 142,227,450.60 | - |
| Interest receivable | | 1,587,432,995.33 | 1,256,320,113.35 |
| Dividends receivable | | 33,836,717.67 | 5,775,006.78 |
| Others | | 39,987,342.52 | 23,241,308.69 |
| Total | | 2,349,046,880.49 | 1,916,222,604.86 |

(1) Other receivables

① By detail

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Balance of other receivables | 337,086,027.06 | 440,309,029.33 |
| Less: Bad debt provision | 43,884,780.91 | 41,208,875.34 |
| Other receivables - net | 293,201,246.15 | 399,100,153.99 |

② By Aging

| | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Ratio | Bad debt provision | Proportion of provision | Carrying amount | Ratio | Bad debt provision | Proportion of provision |
| | RMB | % | RMB | % | RMB | % | RMB | % |
| | | | | | | | | |
| Within 1 year | 221,070,239.22 | 65.58 | 3,869,473.92 | 1.75 | 252,956,917.64 | 57.45 | 586,238.30 | 0.23 |
| 1-2 years | 3,278,003.89 | 0.97 | 327,800.39 | 10.00 | 182,514,520.77 | 41.45 | 38,237,855.70 | 20.95 |
| 2-3 years | 112,137,403.34 | 33.27 | 39,387,316.29 | 35.12 | 113,380.40 | 0.03 | 22,676.08 | 20.00 |
| Over 3 years | 600,380.61 | 0.18 | 300,190.31 | 50.00 | 4,724,210.52 | 1.07 | 2,362,105.26 | 50.00 |
| Total | 337,086,027.06 | 100.00 | 43,884,780.91 | 13.02 | 440,309,029.33 | 100.00 | 41,208,875.34 | 9.36 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

17. Other assets - continued

(1) Other receivables - continued

③ By categories

| | Closing balance | | | | Opening balance | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Ratio | Bad debt provision | Proportion of provision | Carrying amount | Ratio | Bad debt provision | Proportion of provision |
| | RMB | % | RMB | % | RMB | % | RMB | % |
| | | | | | | | | |
| Provision made individually | 103,151,186.82 | 30.60 | 40,113,616.52 | 38.89 | 100,001,570.00 | 22.71 | 36,964,000.00 | 36.96 |
| Provision made on a collective basis | 233,934,840.24 | 69.40 | 3,771,164.39 | 1.61 | 340,307,459.33 | 77.29 | 4,244,875.34 | 1.25 |
| Total | 337,086,027.06 | 100.00 | 43,884,780.91 | 13.02 | 440,309,029.33 | 100.00 | 41,208,875.34 | 9.36 |

④ Top five other receivables at 31 December 2018

| Name | Amount | Aging | Provision | Nature of debts | Ratio |
|---|---|---|---|---|---|
| | RMB | | RMB | | % |
| | | | | | |
| Beijing Jingcai Wuxian Audio & Video Co., Ltd. | 100,001,570.00 | 2-3 years | 36,964,000.00 | Debts receivable | 29.67 |
| Fund of retention performance and risk reserve from employees | 62,892,951.31 | Within 1 year | 314,464.76 | Advance payment | 18.66 |
| The People's Court of Zhen'an District, Dandong City | 11,098,000.00 | 2-3 years | 2,219,600.00 | Property preservation deposits | 3.29 |
| Hundsun Technologies Inc. | 9,106,764.37 | Within 1 year | 11,510.44 | Prepayments | 2.70 |
| Changrui I Private Investment Fund | 3,651,035.00 | Within 1 year | 18,255.18 | Receivables from fund redemption | 1.08 |

⑤ Amounts due from related parties

There are no receivables due from the shareholders holding over 5% (inclusive) shares of the Company in other receivables.

(2) Loans and receivables

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Balance of loans and receivables | 66,684,480.00 | 99,374,239.00 |
| Less: Bad debt provision | 25,000.00 | 500,000.00 |
| Loans and receivables - net | 66,659,480.00 | 98,874,239.00 |

Note: As at 31 December 2018, the Group's subsidiaries provided credit and pledged loans to certain companies and individuals, with the loan period ranging from two to five years.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

17. Other assets - continued

(3) Long-term prepaid expenses

| | Opening balance | Increase | Amortization | Translation differences | Closing balance |
|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB |
| | | | | | |
| Leasehold improvements | 79,624,549.39 | 46,972,485.21 | 40,641,532.08 | 419,749.62 | 86,375,252.14 |
| Others | 12,487,990.54 | 57,777,139.96 | 13,487,928.17 | (700,268.40) | 56,076,933.93 |
| Total | 92,112,539.93 | 104,749,625.17 | 54,129,460.25 | (280,518.78) | 142,452,186.07 |

(4) Interest receivable

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Interest on bank deposits and external clearing institutions | 72,272,773.90 | 63,931,206.76 |
| Interest of margin financing and securities lending business | 203,458,038.84 | 198,762,760.65 |
| Interest of financial assets at FVTPL | 445,839,894.30 | 399,244,433.85 |
| Interest of available-for-sale financial assets | 769,678,623.12 | 515,641,178.10 |
| Interest of financial assets held under resale agreements | 91,023,642.43 | 76,398,791.25 |
| Others | 5,160,022.74 | 2,341,742.74 |
| Total | 1,587,432,995.33 | 1,256,320,113.35 |

18. Provision for impairment of assets

| | 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Opening balance | Provision | Reversal | Transfer in/out | Write-off | Translation differences | Closing balance |
| | RMB | RMB | RMB | | RMB | RMB | RMB |
| | | | | | | | |
| Provision from receivables | 49,977,535.70 | 5,828,828.46 | 3,337,661.96 | 3,154,619.16 | 102,322.00 | - | 55,520,999.36 |
| Provision for impairment of available-for-sale financial assets | 10,185,539.72 | 78,041,241.38 | - | - | 470,581.47 | - | 87,756,199.63 |
| Provision for impairment of fixed assets | 9,708,911.20 | - | - | - | - | - | 9,708,911.20 |
| Provision for impairment of margin accounts | 257,320,555.67 | 10,846,071.19 | - | (3,154,619.16) | - | 11,578,400.34 | 276,590,408.04 |
| Provision for impairment of financial assets held under resale agreements | 95,622,635.82 | 596,341,895.64 | 33,732.94 | - | - | - | 691,930,798.52 |
| Impairment losses of other assets | 17,157.43 | 2,026,385.51 | - | - | - | - | 2,043,542.94 |
| Total | 422,832,335.54 | 693,084,422.18 | 3,371,394.90 | - | 572,903.47 | 11,578,400.34 | 1,123,550,859.69 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

## 19. Short-term loans

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Credit loans | 4,950,530,000.00 | 4,229,704,600.00 |
| Pledged loans(Note 2) | 1,287,055,757.76 | 1,352,894,375.61 |
| Total | 6,237,585,757.76 | 5,582,598,975.61 |

Note 1: As at 31 December 2018, the Group has no outstanding short-term loans that are past due.

Note 2: As at 31 December 2018, included in the Group's pledged loans are non-bank borrowings of RMB1,287,055,757.76 (31 December 2017: RMB1,006,332,222.11). Details of assets pledged as collateral for such borrowings are set out in Note XVI, 1(4).

## 20. Short-term financing payables

| Type | Abbreviation | Par value | Issue date | Term of the bond | Due date | Nominal interest rate | Opening balance | Increase for the year | Decrease for the year | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | | RMB 00'000'000 | | | | | RMB | RMB | RMB | RMB |
| | | | | | | | | | | |
| Short-term subordinated bonds | 17 Industrial C5 | 15.00 | 25/04/2017 | 365 days | 25/04/2018 | 5.00% | 1,499,131,620.57 | 868,379.43 | 1,500,000,000.00 | - |
| Short-term subordinated bonds | 17 Industrial C6 | 10.00 | 17/05/2017 | 365 days | 17/05/2018 | 5.20% | 999,304,078.58 | 695,921.42 | 1,000,000,000.00 | - |
| Sub-total | | | | | | | 2,498,435,699.15 | 1,564,300.85 | 2,500,000,000.00 | - |
| | | | | | | | | | | |
| Income credential | (Note 1) | 5.88 | | | | | 9,987,806,142.00 | 4,831,654,482.00 | 14,231,662,747.00 | 587,797,877.00 |
| | | | | | | | | | | |
| Notes | | 0.52 | 12/06/2017 | 365 days | 12/06/2018 | 3.00% | 52,286,086.92 | - | 52,286,086.92 | - |
| Notes | | 0.55 | 12/06/2018 | 365 days | 12/06/2019 | 3.00% | - | 54,894,280.48 | - | 54,894,280.48 |
| Sub-total | | | | | | | 52,286,086.92 | 54,894,280.48 | 52,286,086.92 | 54,894,280.48 |
| | | | | | | | | | | |
| Total | | | | | | | 12,538,527,928.07 | 4,888,113,063.33 | 16,783,948,833.92 | 642,692,157.48 |

Note 1: It represents the income credential with maturities less than one year issued by the Group through the Interagency Private Placement Quotation and Service System. The par value issued for the year amounted to RMB 4.832 billion, with the yield on the outstanding products ranging from 3.90% to 6.00%.

## 21. Placements from banks and other financial institutions

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Margin refinancing (Note 1) | 1,000,000,000.00 | 1,000,000,000.00 |
| Total | 1,000,000,000.00 | 1,000,000,000.00 |

Note 1: As at 31 December 2018, margin refinancing amounted to RMB 1,000,000,000.00, with a remaining period of 175 days and an annual interest rate of 4.30% (31 December 2017: such loans amounted to RMB 1,000,000,000.00, with a remaining period of 78 days and an annual interest rate of 5.10%). Details of the assets pledged as collaterals for are set out in Note XVI. 1(2).

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

22. Financial liabilities at fair value through profit or loss

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Held-for-trading financial liabilities | | |
| Including: Shares (Note 1) | 91,582,176.40 | 2,272,003.38 |
| Designated as financial liabilities at fair value through profit or loss | | |
| Including: Interests of other holders in consolidated structured entities (Note2) | 1,141,063,302.59 | 1,381,334,490.92 |
| Structured notes | 182,024,390.67 | 147,681,638.34 |
| Total | 1,414,669,869.66 | 1,531,288,132.64 |

Note 1: It represents the held-for-trading financial liability arising from the sales of borrowed shares.
Note 2: It represents the interests of other holders in consolidated structured entities, those structured entities are controlled by the Group and are in the scope of consolidation. The Group designates such financial liabilities as financial liabilities at fair value through profit or loss because such financial instruments are mainly measured at fair value through profit or loss. And the designation can significantly reduce the inconsistency in the recognition and measurement of the related gains or losses of the financial liabilities due to different basis of measurement.

23. Financial assets sold under repurchase agreements

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| (1) By categories of subject matters | | |
| Bonds | 24,888,048,019.11 | 14,172,335,884.48 |
| Right to income from margin accounts | - | 3,000,000,000.00 |
| Right to income from financial assets held under resale agreements | - | 600,000,000.00 |
| Total | 24,888,048,019.11 | 17,772,335,884.48 |
| | | |
| (2) By categories of businesses | | |
| Inter-bank sales under repurchase agreements | 5,274,422,035.89 | 3,604,664,815.06 |
| Sales under repurchase agreements in the exchange | 18,263,585,275.00 | 9,640,718,071.00 |
| Bond-pledge quoted repurchase (Note 1) | 4,721,000.00 | 11,752,000.00 |
| Other pledged repurchase | 1,345,319,708.22 | 4,515,200,998.42 |
| Total | 24,888,048,019.11 | 17,772,335,884.48 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

23. Financial assets sold under repurchase agreements – continued

Note 1: Remaining life and balance analysis of bond-pledge quoted repurchase included in the financial assets sold under repurchase agreements are as follows:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Amount | Range of interest rate | Amount | Range of interest rate |
| | RMB | | RMB | |
| | | | | |
| Within 1 month | 4,721,000.00 | 2% - 3% | 11,452,000.00 | 3.2%-3.7% |
| 1-3 months | - | - | 300,000.00 | 3.2% |
| Total | 4,721,000.00 | | 11,752,000.00 | |

Note 2: Details of the assets pledged as collaterals for sales under repurchase agreement business are set out in Note XVI.1(1).

24. Accounts payable to brokerage and margin clients

| | Closing balance | | | Opening balance | | |
|---|---|---|---|---|---|---|
| | Original currency | Exchange rate | Equivalent to RMB | Original currency | Exchange rate | Equivalent to RMB |
| | | | | | | |
| Individual client | | | 14,348,411,342.53 | | | 15,453,837,833.19 |
| RMB | 12,046,289,674.05 | 1.00000 | 12,046,289,674.05 | 13,598,295,600.55 | 1.00000 | 13,598,295,600.55 |
| HKD | 1,590,229,396.70 | 0.87620 | 1,393,358,997.39 | 1,534,846,591.30 | 0.83591 | 1,282,993,614.10 |
| USD | 125,822,650.22 | 6.86320 | 863,546,012.98 | 85,228,486.68 | 6.53420 | 556,899,977.66 |
| Others | | | 45,216,658.11 | | | 15,648,640.88 |
| | | | | | | |
| Institutional client | | | 12,045,353,618.81 | | | 8,160,821,088.23 |
| RMB | 9,526,002,131.23 | 1.00000 | 9,526,002,131.23 | 6,872,735,731.32 | 1.00000 | 6,872,735,731.32 |
| HKD | 894,031,184.53 | 0.87620 | 783,350,123.88 | 547,183,731.82 | 0.83591 | 457,396,353.27 |
| USD | 244,641,993.87 | 6.86320 | 1,679,026,932.32 | 127,028,484.72 | 6.53420 | 830,029,524.84 |
| Others | | | 56,974,431.38 | | | 659,478.80 |
| | | | | | | |
| Total | | | 26,393,764,961.34 | | | 23,614,658,921.42 |

As at 31 December 2018, accounts payable to brokerage and margin clients from credit transactions amounted to RMB 3,984,172,206.82 (31 December 2017: RMB 3,547,420,712.76), and the analysis by client type is as follows.

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Institution | 1,006,140,511.46 | 1,042,475,211.27 |
| Individual | 2,978,031,695.36 | 2,504,945,501.49 |
| Total | 3,984,172,206.82 | 3,547,420,712.76 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

25. Employee benefits payable

| | Opening balance | Increase | Decrease | Closing balance |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| 1. Short-term employee benefits | | | | |
| Wages or salaries, bonuses, allowances and subsidies | 3,437,872,452.30 | 2,708,761,488.95 | 2,959,716,918.26 | 3,186,917,022.99 |
| Employee welfare | - | 47,037,298.45 | 47,037,298.45 | - |
| Social insurance contributions | 266,988.12 | 109,344,727.50 | 109,523,434.99 | 88,280.63 |
| Including: Medical insurance | 255,982.11 | 100,520,818.29 | 100,695,915.31 | 80,885.09 |
| Work injury insurance | 9,582.25 | 1,463,807.29 | 1,463,046.19 | 10,343.35 |
| Maternity insurance | 1,423.76 | 7,108,243.56 | 7,112,615.13 | (2,947.81) |
| Other social insurance | - | 251,858.36 | 251,858.36 | - |
| Housing funds | 584,171.59 | 104,895,200.88 | 105,537,705.01 | (58,332.54) |
| Employee union fund and employee education fund | 25,535,703.02 | 26,476,451.21 | 25,756,672.18 | 26,255,482.05 |
| Compensation for the termination of labour relationship | - | 512,160.06 | 512,160.06 | - |
| Sub-total | 3,464,259,315.03 | 2,997,027,327.05 | 3,248,084,188.95 | 3,213,202,453.13 |
| 2. Defined contribution plan | | | | |
| Basic pension insurance | 7,395,922.66 | 162,236,555.89 | 159,020,738.15 | 10,611,740.40 |
| Enterprise annuity | 44.21 | 61,698,219.86 | 61,696,502.86 | 1,761.21 |
| Unemployment insurance | 78,497.13 | 2,564,059.21 | 2,597,052.96 | 45,503.38 |
| Sub-total | 7,474,464.00 | 226,498,834.96 | 223,314,293.97 | 10,659,004.99 |
| Total | 3,471,733,779.03 | 3,223,526,162.01 | 3,471,398,482.92 | 3,223,861,458.12 |

Note 1: Closing balance of salaries and bonuses will be settled when relevant conditions are met in accordance with the Company's policies.

Note 2: The Group participates, as required, in the pension insurance and unemployment plan established by government institutions. According to such plans, the Group contributes to such plans according the requirement of the local government where the employee is insured. In addition, the Group participates in enterprise annuity plans, under which the Group contributes to such plans at the amount of no more than 8.33% of the employees' salaries in the prior year. Except for above contributions, the Group does not assume further payment obligations. The related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

26. Taxes payable

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Enterprise income tax | 344,676,656.74 | 453,754,511.93 |
| Individual income tax | 73,038,096.68 | 36,657,708.96 |
| Individual income tax for restricted shares | 118,289,667.00 | 144,192,970.71 |
| VAT | 53,549,989.09 | 77,702,458.72 |
| City maintenance and construction tax | 4,119,545.71 | 5,455,065.33 |
| Educational surcharge | 2,567,897.17 | 3,902,736.97 |
| Others | 1,409,248.74 | 1,757,516.59 |
| Total | 597,651,101.13 | 723,422,969.21 |

27. Accounts payables

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Payables to be settled | 749,279,272.87 | 883,363,820.37 |
| Payables for subscription and redemption of asset management schemes | 5,746,631.12 | 33,007,687.75 |
| Fees and commissions payable | 208,679,427.56 | 254,399,467.15 |
| Equity swap margin | - | 31,000,000.00 |
| Total | 963,705,331.55 | 1,201,770,975.27 |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 28. Bonds payable

| Type | Abbreviation | Par value | Issue date | Term of the Bond | Maturity date / Actual repayment date | Nominal interest rate | Opening balance | Increase | Decrease | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|
| | | RMB 00'000'000 | | | | | RMB | RMB | RMB | RMB |
| | | | | | | | | | | |
| Corporate bonds | 13 Industrial 01 | 15.00 | 13/03/2014 | 3+2 years | 13/03/2019 | 6.00% | 1,500,000,000.00 | - | - | 1,500,000,000.00 |
| Corporate bonds | 13 Industrial 02 | 10.00 | 13/03/2014 | 5+2years | 13/03/2021 | 6.35% | 995,589,959.19 | 3,594,694.05 | - | 999,184,653.24 |
| Corporate bonds | 17 Industrial F1 | 30.00 | 23/10/2017 | 2years | 23/10/2019 | 5.13% | 2,979,476,836.40 | 11,290,771.16 | - | 2,990,767,607.56 |
| Corporate bonds | 17 Industrial F2 | 22.00 | 06/11/2017 | 2years | 06/11/2019 | 5.25% | 2,184,635,932.40 | 8,168,776.84 | - | 2,192,804,709.24 |
| Corporate bonds | 17 Industrial F3 | 15.00 | 22/11/2017 | 3years | 22/11/2020 | 5.40% | 1,489,069,051.44 | 3,566,726.28 | - | 1,492,635,777.72 |
| Corporate bonds | 18 Industrial F1 | 45.00 | 22/01/2018 | 3years | 22/01/2021 | 5.70% | - | 4,512,460,973.85 | 36,326,415.08 | 4,476,134,558.77 |
| Corporate bonds | 18 Industrial F2 | 20.00 | 10/05/2018 | 3years | 10/05/2021 | 5.20% | - | 2,003,085,994.31 | 15,094,339.62 | 1,987,991,654.69 |
| Corporate bonds | 18 Industrial F3 | 50.00 | 20/08/2018 | 3years | 20/08/2021 | 4.79% | - | 5,004,437,342.98 | 37,735,849.06 | 4,966,701,493.92 |
| Sub-total(Note 1) | | | | | | | 9,148,771,779.43 | 11,546,605,279.47 | 89,156,603.76 | 20,606,220,455.14 |
| | | | | | | | | | | |
| Subordinated bonds | 16 Industrial C1 | 30.00 | 19/07/2016 | 2+2years | 19/07/2020 | 3.49% | 2,998,713,852.45 | 1,286,147.55 | 3,000,000,000.00 | - |
| Subordinated bonds | 16 Industrial 02 | 30.00 | 26/09/2016 | 5years | 26/09/2021 | 3.68% | 2,989,232,611.13 | 2,891,915.96 | - | 2,992,124,527.09 |
| Subordinated bonds | 16 Industrial 03 | 50.00 | 20/10/2016 | 5years | 20/10/2021 | 3.48% | 4,981,809,423.28 | 4,860,614.96 | - | 4,986,670,038.24 |
| Subordinated bonds | 16 Industrial 04 | 20.00 | 16/11/2016 | 2years | 16/11/2018 | 3.39% | 1,995,961,676.89 | 4,038,323.11 | 2,000,000,000.00 | - |
| Subordinated bonds | 16 Industrial C5 | 30.00 | 26/12/2016 | 2years | 26/12/2018 | 5.26% | 2,997,080,554.15 | 2,919,445.85 | 3,000,000,000.00 | - |
| Subordinated bonds | 17 Industrial C1 | 25.00 | 22/02/2017 | 2years | 22/02/2019 | 4.80% | 2,497,228,650.82 | 2,463,545.80 | - | 2,499,692,196.62 |
| Subordinated bonds | 17 Industrial C2 | 40.00 | 21/03/2017 | 3years | 21/03/2020 | 5.00% | 3,994,346,979.58 | 2,641,128.41 | - | 3,996,988,107.99 |
| Subordinated bonds | 17 Industrial C3 | 50.00 | 14/04/2017 | 2years | 14/04/2019 | 4.90% | 4,993,816,490.05 | 4,872,229.01 | - | 4,998,688,719.06 |
| Subordinated bonds | 17 Industrial C4 | 30.00 | 25/04/2017 | 3years | 25/04/2020 | 5.15% | 2,995,580,544.84 | 1,941,617.07 | - | 2,997,522,161.91 |
| Subordinated bonds | 17 Industrial C7 | 28.00 | 24/08/2017 | 2years | 24/08/2019 | 5.15% | 2,789,183,094.86 | 6,923,772.57 | - | 2,796,106,867.43 |
| Subordinated bonds | 17 Industrial C8 | 20.00 | 15/09/2017 | 2years | 15/09/2019 | 5.10% | 1,992,308,441.46 | 4,154,151.39 | - | 1,996,462,592.85 |
| Sub-total(注 2) | | | | | | | 35,225,262,319.51 | 38,992,891.68 | 8,000,000,000.00 | 27,264,255,211.19 |
| | | | | | | | | | | |
| Income credential (Note 3) | | 6.31 | | | | | 2,156,562,750.69 | 41,014,520.53 | 1,566,575,794.51 | 631,001,476.71 |
| | | | | | | | | | | |
| Total | | | | | | | 46,530,596,849.63 | 11,626,612,691.68 | 9,655,732,398.27 | 48,501,477,143.04 |

Note 1: According to the "Reply of the Approval of Public Offering Corporate Bonds by Industrial Securities Co., Ltd." issued by China Securities Regulatory Commission ("CSRC") (Zheng Jian Approval [2014] No.91), the Company issued the following unsecured bonds:
(1) As at 13 March 2014, the Company issued the 13 Industrial 01 corporate bond with a total amount of RMB 1.5 billion and a duration of 5 years, which includes the issuer's option to increase the nominal interest rate for the following two years at the end of the third year and the investor's option to resell the bonds to the issuer;
(2) As at 13 March 2014, the Company issued the 13 Industrial 02 corporate bond with a total amount of RMB 1 billion and a duration of 7 years, which includes the issuer's option to increase the nominal interest rate for the following two years at the end of the fifth year and the investor's option to resell the bonds to the issuer;
(3) As at 23 October 2017, the Company issued the 17 Industrial F1 corporate bond with a total amount of RMB 3 billion and a duration of 2 years;
(4) As at 6 November 2017, the Company issued the 17 Industrial F2 corporate bond with a total amount of RMB 2.2 billion and a duration of 2 years;
(5) As at 22 November 2017, the Company issued the 17 Industrial F3 corporate bond with a total amount of RMB 1.5 billion and a duration of 3 years;
(6) As at 22 January 2018, the Company issued the 18 Industrial F1 corporate bond with a total amount of RMB 4.5 billion and a duration of 3 years;

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

28. Bonds payable - continued

Note 1: - continued

(7) As at 10 May 2018, the Company issued the 18 Industrial F2 corporate bond with a total amount of RMB 2 billion and a duration of 3 years;
(8) As at 20 August 2018, the Company issued the 18 Industrial F3 corporate bond with a total amount of RMB 5 billion and a duration of 3 years.

Note 2: According to the "Proposal Regarding the Issue of Subordinated Bonds by the Company" approved at the 2013 annual general meeting of Industrial Securities Co., Ltd on 28 May 2014, and the "Proposal on the Authorization to Issue Debt Financing Instruments" approved by voting at the 3rd Extraordinary General Meeting of Industrial Securities Co., Ltd in 2014 held on 23 December 2014, the Company issued the following unsecured subordinated bonds, which are a form of debt with a repayment schedule superior to that of the Company's equity but lower than that of the Company's general obligation debt. According to the regulatory requirements, the following subordinated bonds will be put on file in accordance with the securities regulatory authorities' requirements upon issuance.

(1) As at 19 July 2016, the Company issued the 16 Industrial C1 subordinated bond with a total amount of RMB 3 billion and a duration of 4 years, with the issuer's redemption option at the end of the 2nd year and coupon rate adjustment for the next 2 interest-bearing years if the redemption right was not exercised by the issuer , i.e. an increase of 300 basis points from the initial issue rate. The bond was already redeemed on 19 July 2018;
(2) As at 26 September 2016, the Company issued the 16 Industrial 02 subordinated bond with a total amount of RMB 3 billion and a duration of 5 years;
(3) As at 20 October 2016, the Company issued the 16 Industrial 03 subordinated bond with a total amount of RMB 5 billion and a duration of 5 years;
(4) As at 16 November 2016, the Company issued the 16 Industrial 04 subordinated bond with a total amount of RMB 2 billion and a duration of 2 years. The bond was already redeemed on 16 November 2018;
(5) As at 26 December 2016, the Company issued the 16 Industrial C5 subordinated bond with a total amount of RMB 3 billion and a duration of 2 years. The bond was already redeemed on 26 December 2018;
(6) As at 22 February 2016, the Company issued the 17 Industrial C1 subordinated bond with a total amount of RMB 2.5 billion and a duration of 2 years;
(7) As at 21 March 2017, the Company issued the 17 Industrial C2 subordinated bond with a total amount of RMB 4 billion and a duration of 3 years;
(8) As at 14 April 2017, the Company issued the 17 Industrial C3 subordinated bond with a total amount of RMB 5 billion and a duration of 2 years;
(9) As at 25 April 2017, the Company issued the 17 Industrial C4 subordinated bond with a total amount of RMB 3 billion and a duration of 3 years;
(10) As at 24 August 2017, the Company issued the 17 Industrial C7 subordinated bond with a total amount of RMB 2.8 billion and a duration of 2 years;
(11) As at 15 September 2017, the Company issued the 17 Industrial C8 subordinated bond with a total amount of RMB 2 billion and a duration of 2 years;

Note 3: It represents the income credential with maturities greater than one year issued by the Group through the Interagency Private Placement Quotation and Service System. The yield on the outstanding products is 5.28%.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

29. Long-term loans

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Credit loans | 2,961,556,000.00 | - |
| Total | 2,961,556,000.00 | - |

Note: As at 31 December 2018, all the Group's credit loans are bank borrowings.

30. Provisions

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Loss on compensation of Xintai Electric | - | 8,018,727.00 |
| Pending litigation | 4,461,811.81 | 4,461,811.81 |
| Total | 4,461,811.81 | 12,480,538.81 |

31. Other liabilities

| | | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Other payables | (1) | 336,608,010.22 | 263,073,113.07 |
| Interest payable | (2) | 1,360,582,586.02 | 1,236,851,395.85 |
| Dividends payable | | - | 144,550,000.00 |
| Funds from securities repayment agency business | | 649,838.96 | 649,838.96 |
| Futures risk reserve | (3) | 58,259,081.20 | 52,282,532.15 |
| Other financial liabilities | (4) | 1,204,782,989.84 | 1,464,406,245.89 |
| Others | | 901,472.87 | 39,453.87 |
| Total | | 2,961,783,979.11 | 3,161,852,579.79 |

(1) Other payables

| | | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Employee risk reserve | ① | 80,416,526.89 | 92,057,833.30 |
| Securities investor protection fund payable | ② | 19,627,248.96 | 53,444,495.77 |
| Futures investor protection funds payable | ③ | 540,819.48 | 473,716.56 |
| Sales payment or service fee payables | | 53,028,540.55 | 58,285,840.90 |
| Pledged warehouse receipts | | 89,486,624.00 | - |
| Others | | 93,508,250.34 | 58,811,226.54 |
| Total | | 336,608,010.22 | 263,073,113.07 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31. Other liabilities - continued

(1) Other payables - continued

① The risk reserve will be refunded in accordance with the Company's policies when relevant conditions are met.

② Securities investor protection fund represents the amount provided by the Company at certain percentage of the operating income in accordance with the Notice of the Implementation Measures for the Payment of Securities Investor Protection Funds by Securities Companies (for Trial Implementation) (Zheng Jian Fa [2007] No.50) and the Notice of the Issue and Implementation <Differentiated Supervision Guidance of Securities Companies> (for Trial Implementation) (Department Letter [2007] No.268) issued by CSRC. In 2018 and 2017, the proportion are 1% and 1.5 % respectively.

③ According to the Decision of the China Securities Regulatory Commission on Revision of Provisions on Matters Concerning the Payment of Futures Investor Protection Funds by Futures Exchanges and Futures Companies Announcement ([2016] No.27), Industrial Securities Futures Co., Ltd. (the Company's subsidiary) provides for futures investor protection funds at 0.00006‰ of the agency turnover since 8 December 2016 (Prior to 8 December 2016: 0.0006‰).

The details of payables to shareholders holding over 5% (inclusive) voting rights of the Company included in other payables are as follows:

| Name | Shareholding ratio | Relationship with the Company | Amount | Ratio |
|---|---|---|---|---|
| | % | | RMB | % |
| | | | | |
| Fujian Investment & Development Group Co., Ltd. | 7.98 | Shareholders of the Company | 1,000,000.00 | 0.30 |

(2) Interest payable

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Interest of financial assets sold under repurchase agreements | 44,779,829.62 | 41,203,708.06 |
| Interest of customer funds deposit | 1,131,508.51 | 1,630,862.01 |
| Interest of borrowings | 20,350,647.26 | 10,830,627.09 |
| Interest of placements from banks and other financial institutions | 985,897.86 | 14,926,415.58 |
| Including: Interest of margin refinancing | 985,897.86 | 14,926,415.58 |
| Interest of short-term financing | 7,935,302.99 | 241,460,732.67 |
| Interest of bonds | 1,275,758,858.49 | 926,097,651.33 |
| Other interest | 9,640,541.29 | 701,399.11 |
| Total | 1,360,582,586.02 | 1,236,851,395.85 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

31. Other liabilities - continued

(3) Futures risk reserve is provided at 5% of the revenue from agency commission of Industrial Securities Futures Co., Ltd. (the Company's subsidiary) after deducting futures exchange commission.

(4) Other financial liabilities represent the portion of the net assets of the limited partnership funds included in the scope of consolidation that are attributable to holders other than the Group.

32. Share capital

2018

| | | Changes for the year | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 January 2018 | New shares issued | Stock dividend | Reserve converted into capital | Stock conversion | Sub-total | 31 December 2018 |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | | |
| I. Restricted shares | | | | | | | |
| 1.State-owned shares | - | - | - | - | - | - | - |
| 2.Shares held by state-owned legal-person | - | - | - | - | - | - | - |
| 3.Other domestic shareholding | - | - | - | - | - | - | - |
| 4.Foreign shareholding | - | - | - | - | - | - | - |
| Total restricted shares | - | - | - | - | - | - | - |
| | | | | | | | |
| II. Unrestricted shares | | | | | | | |
| 1. RMB ordinary shares | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |
| 2.Foreign shares listed in China | - | - | - | - | - | - | - |
| 3.Foreign shares listed abroad | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - |
| Total unrestricted shares | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |
| | | | | | | | |
| III.Total number of shares | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |

2017

| | | Changes for the year | | | | | |
|---|---|---|---|---|---|---|---|
| | 1 January 2017 | New shares issued | Stock dividend | Reserve converted into capital | Stock conversion | Sub-total | 31 December 2017 |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | | |
| I. Restricted shares | | | | | | | |
| 1.State-owned shares | - | - | - | - | - | - | - |
| 2.Shares held by state-owned legal-person | - | - | - | - | - | - | - |
| 3.Other domestic shareholding | - | - | - | - | - | - | - |
| 4.Foreign shareholding | - | - | - | - | - | - | - |
| Total restricted shares | - | - | - | - | - | - | - |
| | | | | | | | |
| II. Unrestricted shares | | | | | | | |
| 1. RMB ordinary shares | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |
| 2.Foreign shares listed in China | - | - | - | - | - | - | - |
| 3.Foreign shares listed abroad | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - |
| Total unrestricted shares | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |
| | | | | | | | |
| III.Total number of shares | 6,696,671,674.00 | - | - | - | - | - | 6,696,671,674.00 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

33. Capital reserve

2018

| | 1 January 2018 | Increase | Decrease | 31 December 2018 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| Share premium | 14,230,750,042.07 | - | - | 14,230,750,042.07 |
| Others(Note 1) | 139,498,536.60 | 4,644,215.25 | 2,203,764.66 | 141,938,987.19 |
| Total | 14,370,248,578.67 | 4,644,215.25 | 2,203,764.66 | 14,372,689,029.26 |

2017

| | 1 January 2017 | Increase | Decrease | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| Share premium | 14,330,815,419.91 | - | 100,065,377.84 | 14,230,750,042.07 |
| Others | 139,668,521.84 | - | 169,985.24 | 139,498,536.60 |
| Total | 14,470,483,941.75 | - | 100,235,363.08 | 14,370,248,578.67 |

Note 1: Increase in other capital reserve for the year was mainly due to changes in the Group's share of long-term equity investment accounted for using equity method. Decrease in other capital reserve was mainly due to the Group's purchase of minority interests in its subsidiaries, of which the details are set out in Note IX.2.

34. Other comprehensive income

| | 1 January 2018 | Changes for the year | | | | | 31 December 2018 |
|---|---|---|---|---|---|---|---|
| | | Amount incurred before tax | Less: Income tax expenses | Less: Reclassified from other comprehensive income into profit or loss | Attributable to owners of the Company after tax | Attributable to non-controlling shareholders after tax | |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | | |
| Other comprehensive income that will be subsequently reclassified into profit or loss: | | | | | | | |
| Profit or loss of changes in fair value of available-for-sale financial assets | 191,461,919.97 | (180,877,421.99) | (11,549,922.25) | 35,889,976.65 | (156,038,295.70) | (49,179,180.69) | 35,423,624.27 |
| Other comprehensive income that will be reclassified to profit or loss under the equity method | - | 120,172.50 | - | - | 118,907.53 | 1,264.97 | 118,907.53 |
| Exchange differences on translation of financial statements denominated in foreign currencies | (4,525,259.44) | 181,009,590.22 | - | - | 99,192,421.40 | 81,817,168.82 | 94,667,161.96 |
| Total | 186,936,660.53 | 252,340.73 | (11,549,922.25) | 35,889,976.65 | (56,726,966.77) | 32,639,253.10 | 130,209,693.76 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

34. Other comprehensive income - continued

| | 1 January 2017 | Changes for the year | | | | | 31 December 2017 |
|---|---|---|---|---|---|---|---|
| | | Amount incurred before tax | Less: Income tax expenses | Less: Reclassified from other comprehensive income into profit or loss | Attributable to owners of the Company after tax | Attributable to non-controlling shareholders after tax | |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | | |
| Other comprehensive income that will be subsequently reclassified into profit or loss: | | | | | | | |
| Profit or loss of changes in fair value of available-for-sale financial assets | 56,842,820.27 | 324,561,472.94 | 57,124,240.73 | 106,488,672.58 | 134,619,099.70 | 26,329,459.93 | 191,461,919.97 |
| Exchange differences on translation of financial statements denominated in foreign currencies | 128,628,542.28 | (257,381,763.33) | - | - | (133,153,801.72) | (124,227,961.61) | (4,525,259.44) |
| Total | 185,471,362.55 | 67,179,709.61 | 57,124,240.73 | 106,488,672.58 | 1,465,297.98 | (97,898,501.68) | 186,936,660.53 |

35. Surplus reserve

2018

| | 1 January 2018 | Increase | Decrease | 31 December 2018 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| Statutory surplus reserve | 1,455,602,068.64 | 104,392,752.54 | - | 1,559,994,821.18 |
| Total | 1,455,602,068.64 | 104,392,752.54 | - | 1,559,994,821.18 |

2017

| | 1 January 2017 | Increase | Decrease | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| Statutory surplus reserve | 1,261,333,033.36 | 194,269,035.28 | - | 1,455,602,068.64 |
| Total | 1,261,333,033.36 | 194,269,035.28 | - | 1,455,602,068.64 |

Statutory surplus reserve is appropriated at 10% of the Company's net profit for the year. Statutory surplus reserve can be used to offset the Company's losses and to expand the Company's production and operation or to increase the Company's capital.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

36. General risk reserve

2018

| | 1 January 2018 | Increase | Decrease | 31 December 2018 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| General risk reserve | 1,356,018,925.47 | 104,392,752.54 | - | 1,460,411,678.01 |
| Total | 1,356,018,925.47 | 104,392,752.54 | - | 1,460,411,678.01 |

2017

| | 1 January 2017 | Increase | Decrease | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| General risk reserve | 1,161,749,890.19 | 194,269,035.28 | - | 1,356,018,925.47 |
| Total | 1,161,749,890.19 | 194,269,035.28 | - | 1,356,018,925.47 |

According to the requirements of "Financial Rules for Financial Enterprises", general risk reserve is appropriated at 10% of the Company's net profit for the year.

37. Transaction risk reserve

2018

| | 1 January 2018 | Increase | Decrease | 31 December 2018 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| Transaction risk reserve | 1,336,419,322.41 | 104,392,752.54 | - | 1,440,812,074.95 |
| Total | 1,336,419,322.41 | 104,392,752.54 | - | 1,440,812,074.95 |

2017

| | 1 January 2017 | Increase | Decrease | 31 December 2017 |
|---|---|---|---|---|
| | RMB | RMB | RMB | RMB |
| | | | | |
| Transaction risk reserve | 1,142,150,287.13 | 194,269,035.28 | - | 1,336,419,322.41 |
| Total | 1,142,150,287.13 | 194,269,035.28 | - | 1,336,419,322.41 |

Based on the Securities Law, transaction risk reserve is appropriated at 10% of the net profit of the Company for the year.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

38. Retained earnings

| | | 2018 | 2017 |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Retained earnings at the beginning of the year | | 8,026,990,360.95 | 7,319,202,054.65 |
| Add: Net profit attributable to shareholders of the Company | | 135,348,071.20 | 2,284,896,126.79 |
| Less: Appropriation to statutory surplus reserve | (1) | 104,392,752.54 | 194,269,035.28 |
| Appropriation to general reserve | (1) | 104,392,752.54 | 194,269,035.28 |
| Appropriation to transaction risk reserve | (1) | 104,392,752.54 | 194,269,035.28 |
| Cash dividends for ordinary shares | (2) | 1,004,500,751.10 | 994,300,714.65 |
| Retained earnings at the end of the year | (3) | 6,844,659,423.43 | 8,026,990,360.95 |

(1) In accordance with the Company Law, the Financial Rules for Financial Enterprises, the Securities Law and the Company's Articles of Association, the Company's net profit after tax, after making up for the unrecognized losses of previous years, shall be appropriated to statutory surplus, general risk reserve and transaction risk reserve at 10%, respectively, and the remaining profit available for distribution to shareholders shall be implemented after the Board of Directors proposes a profit distribution proposal for approval at the general meeting of shareholders. The general risk reserve is used to cover possible losses not yet identified; the transaction risk reserve is used to cover losses on securities transactions; and the surplus reserve is used to cover losses, expand the Company's production and operation or increase capital. When the statutory surplus reserve is converted to share capital, the amount of such reserve retained shall not be less than 25% of the registered capital of the Company before the conversion.

(2) As approved by the general meeting of shareholders on 28 June 2018, the Company paid a total cash dividend of RMB1,004,500,751.10 based on the number of issued shares of the Company of 6,696,671,674 shares (ultimately based on the total share capital at the time of implementation of the profit distribution for 2017 and the distribution was completed on 22 August 2018).

(3) As at 31 December 2018, the balance of the Group's unappropriated profit included surplus reserves of RMB279,615,386.75, general risk reserve of RMB497,705,977.56 and transaction risk reserve of RMB107,565,490.55, which were attributed to the Company from subsidiaries (as at 31 December 2017, the balance of the Group's unappropriated profit included surplus reserves of RMB247,065,648.77, general risk reserve of RMB475,781,203.77, general risk reserve of RMB475,781,203.55, and transaction risk reserve of RMB107,565,490.55, which were attributed to the Company from subsidiaries).

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 39. Fee and commission income, net

| | | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Fee and commission income | | 5,236,177,946.69 | 5,355,520,815.36 |
| | | | |
| Brokerage business | | 1,677,628,791.67 | 1,844,157,406.36 |
| Including: Security brokerage | | 1,533,211,525.46 | 1,680,796,223.82 |
| Including: Agency trading of securities | | 939,634,081.15 | 1,120,128,159.79 |
| Lease of trading unit seat | | 453,665,953.26 | 447,214,962.74 |
| Agency sale of financial products | (1) | 139,911,491.05 | 113,453,101.29 |
| Futures brokerage | | 144,417,266.21 | 163,361,182.54 |
| Investment bank | | 883,391,545.87 | 1,261,326,277.76 |
| Including: Securities underwriting | | 711,026,748.63 | 993,172,923.70 |
| Securities sponsor | | 27,800,504.50 | 60,668,005.54 |
| Financial advisory | (2) | 144,564,292.74 | 207,485,348.52 |
| Investment consulting | | 41,333,956.70 | 35,081,058.16 |
| Asset management | (3) | 291,131,181.94 | 415,544,776.26 |
| Fund management | | 2,220,571,318.50 | 1,624,416,349.20 |
| Others | | 122,121,152.01 | 174,994,947.62 |
| | | | |
| Fee and commission expenses | | 913,868,624.20 | 813,420,456.73 |
| | | | |
| Brokerage business | | 328,392,611.46 | 341,025,190.84 |
| Including: Securities brokerage | | 322,317,221.72 | 335,449,860.47 |
| Including: Agency trading of securities | | 320,939,149.28 | 333,162,923.98 |
| Agency sale of financial products | | 1,378,072.44 | 2,286,936.49 |
| Futures brokerage | | 6,075,389.74 | 5,575,330.37 |
| Investment bank expenses | | 47,625,366.07 | 105,940,879.24 |
| Including: Securities underwriting | | 24,887,915.03 | 71,278,989.05 |
| Securities sponsor | | 16,308,936.95 | 21,627,992.28 |
| Financial advisory | (2) | 6,428,514.09 | 13,033,897.91 |
| Investment consulting services | | 863,082.55 | 3,389,401.89 |
| Asset management | (3) | 5,443,919.50 | 458,107.44 |
| Fund management | | 518,080,015.52 | 326,506,275.22 |
| Others | | 13,463,629.10 | 36,100,602.10 |
| | | | |
| Fee and commission income, net | | 4,322,309,322.49 | 4,542,100,358.63 |

(1) Breakdown of income from agency sale of financial products:

| | Amounts incurred in 2018 | | Amounts incurred in 2017 | |
|---|---|---|---|---|
| | Total sales volume | Total sales revenue | Total sales volume | Total sales revenue |
| | RMB | RMB | RMB | RMB |
| | | | | |
| Funds and segregated accounts | 10,137,427,355.91 | 48,571,585.09 | 8,278,604,001.19 | 29,573,091.50 |
| Others | 2,758,531,056.28 | 91,339,905.96 | 4,527,244,416.91 | 83,880,009.79 |
| Total | 12,895,958,412.19 | 139,911,491.05 | 12,805,848,418.10 | 113,453,101.29 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

39. Fee and commission income, net - continued

(2) Breakdown of net income from financial advisory:

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Net income from M&A restructuring financial advisory-domestic listed company | 12,651,212.10 | 22,469,581.51 |
| Other net income from financial advisory | 125,484,566.55 | 171,981,869.10 |
| Total | 138,135,778.65 | 194,451,450.61 |

(3) Details of asset management businesses and relevant net fee income:

| | Amounts incurred in 2018 | | |
|---|---|---|---|
| | Collective asset management | Client-specific asset management | Special asset management |
| | RMB | RMB | RMB |
| | | | |
| The number of products at the end of the year | 175 | 130 | 21 |
| The number of clients at the end of the year | 115,046 | 130 | 251 |
| Including: Individual | 114,664 | 38 | 13 |
| Institution | 382 | 92 | 238 |
| Funds entrusted at the beginning of the year | 40,428,240,203.67 | 55,170,831,978.29 | 10,241,857,526.16 |
| Including: Investment with self-owned funds | 827,140,286.47 | - | - |
| Individual | 21,246,793,804.00 | 2,756,209,591.42 | 123,948,026.16 |
| Institution | 18,354,306,113.20 | 52,414,622,386.87 | 10,117,909,500.00 |
| Funds entrusted at the end of the year | 45,783,915,467.94 | 33,517,066,058.42 | 18,719,838,363.56 |
| Including: Investment with self-owned funds | 1,865,644,832.34 | - | - |
| Individual | 29,204,956,371.46 | 1,487,266,528.43 | 109,985,063.56 |
| Institution | 14,713,314,264.14 | 32,029,799,529.99 | 18,609,853,300.00 |
| Initial cost of major assets entrusted at the end of the year (Note 1) | 44,285,785,556.25 | 25,735,039,052.12 | 18,786,222,510.58 |
| Including: Stock | 8,430,962,142.28 | 9,993,128,273.72 | 21,236,464.25 |
| Fund | 2,163,793,667.02 | 234,802,525.62 | - |
| Bond | 28,887,020,035.43 | 5,488,730,082.68 | 888,659.56 |
| Financial assets held under resale agreements | 2,271,547,506.00 | 5,772,792,000.00 | - |
| Financial assets sold under repurchase agreements | (1,467,477,443.84) | (619,090,000.00) | - |
| Negotiated deposits | 931,000,000.00 | - | - |
| Asset-backed securities | 204,927,797.26 | 329,058,000.00 | 18,676,300,037.36 |
| Futures | 8,629,766.55 | - | - |
| Notes | 1,413,513,335.05 | 678,276,588.64 | - |
| Entrusted loans | - | 3,820,000,000.00 | - |
| Asset management schemes | 907,612,508.35 | 37,341,581.46 | - |
| Equity | 534,256,242.15 | - | 87,797,349.41 |
| Asset management income, net (Note 2) | 221,381,964.80 | 45,087,433.09 | 19,217,864.55 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

39. Fee and commission income, net - continued

(3) Details of asset management businesses and relevant net fee income: - continued

Note 1: The above mentioned initial costs of major assets entrusted at the end of the year are presented at the net amount of the Group's entrusted assets offsetting the consolidated products at the Group level.
Note 2: It is presented on a net basis after offsetting the income from consolidated products at the Group level.

40. Net interest income

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Interest income | 3,723,665,217.33 | 3,703,023,384.59 |
| Including: Interest income from deposits in other financial institutions | 822,401,809.57 | 835,223,728.68 |
| Including: Interest income from self-owned funds | 209,167,097.47 | 189,620,486.37 |
| Interest income from customer deposits | 613,234,712.10 | 645,603,242.31 |
| Interest income from margin financing and securities lending business | 1,426,956,584.81 | 1,245,319,551.43 |
| Interest income from purchases under resale agreement | 1,466,239,691.22 | 1,614,532,941.69 |
| Including: Interest income from agreed-upon repurchase of securities | 3,885,979.20 | 1,245,913.25 |
| Interest income from equity securities held under resale agreements | 1,443,740,395.26 | 1,572,671,664.82 |
| Others | 8,067,131.73 | 7,947,162.79 |
| | | |
| Interest expenses | 4,057,409,770.03 | 3,284,160,947.08 |
| Including: Interest expenses on customer deposits | 63,497,734.87 | 68,557,596.98 |
| Interest expenses on repurchase | 808,848,062.47 | 567,686,388.76 |
| Including: Interest expenses on bond-pledge quoted repurchase | 800,738.07 | 1,533,434.50 |
| Interest expenses on borrowings | 285,562,225.70 | 128,480,864.23 |
| Interest expenses on placements from banks and financial institutions | 50,040,470.96 | 43,488,622.08 |
| Including: Interest expenses on margin refinancing | 38,289,995.66 | 38,264,233.22 |
| Interest expenses on short-term financing payables | 269,724,118.78 | 720,828,894.08 |
| Interest expenses on bonds | 2,565,556,393.38 | 1,732,611,685.80 |
| Others | 14,180,763.87 | 22,506,895.15 |
| | | |
| Net interest income | (333,744,552.70) | 418,862,437.51 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

41. Investment income

(1) Breakdown of investment income

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Long-term equity investment income accounted for using the equity method | 85,634,636.20 | 13,527,496.12 |
| Dividends and interest acquired for holding the financial instruments | 3,329,515,331.17 | 2,576,065,818.34 |
| Including: Financial assets at FVTPL | 1,892,934,251.17 | 1,651,895,911.67 |
| Available-for-sale financial assets | 1,439,515,037.07 | 949,051,547.98 |
| Derivative financial instruments | 1,582,343.15 | - |
| Financial liabilities at fair value through profit or loss | (4,516,300.22) | (24,881,641.31) |
| Disposal gains/(losses) | (259,515,588.61) | 1,002,265,914.26 |
| Including: Financial assets at FVTPL | (757,287,364.57) | 921,298,542.71 |
| Available-for-sale financial assets | 443,702,868.08 | 146,459,430.50 |
| Derivative financial instruments | 98,167,044.16 | (73,943,777.14) |
| Financial liabilities at fair value through profit or loss | (44,098,136.28) | 8,451,718.19 |
| Others | (295,553,642.44) | (1,503,801.18) |
| Total | 2,860,080,736.32 | 3,590,355,427.54 |

(2) Investment income in associates and joint ventures

| Investee | Amounts incurred in 2018 | Amounts incurred in 2017 | Reason for the change |
|---|---|---|---|
| | RMB | RMB | |
| | | | |
| Straits Equity Exchange Center (Fujian) Co., Ltd. | (3,168,768.33) | 1,283,771.82 | Operating loss |
| Fujian Funeng Industrial Equity Investment Management Co., Ltd. | 3,930,167.60 | 3,932,884.29 | Operating profit |
| Fujian Pientzehuang Medical Device Technology Co., Ltd. | (250,870.25) | (619,785.19) | Operating loss |
| Beijing Increase Pharmaceutical Co., Ltd. | 3,873,282.82 | 8,759,635.30 | Operating profit |
| Ningbo Xingfu Zhiyuan Equity Investment Partnership (Limited Partnership) | 82,049,653.13 | (1,346.67) | Operating profit |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (Limited Partnership) | 407,835.49 | 160,404.15 | Operating profit |
| Pingtan Industrial Securities Saifu I Equity Investment Partnership (Limited Partnership) | 103,090.00 | 42,801.61 | Operating profit |
| Zhuhai Industrial Securities Liuhe Qihang Equity Investment Partnership (Limited Partnership) | (56,134.31) | (30,869.19) | Operating loss |
| Pingtan Industrial Securities Chuangpai Culture Investment Partnership (Limited Partnership) | (0.40) | - | Operating loss |
| Fujian Bailout No.1 Equity Investment Partnership(L.P.) | (811,364.60) | - | Operating loss |
| CIS New China Ever- Growing Fund SP | (442,254.95) | - | Operating loss |

(3) There is no significant restriction on the remittance of investment income.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

42. Gains /(Losses) from changes in fair values

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Financial assets at FVTPL | (1,194,794,172.79) | 169,256,669.86 |
| Derivative financial assets/liabilities | 12,553,158.80 | 40,507,244.36 |
| Financial liabilities at fair value through profit or loss | 110,942,470.74 | (47,319,547.50) |
| Total | (1,071,298,543.25) | 162,444,366.72 |

43. Other operating income

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Lease income | 17,757,662.57 | 14,084,047.53 |
| Property management income | 2,395,563.33 | 640,867.36 |
| Commodity trading income | 492,806,036.09 | - |
| Others | 880,217.46 | 5,995,971.00 |
| Total | 513,839,479.45 | 20,720,885.89 |

44. Other income

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Government grants related to the ordinary course of business (Note) | 190,885,500.44 | - |
| Refund of charges on withholding individual income tax | 10,854,054.36 | 18,562,765.87 |
| Total | 201,739,554.80 | 18,562,765.87 |

Note: The above government grants are related to income, which are all included in non-recurring profit or loss.

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

45. Taxes and levies

| Category of tax | Amounts incurred in 2018 | Amounts incurred in 2017 | Basis of calculation |
|---|---|---|---|
| | RMB | RMB | |
| | | | |
| City maintenance and construction tax | 31,725,417.33 | 35,244,764.49 | 5%，7% |
| Educational surcharge | 21,646,299.70 | 25,200,841.24 | 4.5%，5% |
| Other local surcharges | 8,499,706.97 | 6,899,249.61 | |
| Total | 61,871,424.00 | 67,344,855.34 | |

46. General and administrative expenses

Items of general and administrative expenses are presented as follows:

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Wages or salaries, bonuses, allowances and subsidies | 2,653,903,539.19 | 3,408,009,491.66 |
| Social security contributions | 328,868,130.80 | 431,150,690.76 |
| Lease payments | 263,982,289.61 | 234,885,000.42 |
| Depreciation and amortization | 146,886,398.70 | 129,932,982.06 |
| Business entertainment expenses | 116,421,712.39 | 99,604,520.23 |
| Consulting fees | 112,460,952.66 | 79,474,552.54 |
| Housing funds | 102,260,745.68 | 87,009,084.89 |
| Office expenses | 92,100,952.40 | 93,100,915.29 |
| Travel expenses | 91,384,391.67 | 82,797,291.00 |
| Asset management and marketing expenses | 78,486,868.72 | 71,576,967.75 |
| Others | 581,638,071.26 | 531,783,745.31 |
| Total | 4,568,394,053.08 | 5,249,325,241.91 |

47. Impairment losses of assets

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Impairment loss of receivables | 2,491,166.50 | 5,256,712.21 |
| Impairment loss of available-for-sale financial assets | 78,041,241.38 | 2,715,040.31 |
| Impairment loss on financial assets held under resale agreements | 596,308,162.70 | 75,812,302.69 |
| Impairment loss on margin accounts | 10,846,071.19 | 251,845,109.58 |
| Others | 2,026,385.51 | 2,554.86 |
| Total | 689,713,027.28 | 335,631,719.65 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

48. Other operating costs

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Costs for lease-out of properties | 12,016,640.36 | 10,387,472.55 |
| Property management costs | 3,133,302.70 | 2,769,467.69 |
| Commodity trading costs | 497,838,466.68 | - |
| Others | 316,866.20 | 4,843,875.49 |
| Total | 513,305,275.94 | 18,000,815.73 |

49. Non-operating income

| | Amounts incurred in 2018 | Amounts incurred in 2017 | Amounts recognized in non-recurring profit or loss for 2018 |
|---|---|---|---|
| | RMB | RMB | RMB |
| | | | |
| Government grants (Note) | - | 192,300,566.66 | - |
| Others | 9,041,037.10 | 2,022,837.89 | 9,041,037.10 |
| Total | 9,041,037.10 | 194,323,404.55 | 9,041,037.10 |

Note: The above government grants are related to income, which are all included in non-recurring profit or loss.

50. Non-operating expenses

| | Amounts incurred in 2018 | Amounts incurred in 2017 | Amounts recognized in non-recurring profit or loss for 2018 |
|---|---|---|---|
| | RMB | RMB | RMB |
| | | | |
| Donation expenditure | 17,271,919.00 | 39,509,196.89 | 17,271,919.00 |
| Losses from disposal of non-current assets | 82,852.82 | 6,351,388.29 | 82,852.82 |
| Including: Losses from disposal of fixed assets | 82,852.82 | 6,351,388.29 | 82,852.82 |
| Fine expenditure | 1,001,100.00 | 271,625.21 | 1,001,100.00 |
| Liquidated damage and compensation | 3,030,352.48 | 5,164,653.25 | 3,030,352.48 |
| Others | 475,397.00 | 4,745,524.85 | 475,397.00 |
| Total | 21,861,621.30 | 56,042,388.49 | 21,861,621.30 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

51. Income tax expenses

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Current income tax expenses | 595,830,342.47 | 745,225,100.05 |
| Deferred income tax expenses | (517,954,894.25) | (91,900,739.83) |
| Total | 77,875,448.22 | 653,324,360.22 |

Reconciliation of income tax expenses to accounting profit is as follows:

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Accounting profit | 653,269,072.64 | 3,288,366,993.57 |
| Income tax expenses accounted at 25% | 163,317,268.15 | 822,091,748.38 |
| Effect of non-deductible expenses | 38,103,910.26 | 35,738,815.05 |
| Tax effect of non-taxable income | (121,365,491.40) | (196,917,597.14) |
| Effect of unrecognized/(unutilized) deductible losses | 17,961,742.41 | 4,582,936.78 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (20,141,981.20) | (12,171,542.85) |
| Total | 77,875,448.22 | 653,324,360.22 |

52. Earnings per share

(1) In calculating basic earnings per share, net profit for the year attributable to shareholders of ordinary shares is as follows:

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Net profit for the year attributable to shareholders of ordinary shares | 135,348,071.20 | 2,284,896,126.79 |

(2) In calculating basic earnings per share, the weighted average number of outstanding ordinary shares is as follows:

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | Number of shares | Number of shares |
| | | |
| Weighted average number of ordinary shares outstanding at the end of year | 6,696,671,674.00 | 6,651,338,178.67 |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

52. Earnings per share - continued

(3) Earnings per share

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| Calculated based on net profit attributable to shareholders of the Company: | | |
| | | |
| Basic and diluted earnings per share | 0.02 | 0.34 |

The Company does not have any dilutive potential ordinary shares.

53. Notes to items in the cash flow statement

(1) Proceeds from other operating activities

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Government grants | 192,998,052.96 | 192,300,566.66 |
| Other cash receipts from operating activities | 582,444,607.91 | 23,054,538.29 |
| Others | 203,290,390.18 | 48,337,251.69 |
| Total | 978,733,051.05 | 263,692,356.64 |

(2) Other cash payments relating to operating activities

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Other payments for general and administrative expenses | 1,160,908,136.68 | 1,090,661,927.01 |
| Payment of cash with restriction | 396,277,279.48 | 107,355,654.41 |
| Cash payments for non-operating expenses | 19,902,352.92 | 283,662,316.88 |
| Net payments of refundable deposits | 59,525,012.25 | 117,447,510.42 |
| Principal and deposit of equity swap | 31,000,000.00 | - |
| Other operating payments | 707,812,396.54 | - |
| Others | 177,474,050.22 | 298,942,086.11 |
| Total | 2,552,899,228.09 | 1,898,069,494.83 |

## VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

### 54. Supplementary information to the cash flow statement

#### (1) Supplementary information to the cash flow statement

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| (1)Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 575,393,624.42 | 2,635,042,633.35 |
| Add: Impairment losses of assets | 689,713,027.28 | 335,631,719.65 |
| Depreciation of fixed assets | 69,401,482.88 | 64,267,958.40 |
| Depreciation of investment property | 12,016,640.36 | 8,873,039.40 |
| Amortization of intangible assets | 50,615,414.20 | 39,090,667.99 |
| Amortization of long-term prepaid expenses | 54,129,460.25 | 41,806,054.03 |
| Loss(Less: Gain) on disposal of fixed assets, intangible asset and other long-term assets | (442,106.98) | 1,274,371.68 |
| Loss(Less: Gain) on retirement of fixed assets | 82,852.82 | 6,351,388.29 |
| Losses (Less: Gain)on fair value changes | 1,071,298,543.25 | (162,444,366.72) |
| Interest expenses | 3,120,842,737.86 | 2,581,921,444.11 |
| Exchange loss (less: gain) | (6,005,333.05) | (68,616,739.66) |
| Investment loss (less: gain) | (510,565,358.71) | 5,206,144.05 |
| Decrease in deferred tax assets (less: increase) | (501,986,285.86) | (75,107,320.88) |
| Increase in deferred tax liabilities (less: decrease) | (15,968,608.39) | (16,793,418.95) |
| Decrease in financial assets at FVTPL (less: increase) | (53,595,533.00) | (4,291,872,939.78) |
| Increase in financial liabilities at fair value through profit or loss (less: decrease) | 153,686,631.41 | (1,865,168,196.41) |
| Decrease in available-for-sale financial assets (less: increase) | (7,677,994,460.34) | (5,285,124,097.96) |
| Decrease in receivables from operating activities (less: increase) | 10,991,305,762.53 | (15,876,898,935.44) |
| Increase in payables from operating activities (less: decrease) | 9,585,107,627.71 | 377,089,727.30 |
| Net Cash Flow from Operating Activities | 17,607,036,118.64 | (21,545,470,867.55) |
| | | |
| (2)Net changes in cash and cash equivalents: | | |
| Closing balance of cash | 32,286,006,031.06 | 26,688,812,174.03 |
| Less: Opening balance of cash | 26,688,812,174.03 | 36,006,957,248.65 |
| Add: Closing balance of cash equivalents | - | - |
| Less: Opening balance of cash equivalents | - | - |
| Net increase (decrease) in cash and cash equivalents | 5,597,193,857.03 | (9,318,145,074.62) |

VII. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS - continued

57. Supplementary information to the cash flow statement - continued

(2) Composition of cash and cash equivalents:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Cash | | |
| Cash and bank balances | 27,313,400,415.02 | 22,840,686,709.39 |
| Clearing settlement funds | 6,027,321,671.10 | 4,506,562,332.45 |
| Less: Restricted cash and bank balances | 1,054,716,055.06 | 658,436,867.81 |
| | | |
| Cash equivalents | - | - |
| Balance of cash and cash equivalents | 32,286,006,031.06 | 26,688,812,174.03 |

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS

1. Long-term equity investments

(1) Details of long-term equity investments are as follows:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Subsidiaries | 5,642,686,417.30 | 4,956,439,304.36 |
| Associates | 42,705,981.57 | 45,874,749.90 |
| Total | 5,685,392,398.87 | 5,002,314,054.26 |
| Less: Provision for Impairment | - | - |
| Long-term equity investments, net | 5,685,392,398.87 | 5,002,314,054.26 |

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

1. Long-term equity investments – continued

(2) Details of long-term equity investments are as follows:

| Investee | Accounting method | Investment cost | Opening balance | Increase | Decrease | Adjustment to profit or loss | Closing balance | Proportion of ownership interests at the end of the year | Proportion of voting power at the end of the year | Impairment provision | Cash dividends for the year |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | RMB | RMB | RMB | RMB | RMB | RMB | % | % | RMB | RMB |
| | | | | | | | | | | | |
| AEGON-Industrial Fund Management Co.,Ltd. | Cost method | 62,428,839.73 | 62,428,839.73 | - | - | - | 62,428,839.73 | 51.00 | 51.00 | - | - |
| Industrial Securities Futures Co., Ltd.(Note 1) | Cost method | 1,211,411,012.94 | 525,163,900.00 | 686,247,112.94 | - | - | 1,211,411,012.94 | 99.55 | 99.55 | - | 354,701,150.48 |
| China Industrial Securities Capital Management Co., Ltd. | Cost method | 700,000,000.00 | 700,000,000.00 | - | - | - | 700,000,000.00 | 100.00 | 100.00 | - | 93,000,000.00 |
| Industrial Securities (Hong Kong) Financial Holdings Limited | Cost method | 1,667,754,200.00 | 1,667,754,200.00 | - | - | - | 1,667,754,200.00 | 100.00 | 100.00 | - | - |
| Fuzhou Industrial Securities Property Management Co., Ltd. | Cost method | 500,000.00 | 500,000.00 | - | - | - | 500,000.00 | 100.00 | 100.00 | - | - |
| INDUSTRIAL ASSETS MANAGEMENT CO.,LTD | Cost method | 500,000,000.00 | 500,000,000.00 | - | - | - | 500,000,000.00 | 100.00 | 100.00 | - | 715,000,000.00 |
| Industrial Securities Investment Management Co., Ltd. | Cost method | 1,500,000,000.00 | 1,500,000,000.00 | - | - | - | 1,500,000,000.00 | 100.00 | 100.00 | - | - |
| Shanghai Industrial Securities Management Consulting Co., Ltd. | Cost method | 592,364.63 | 592,364.63 | - | - | - | 592,364.63 | 100.00 | 100.00 | - | - |
| Straits Equity Exchange Center (Fujian) Co., Ltd. | Equity method | 45,355,000.00 | 45,874,749.90 | - | - | (3,168,768.33) | 42,705,981.57 | 21.43 | 21.43 | - | - |
| Total | | 5,688,041,417.30 | 5,002,314,054.26 | 686,247,112.94 | - | (3,168,768.33) | 5,685,392,398.87 | | | | |
| Less: Provision for Impairment | | | - | - | - | - | - | | | | |
| Long-term equity investments 净额 | | | 5,002,314,054.26 | 686,247,112.94 | - | (3,168,768.33) | 5,685,392,398.87 | | | | |

Note 1: The increase of RMB 686,247,112.94 in long-term equity investment in Industrial Securities Futures Co., Ltd. accounted for under the cost method in 2018 was due to the Company's capital injection of RMB 663,998,512.94 and the acquisition of equity interest of RMB22,248,600.00 from the former shareholder.

(3) As at 31 December 2018, the investee is not restricted from capital transfer to the Company.

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

2. Fee and commission income, net

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Fee and commission income | 2,262,435,393.60 | 2,897,611,187.91 |
| | | |
| Brokerage business | 1,446,592,346.57 | 1,610,796,180.00 |
| Including: Security brokerage | 1,446,592,346.57 | 1,610,796,180.00 |
| Including: Agency trading of securities | 805,256,542.23 | 999,954,369.73 |
| Lease of trading unit seat | 457,616,091.11 | 453,471,560.11 |
| Agency sale of financial products | 183,719,713.23 | 157,370,250.16 |
| Investment bank | 723,415,136.17 | 1,208,817,329.93 |
| Including: Securities underwriting | 560,518,709.69 | 947,819,947.00 |
| Securities sponsor | 21,035,849.00 | 54,556,603.74 |
| Financial advisory | 141,860,577.48 | 206,440,779.19 |
| Investment consulting | 23,762,729.03 | 20,550,818.58 |
| Others | 68,665,181.83 | 57,446,859.40 |
| | | |
| Fee and commission expenses | 286,159,196.45 | 387,518,332.21 |
| | | |
| Brokerage business | 231,017,796.89 | 268,179,836.86 |
| Including: Security brokerage | 231,017,796.89 | 268,179,836.86 |
| Including: Agency trading of securities | 231,017,796.89 | 268,179,836.86 |
| Investment bank | 44,740,831.88 | 105,940,879.24 |
| Including: Securities underwriting | 22,186,111.86 | 71,278,989.05 |
| Securities sponsor | 16,308,936.95 | 21,627,992.28 |
| Financial advisory | 6,245,783.07 | 13,033,897.91 |
| Others | 10,400,567.68 | 13,397,616.11 |
| | | |
| Fee and commission income, net | 1,976,276,197.15 | 2,510,092,855.70 |

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

3. Net interest income

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Interest income | 3,009,705,768.26 | 3,102,463,853.41 |
| Including: Interest income from deposits in other financial institutions | 484,597,427.32 | 508,854,900.69 |
| Including: Interest income from self-owned funds | 125,059,454.78 | 103,457,189.21 |
| Interest income from customer deposits | 359,537,972.54 | 405,397,711.48 |
| Interest income from margin financing and securities lending business | 1,045,254,369.37 | 980,704,063.13 |
| Interest income from purchases under resale agreement | 1,463,990,386.15 | 1,610,400,519.34 |
| Including: Interest income from agreed-upon repurchase of securities | 3,885,979.20 | 1,245,913.25 |
| Interest income from equity securities held under resale agreements | 1,443,740,395.26 | 1,572,671,664.82 |
| Others | 15,863,585.42 | 2,504,370.25 |
| | | |
| Interest expenses | 3,723,547,364.03 | 3,133,163,233.37 |
| Including: Interest expenses on customer deposits | 59,785,311.56 | 67,998,566.87 |
| Interest expenses on repurchase | 770,098,204.48 | 558,102,171.79 |
| Including: Interest expenses on bond-pledge quoted repurchase | 800,738.07 | 1,533,434.50 |
| Interest expenses on placements from banks and other financial institutions | 50,040,470.96 | 43,488,622.08 |
| Including: Interest expenses on margin financing loans | 38,289,995.66 | 38,264,233.22 |
| Interest expenses on short-term financing payables | 265,872,148.76 | 722,867,756.68 |
| Interest expenses on bonds | 2,565,556,393.38 | 1,730,862,380.59 |
| Others | 12,194,834.89 | 9,843,735.36 |
| | | |
| Net interest income | (713,841,595.77) | (30,699,379.96) |

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

4. Investment income

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Investment income from long-term equity investment accounted for using the cost method | 1,162,701,150.48 | 379,950,000.00 |
| Investment income from long-term equity investment accounted for using the equity method | (3,168,768.33) | 1,283,771.82 |
| Dividends and interest acquired for holding the financial instruments | 2,715,079,706.58 | 2,250,177,673.79 |
| Including: Financial assets at FVTPL | 1,144,604,984.68 | 1,249,028,391.75 |
| Available-for-sale financial assets | 1,573,445,676.95 | 1,022,139,056.61 |
| Financial liabilities at FVTPL | (2,970,955.05) | (20,989,774.57) |
| Disposal gain | (178,326,172.20) | 992,157,703.40 |
| Including: Financial assets at FVTPL | (274,129,594.74) | 884,647,246.21 |
| Available-for-sale financial assets | 26,442,883.38 | 93,427,758.03 |
| Derivative financial instruments | 68,947,349.16 | (66,199,478.10) |
| Financial liabilities at FVTPL | 413,190.00 | 80,282,177.26 |
| Total | 3,696,285,916.53 | 3,623,569,149.01 |

5. Gains from changes in fair values

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Financial assets at FVTPL | (635,785,645.39) | (25,379,801.17) |
| Derivative financial assets/liabilities | 16,093,915.74 | 41,725,055.97 |
| Financial liabilities at fair value through profit or loss | - | (38,084,070.98) |
| Total | (619,691,729.65) | (21,738,816.18) |

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

6. General and administrative expenses

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Wages or salaries, bonuses, allowances and subsidies | 1,604,811,115.87 | 2,460,565,715.50 |
| Social security contributions | 241,299,696.91 | 333,024,431.99 |
| Lease payments | 191,781,870.15 | 168,119,735.12 |
| Depreciation and amortization | 106,295,904.67 | 95,013,194.62 |
| Business entertainment expenses | 88,650,364.15 | 77,630,437.84 |
| Housing funds | 84,343,751.39 | 72,201,741.04 |
| Research and development expenses | 76,486,495.80 | 38,545,105.24 |
| Travel expenses | 61,390,849.63 | 55,834,408.74 |
| Communication expenses | 58,768,681.25 | 52,548,159.33 |
| Office expenses | 39,819,139.50 | 42,899,626.43 |
| Others | 295,724,116.78 | 315,260,872.86 |
| Total | 2,849,371,986.10 | 3,711,643,428.71 |

7. Notes to items in the cash flow statement

(1) Proceeds from other operating activities

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Government grants | 89,354,362.23 | 91,855,622.02 |
| Other operating income | 20,758,927.11 | 16,925,191.47 |
| Refundable deposits received | 11,111,020.55 | 6,266,756.29 |
| Others | 45,546,452.14 | 34,528,144.29 |
| Total | 166,770,762.03 | 149,575,714.07 |

(2) Other cash payments relating to operating activities

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| Cash payments for non-operating expenses | 9,851,194.19 | 273,461,109.12 |
| Principal and deposit of equity swap | 31,000,000.00 | - |
| Other payments for general and administrative expenses | 644,332,873.79 | 612,811,890.08 |
| Others | 758,097,920.39 | 100,902,734.64 |
| Total | 1,443,281,988.37 | 987,175,733.84 |

VIII. NOTES TO ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS - continued

8. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

| | Amounts incurred in 2018 | Amounts incurred in 2017 |
|---|---|---|
| | RMB | RMB |
| | | |
| (1)Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 1,043,927,525.38 | 1,942,690,352.81 |
| Add: Impairment losses of assets | 644,457,434.95 | 81,999,682.22 |
| Depreciation of fixed assets | 52,697,994.82 | 49,404,237.00 |
| Depreciation of investment property | 12,016,640.36 | 8,873,039.40 |
| Amortization of intangible assets | 25,850,117.98 | 29,939,360.46 |
| Amortization of long-term prepaid expenses | 36,692,080.84 | 32,054,377.68 |
| Loss(Less: Gain) on disposal of fixed assets, intangible asset and other long-term assets | (732,899.13) | 1,177,425.26 |
| Loss(Less: Gain) on retirement of fixed assets | 43,418.16 | 6,351,388.29 |
| Losses on fair value changes (less: gain) | 619,691,729.65 | 21,738,816.18 |
| Exchange loss (less: gain) | (562,090.54) | 670,442.87 |
| Interest expenses | 2,831,428,542.14 | 2,453,730,137.27 |
| Investment loss (less: gain) | (1,219,673,738.11) | (423,233,771.82) |
| Decrease in deferred tax assets (less: increase) | (304,751,537.53) | (71,399,195.60) |
| Decrease in financial assets at FVTPL (less: increase) | 2,597,407,812.36 | 3,797,291,872.29 |
| Increase in financial liabilities at FVTPL (less: decrease) | - | (2,018,340,110.98) |
| Decrease in available-for-sale financial assets (less: increase) | (10,022,740,909.27) | (10,481,128,393.93) |
| Decrease in receivables from operating activities (less: increase) | 12,555,743,192.58 | (15,535,570,734.64) |
| Increase in payables from operating activities (less: decrease) | 6,730,972,106.67 | 1,795,802,247.89 |
| Net Cash Flow from Operating Activities | 15,602,467,421.31 | (18,307,948,827.35) |
| | | |
| (2)Net changes in cash and cash equivalents: | | |
| Closing balance of cash | 19,462,057,769.99 | 17,154,910,122.46 |
| Less: Opening balance of cash | 17,154,910,122.46 | 24,241,740,991.45 |
| Add: Closing balance of cash equivalents | - | - |
| Less: Opening balance of cash equivalents | - | - |
| Net increase (decrease) in cash and cash equivalents | 2,307,147,647.53 | (7,086,830,868.99) |

(2) Composition of cash and cash equivalents:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Cash | | |
| Cash and bank balances | 13,974,349,848.46 | 12,973,475,713.83 |
| Clearing settlement funds | 5,488,493,919.37 | 4,182,218,498.70 |
| Less: Restricted cash and bank balances | 785,997.84 | 784,090.07 |
| | | |
| Balance of cash equivalents | - | - |
| Balance of cash and cash equivalents | 19,462,057,769.99 | 17,154,910,122.46 |

## IX. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

### 1. Interest in subsidiaries

#### (1) Material non-wholly owned subsidiaries

| Name of company | Proportion of equity interest held by non-controlling interests at the end of the year | Profit or loss attributable to non-controlling interests in the current year | Declaration of cash dividends to non-controlling interests | Non-controlling interests at the end of the year |
|---|---|---|---|---|
| | % | RMB | RMB | RMB |
| | | | | |
| AEGON-Industrial Fund | 49.00 | 355,937,753.95 | - | 930,378,138.10 |
| Industrial Securities Futures | 0.45 | 1,885,583.92 | 2,574,992.09 | 6,048,461.51 |
| China Industrial Securities International Financial Group | 48.16 | 69,108,710.46 | 47,529,331.71 | 1,861,651,813.06 |

#### (2) Significant financial information of material non-wholly owned subsidiaries

| Name of company | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Total assets | Total liabilities | Total assets | Total liabilities |
| | RMB | RMB | RMB | RMB |
| | | | | |
| AEGON-Industrial Fund | 2,777,052,027.77 | 878,321,133.68 | 2,299,854,728.14 | 1,063,700,128.59 |
| Industrial Securities Futures | 9,751,105,009.07 | 8,407,002,451.65 | 8,763,197,290.39 | 7,824,047,924.92 |
| China Industrial Securities International Financial Group | 20,522,118,924.62 | 16,656,673,280.38 | 14,255,421,073.62 | 10,579,702,607.04 |

| Name of company | Amount for the current year | | | |
|---|---|---|---|---|
| | Operating income | Net profit | Total comprehensive income | Cash flows from operating activities |
| | RMB | RMB | RMB | RMB |
| | | | | |
| AEGON-Industrial Fund | 2,414,683,213.04 | 726,403,579.48 | 662,576,294.54 | 357,877,494.85 |
| Industrial Securities Futures | 889,754,685.99 | 97,290,873.79 | 95,229,321.52 | 1,113,227,948.65 |
| China Industrial Securities International Financial Group | 949,644,481.35 | 146,693,489.27 | 287,831,977.66 | (1,485,094,953.35) |

| Name of company | Amount for the previous year | | | |
|---|---|---|---|---|
| | Operating income | Net profit | Total comprehensive income | Cash flows from operating activities |
| | RMB | RMB | RMB | RMB |
| | | | | |
| AEGON-Industrial Fund | 1,792,933,080.49 | 553,385,988.64 | 571,514,295.60 | 291,559,753.46 |
| Industrial Securities Futures | 409,578,377.82 | 125,073,128.41 | 125,086,473.76 | (1,831,916,138.44) |
| China Industrial Securities International Financial Group | 893,161,640.99 | 132,334,725.28 | (95,138,011.47) | (1,413,557,246.40) |

Note: the financial information of the above subsidiaries is adjusted and presented in accordance with the Group's accounting policies at the level of consolidated financial statements.

IX. DISCLOSURE OF INTERESTS IN OTHER ENTITIES - continued

2. Transactions in which the share of owners' equity in a subsidiary is changed but the subsidiary is still under control

Description of changes in the share of owners' equity in subsidiaries:

China Industrial Securities International Holdings Limited, a subsidiary of the Company, acquired part of the minority equity of its subsidiary China Industrial Securities International Financial Group Limited (accounting for 0.43% of the company's shares) with its own funds in 2018. The Company did not change its control over the subsidiary. In 2018, the Company acquired part of the minority equity of the subsidiary Industrial Securities Futures (accounting for 2.37% of the company's shares) with its own funds. The company did not change its control over the subsidiary.

| | China Industrial Securities International Financial Group | Industrial Securities Futures |
|---|---|---|
| | RMB | RMB |
| Purchase cost / disposal consideration | | |
| --Cash | 18,407,647.70 | 22,248,600.00 |
| Total purchase cost / disposal consideration | 18,407,647.70 | 22,248,600.00 |
| Less: share of net assets of subsidiaries calculated according to the proportion of equity acquired / disposed of | 16,249,051.33 | 22,203,431.71 |
| Difference | 2,158,596.37 | 45,168.29 |
| Including: adjustment of capital reserve | 2,158,596.37 | 45,168.29 |

3. Interests in joint ventures and associates

(1) Material joint ventures or associates

| Name of joint ventures or associates | Principal place of operation | Place of establishment | Principal activities | Proportion of ownership interest held by the Group (%) | | Accounting method |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| Joint venture | | | | | | |
| Fujian Bailout No.1 Equity Investment Partnership(L.P.) | Pingtan, Fuzhou | Pingtan, Fuzhou | Equity investment | - | 64.50 | Equity method |
| Associate | | | | | | |
| Straits Equity Exchange Center (Fujian) Co., Ltd. | Pingtan, Fuzhou | Pingtan, Fuzhou | Equity trading | 21.43 | - | Equity method |

IX. DISCLOSURE OF INTERESTS IN OTHER ENTITIES – continued

3. Interests in joint ventures and associates – continued

(2) Significant financial information of material joint ventures or joint ventures

① Fujian Bailout No.1 Equity Investment Partnership (L.P.)

| | Closing balance |
|---|---|
| | RMB |
| Total assets | 1,999,242,070.39 |
| Total liabilities | 500,000.00 |
| Partner's equity | 1,998,742,070.39 |
| | |
| Share of net assets calculated according to shareholding proportions | 1,289,188,635.40 |
| Adjustments | - |
| Carrying amount of equity investment in joint ventures or associates | 1,289,188,635.40 |

| | Amount for the current year |
|---|---|
| | RMB |
| Operating income | 338,688.51 |
| Net loss | (1,257,929.61) |
| Other comprehensive income | - |
| Total comprehensive income | (1,257,929.61) |
| | |
| Dividends received from joint ventures or associates in the current year | - |

② Straits Equity Exchange Center (Fujian) Co., Ltd.

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| Total assets | 238,032,809.90 | 271,444,540.41 |
| Total liabilities | 39,772,609.26 | 58,403,813.31 |
| Non-controlling interests | 579,421.38 | 573,348.06 |
| Equity attributable to parent company | 197,680,779.26 | 212,467,379.04 |
| | | |
| Share of net assets calculated according to shareholding proportions | 42,362,990.99 | 45,531,759.32 |
| Adjustments | 342,990.58 | 342,990.58 |
| Carrying amount of equity investment in joint ventures or associates | 42,705,981.57 | 45,874,749.90 |

IX. DISCLOSURE OF INTERESTS IN OTHER ENTITIES - continued

3. Interests in joint ventures and associates - continued

(2) Significant financial information of material joint ventures or joint ventures - continued

② Straits Equity Exchange Center (Fujian) Co., Ltd. - continued

| | Amount for the current year | Amount for the previous year |
|---|---|---|
| | RMB | RMB |
| Operating income | 28,735,152.78 | 78,110,099.44 |
| Net profit/(loss) | (14,780,526.46) | 6,191,638.87 |
| Other comprehensive income | - | - |
| Total comprehensive income | (14,780,526.46) | 6,191,638.87 |
| | | |
| Dividends received from joint ventures or associates in the current year | - | - |

(3) Summarized financial information of insignificant joint ventures and associates

| | Closing balance /Amount for the current year | Opening balance /Amount for the previous year |
|---|---|---|
| | RMB | RMB |
| Joint ventures and associates | | |
| Total carrying amount of investment | 380,034,344.81 | 222,341,700.19 |
| The totals of the following items calculated according to the shareholding proportions | | |
| -Net profit | 89,614,769.13 | 12,243,724.30 |
| -Other comprehensive income | 600,862.50 | - |
| -Total comprehensive income | 90,215,631.63 | 12,243,724.30 |

The financial information of the above joint ventures and associates has been adjusted in accordance with the accounting policies of the Group.

IX. DISCLOSURE OF INTERESTS IN OTHER ENTITIES - continued

4. Interests in structured entities that are not included in the scope of consolidated financial statements

(1) Structured entities managed by the Group but not included in the scope of consolidation

The structured entities managed by the Group that are not included in the scope of consolidated financial statements mainly include the investment funds and asset management schemes initiated by the Group. The nature and purpose of these structured entities are mainly to manage the assets of investors and earn management fees, and their financing is achieved by issuing investment products to investors. The Group has not made any commitment to the principal and income of the products. The Group's interests in these structured entities not included in the scope of consolidated financial statements mainly include holding investment directly or earning management fee income by managing these structured entities. The Group's variable return related to product income is insignificant, so the Group does not consolidate these structured entities .

The situation of structured entities initiated and managed by the Group but not included in the scope of consolidation is as follows:

| | Closing balance/ Maximum loss exposure | | | | Product scale |
|---|---|---|---|---|---|
| | Financial assets at FVTPL | Available-for-sale financial assets | Long-term equity investments | Total | Total (Hundred million) |
| Funds and segregated accounts | 3,920,685,030.93 | 330,763,788.50 | - | 4,251,448,819.43 | 2,628.79 |
| Asset management schemes of securities companies | - | 618,900,035.57 | - | 618,900,035.57 | 967.35 |
| Others | - | 1,064,100.00 | 1,330,467,060.77 | 1,331,531,160.77 | 52.29 |
| Total | 3,920,685,030.93 | 950,727,924.07 | 1,330,467,060.77 | 6,201,880,015.77 | 3,648.43 |

| | Opening balance/ Maximum loss exposure | | | | Product scale |
|---|---|---|---|---|---|
| | Financial assets at FVTPL | Available-for-sale financial assets | Long-term equity investments | Total | Total (Hundred million) |
| Funds and segregated accounts | 3,728,089,643.57 | 356,071,754.50 | - | 4,084,161,398.07 | 2,431.46 |
| Asset management schemes of securities companies | - | 718,156,948.86 | - | 718,156,948.86 | 1,040.69 |
| Others | - | 978,800.00 | 11,091,376.66 | 12,070,176.66 | 35.38 |
| Total | 3,728,089,643.57 | 1,075,207,503.36 | 11,091,376.66 | 4,814,388,523.59 | 3,507.53 |

In this year, the Group's management fee income from structured entities initiated and managed by the Group but not included in the scope of consolidated financial statements is RMB 2,374,087,778.00 (2017: RMB 1,858,023,913.64).

IX. DISCLOSURE OF INTERESTS IN OTHER ENTITIES - continued

4. Interests in structured entities that are not included in the scope of consolidated financial statements-continued

(2) Other structured entities hold by the Group that are not included into the scope of consolidation

The Group invests in some structured entities issued or managed by other institutions that are not included in the consolidation and recognizes the investment profit or loss. The maximum risk exposure of the Group due to holding the above structured entities not included in the consolidation is shown in the table below.

| | Closing balance | | | |
|---|---|---|---|---|
| | Financial assets at FVTPL | Available-for-sale financial assets | Long-term equity investments | Total |
| Funds and segregated accounts | 7,756,041,753.54 | 391,595,685.12 | - | 8,147,637,438.66 |
| Asset management schemes of securities companies | - | 106,119,599.82 | - | 106,119,599.82 |
| Others | - | 2,640,431,954.56 | 113,823,793.94 | 2,754,255,748.50 |
| Total | 7,756,041,753.54 | 3,138,147,239.50 | 113,823,793.94 | 11,008,012,786.98 |

| | Opening balance | | | |
|---|---|---|---|---|
| | Financial assets at FVTPL | Available-for-sale financial assets | Long-term equity investments | Total |
| Funds and segregated accounts | 8,744,057,467.43 | 307,142,195.25 | - | 9,051,199,662.68 |
| Asset management schemes of securities companies | - | 92,239,442.71 | - | 92,239,442.71 |
| Others | - | 2,837,285,560.76 | 33,895,759.84 | 2,871,181,320.60 |
| Total | 8,744,057,467.43 | 3,236,667,198.72 | 33,895,759.84 | 12,014,620,425.99 |

5. Structured entities included into the scope of consolidation

The structured entities issued and managed by the Group that are included in the scope of consolidation mainly include private equity funds issued by the Group and asset management schemes of securities companies, fund companies and futures companies. The Group, as a manager, considers whether there is control over these structured entities, and judges whether the Group, as a manager, is the main responsible person or agent based on decision-making scope of the Group, power of the holder , the remuneration for providing management services and the risk exposure of variable income. After the evaluation, the structured entities that the Group acts as main responsible person for are included in the scope of consolidation. See Note VI, 1 (3) for details.

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. The first majority shareholder

| Name | Place of registration | Relationship | Proportion |
|---|---|---|---|
| | | | |
| Fujian Provincial Department of Finance | Fuzhou | The first majority shareholder | 20.27% |

2. For the relevant details of subsidiaries, refer to Note VI.

3. For the relevant details of joint ventures and associates, refer to VII. 11.

4. Other related parties of the Group

| Name of related party | Relationship with the Company |
|---|---|
| | |
| Fujian Investment & Development Group Co., Ltd. | Shareholder holding more than 5% of the Company's shares |
| Fujian Innovation and Venture Capital Management Co., Ltd | Subsidiary of shareholders holding more than 5% of the Company's shares |
| Fujian Huaxing Group Co., Ltd. | Subsidiary of shareholders holding more than 5% of the Company's shares |
| Minxin Group Co., Ltd. | Subsidiary of shareholders holding more than 5% of the Company's shares |
| Straits Capital Management Co., Ltd. | Subsidiary of shareholders holding more than 5% of the Company's shares |

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

## 5. Significant transactions between the Group and the above related parties in current year:

### (1) Services rendered by the Group

| Related parties | Types and contents of related transactions | Pricing method and decision procedure of related transactions | Amount for the current year | | Amount for the previous year | |
|---|---|---|---|---|---|---|
| | | | Amount | Proportion in the amount of similar transactions | Amount | Proportion in the amount of similar transactions |
| | | | RMB | % | RMB | % |
| | | | | | | |
| Fujian Provincial Department of Finance | Income from handling charges of securities trading | Market principle | - | - | 1,643,094.34 | 0.16 |
| | Income from securities underwriting business | Market principle | 1,377,358.48 | 0.19 | 84,905.66 | 0.01 |
| | Bond interest income | Market principle | 18,056,639.77 | 0.54 | 2,695,855.68 | 0.10 |
| | Interest expense of customer deposit | Market principle | 207,708.67 | 0.33 | 492,053.22 | 0.72 |
| | | | | | | |
| Fujian Investment & Development Group Co., Ltd. and its subsidiaries | Rental income | Market principle | 5,606,833.85 | 31.57 | 5,528,653.08 | 39.25 |
| | Income from property management fee | Market principle | 634,199.94 | 26.47 | 635,784.92 | 99.21 |
| | Income from handling charges of securities trading | Market principle | 981,174.20 | 0.11 | 425,609.94 | 0.04 |
| | Income from securities underwriting business | Market principle | 3,943,396.23 | 0.55 | 7,547,169.81 | 0.76 |
| | Bond interest income | Market principle | 5,653,193.11 | 0.17 | 2,004,674.10 | 0.08 |
| | Interest expense of customer deposit | Market principle | 179,158.57 | 0.28 | 32,885.16 | 0.05 |
| | | | | | | |
| Straits Equity Exchange Center (Fujian) Co., Ltd. | Income as financial consultant | Market principle | 120,227.56 | 0.08 | - | - |
| | | | | | | |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (limited partnership) | Income from custody service | Market principle | 157,006.62 | 0.23 | 139,599.94 | 0.26 |
| | Investment consulting income | Market principle | 673,441.26 | 1.63 | 1,304,623.01 | 3.72 |
| | Fund management fee income | Market principle | 11,639,312.77 | 9.53 | 17,130,440.44 | 9.79 |
| | | | | | | |
| Pingtan Industrial Securities Saifu Equity Investment Partnership (limited partnership) | Income from custody service | Market principle | 41,406.81 | 0.06 | 45,171.06 | 0.08 |
| | Investment consulting income | Market principle | 177,578.99 | 0.43 | 399,313.51 | 1.14 |
| | Fund management fee income | Market principle | 3,069,157.49 | 2.51 | 4,517,106.81 | 2.58 |
| | | | | | | |
| Fujian Bailout No.1 Equity Investment Partnership(L.P.) | Fund management fee income | Market principle | 705,608.67 | 0.58 | - | - |

## X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

### 5. Significant transactions between the Group and the above related parties in current year: - continued

#### (2) Receivables from related parties

| Item | Related parties / nature of related parties | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Other receivables | Fund of retention performance and risk reserve from employees | 62,892,951.31 | 69,774,393.82 |
| Receivables | Fujian Investment & Development Group Co., Ltd. | 250,000.00 | - |
| Interest receivable | Fujian Investment & Development Group Co., Ltd. | 5,345,850.00 | 1,877,890.00 |
| Interest receivable | Fujian Provincial Department of Finance | 5,766,940.00 | 5,766,940.00 |

#### (3) Payables to related parties

| Item | Related parties | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Rent deposit | Fujian Investment & Development Group Co., Ltd. | 1,000,000.00 | 1,000,000.00 |
| Accounts payable to brokerage and margin clients | Fujian Investment & Development Group Co., Ltd. | 60,186,664.93 | 670,892.32 |
| Accounts payable to brokerage and margin clients | Fujian Provincial Department of Finance | 783,115.28 | 575,406.61 |

#### (4) Balance of bonds issued by related parties

| Item | Related parties | Closing balance | Opening balance |
|---|---|---|---|
| | | RMB | RMB |
| | | | |
| Held-for-trading financial assets | Fujian Provincial Department of Finance | 240,000,000.00 | 240,000,000.00 |
| Held-for-trading financial assets | Fujian Investment & Development Group Co., Ltd. | 128,150,000.00 | - |
| Available-for-sale financial assets | Fujian Provincial Department of Finance | 100,000,000.00 | 100,000,000.00 |
| Available-for-sale financial assets | Fujian Investment & Development Group Co., Ltd. | 67,900,000.00 | 67,200,000.00 |

X. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - continued

5. Significant transactions between the Group and the above related parties in current year: - continued

(5) Compensation for key management personnel

The key management personnel refer to the personnel who have the right and are responsible for the planning, command and control of the enterprise activities, including directors, supervisors, president, vice president in charge of various affairs, chief financial officer, secretary of the board of directors, and personnel performing similar policy functions.

The total remuneration of key management personnel of the Company during their tenure in 2018 is RMB 23,150,800 (2017: RMB 19,770,600). The annual performance salary of senior management shall be deferred according to relevant policies and the deferred part shall be paid in the following three years. The total remuneration of the directors, supervisors and senior management who perform their duties with full salary is still being confirmed and will be disclosed separately after confirmation of payment.

6. For the subsidiaries controlled by the Group and included in the scope of the Company's consolidated financial statements, their mutual transactions and parent-subsidiary transactions have been offset.

7. Related party commitments

(1) The Company promises to provide a total loan of no more than RMB 1 billion for Industrial Securities Asset Management Co., Ltd., a subsidiary of the Company. As at December 31, 2018, Industrial Securities Asset Management Co., Ltd. has used RMB 600 million.

(2) The Company promises to provide a net capital guarantee of no more than RMB 3 billion for Industrial Securities Asset Management Co., Ltd., a subsidiary of the Company.

## XI. RISK MANAGEMENT

### 1. Risk management policy and organizational structure

#### (1) Risk management policy

The Group adopts a neutral to prudent risk management policy, vigorously develops low- and medium-risk businesses on the basis of meeting regulatory requirements, and strictly controls the scale and risk exposure of high-risk businesses, effectively manages various business risks to balance returns and risk levels, and maintains a moderate risk exposure to make it in line with the Group's risk tolerance, enabling the Group to obtain greater returns on the basis of taking limited risks.

In 2018, in accordance with the Norms for Overall Risk Management of Securities Companies, the requirements for securities companies to establish a risk management indicator system and the Company's strategic goals, the Group formulated and issued the 2018 risk appetite statement, risk tolerance indicators and material risk limits, determined the neutral to prudent risk appetite for 2018, and selected risk tolerance indicators from multiple aspects such as risk coverage and capital leverage. Under the premise of comprehensively considering factors such as the asset allocation plan in 2018, the risk tolerance index threshold was determined, and the material risk limit index was determined for the main business lines, departments and subsidiaries. At the same time, the Group is actively promoting and improving the construction of a comprehensive risk management system.

#### (2) Organizational structure of risk management

The Group has established a relatively complete and effective risk management organizational structure system. The general meeting of shareholders, the board of directors and the board of supervisors perform their functions and powers in accordance with the "Company Law", "Securities Law", "Articles of Association", and "Guidelines for Internal Control of Securities Companies" to supervise and manage the Company's operations. The Company's risk management organization structure is divided into four levels: the "Board of Directors and its Risk Control Committee, the Board of Supervisors—the Company's management and its risk management committee—the risk management department—departments, branches and subsidiaries". The Company has established three lines of defence for risk management, that is, the implementation of effective self-control by departments, branches and subsidiaries is the first line of defence; the implementation of professional risk management by the risk management department before and during the event is the second line of defence; the implementation of supervision and evaluation by audit department after the event is the third line of defence. The responsibilities of internal control at all levels and lines of defence are clear.

XI. RISK MANAGEMENT - continued

1. Risk management policy and organizational structure - continued

(2) Organizational structure of risk management - continued

The board of directors is mainly responsible for supervising and guiding the Company's risk management, and controlling the Company's overall risk within a reasonable range to ensure that the Company can implement effective management of risk control in business activities. The main responsibilities include: advancing the construction of risk culture; reviewing and approving the Company's basic system for comprehensive risk management; reviewing and approving the Company's risk appetite, risk tolerance, and material risk limits, guiding the Company's liquidity risk, market risk, credit risk, operational risk, goodwill risk, money laundering risk and other risk management work; reviewing the Company's periodic risk assessment report; appointing and dismissing and evaluating the chief risk officer and determining his or her salary; establishing a direct communication mechanism with the chief risk officer, etc. As a special committee of the board of directors, the risk control committee of the board of directors can perform within the scope of authorization of the board of directors and assist the board of directors in performing some of the above-mentioned duties. The Board of Supervisors assumes the responsibility of overseeing overall risk management, and is responsible for supervising and inspecting the performance of the board of directors and the management team in terms of risk management and urging rectification.

The Company's operating management manages various risks in the Company's business process, and promotes the planning, construction and implementation of the Company's comprehensive risk management system. The main responsibilities include: formulating a risk management system and adjusting it in time; establishing and improving the Company's comprehensive risk management business management structure, clarifying the division of responsibilities of comprehensive risk management functional departments, business departments and other departments in risk management, and establishing an effective operating mechanism of checks and balances and mutual coordination between departments; formulating specific implementation plans for risk appetite, risk tolerance, and material risk limits and ensure their effective implementation; supervising them, analysing the reasons in a timely manner, and handling them according to the authorization of the board of directors; regularly assessing the Company's overall risks and various important risk management conditions, solving problems in risk management and reporting to the board of directors; establishing a performance appraisal system covering the effectiveness of risk management; establishing a complete information technology system and data quality control mechanism. The Company's operating management has set up a risk management committee to carry out the Company's risk management work within the authorization of the operating management. The main responsibilities include: directing, supervising, and coordinating the implementation of the Company's risk management related work, putting forward suggestions on the improvement of the organizational system, and promoting the Company's comprehensive risk management construction; formulating the Company's risk preference policy, determining the risk tolerance and material risk limits, reviewing the basic risk management system, important processes and risk control standards; organizing the management of the Company's market risk, credit risk, liquidity risk, operational risk, goodwill risk, money laundering risk and other major risks, and conducting risk assessment of the Company's major innovative business models; organizing the establishment and implementation of the evaluation mechanism of the Company's risk management activities; grasping the risk status of the Company's operation and management in a timely manner, supervising and guiding the risk control department to conduct timely inspections, handling, and feedback.

XI. RISK MANAGEMENT - continued

1. Risk management policy and organizational structure - continued

(2) Organizational structure of risk management - continued

The Risk Management Department is the specific implementation department of the Company's risk management policies and basic systems, responsible for daily risk management. The main responsibilities include: implementing the decisions of the board of directors and management on comprehensive risk management; drafting the Company's risk appetite, risk tolerance and risk limits; establishing and improving the Company's systems, procedures and methods for risk identification, risk assessment and measurement, risk response, risk monitoring, and risk reporting; reviewing and confirming the valuation and risk measurement of the Company's financial instruments; be responsible for monitoring and controlling the risks of daily business activities, and regularly reporting the implementation of the Company's various risk control indicators; to guiding, supervising, inspecting, evaluating and reporting on the risk identification, evaluation and control of various departments, branches and subsidiaries; organizing the risk assessment of new products and new businesses, and submitting it to the risk management committee or office meeting for decision-making, etc.

All departments, branches and subsidiaries are the first persons responsible for risk management. As the first line of defence for risk management, they should fully understand and fully consider the various risks contained in business management activities in their daily work and shall bear the responsibility for the losses caused by the risks. The main responsibilities include: analysis, identification, and reporting of risks in business operation and management related to their functions and responsibilities, and timely taking measures to deal with them; formulating and improving the risk management system and risk management measures of the department and branches; regular or irregular self-inspection of business risks, and improvement of weak links in risk management.

2. Risk analysis

The risks faced by the Group in its daily operating activities mainly include market risk, liquidity risk, credit risk and operational risk. Through the establishment of a comprehensive risk management system, the Group gradually optimizes the organizational functions, risk strategies, risk measures, and risk processes of risk management, develops risk culture, establishes a scientific risk identification, monitoring, evaluation and control mechanism to integrate risk management before, during and after the event to ensure that risks are measurable, controllable and acceptable.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(1) Market risk

The market risk faced by the Group refers to the risk of losses to the Company due to adverse changes in market variables. Market risks mainly include equity and other price risks, interest rate risks and exchange rate risks.

(1.1) Equity and other price risks

Equity and other price risks refer to the risk of losses in equity and other investments made by the Group due to asset price fluctuations. The Group's equity and other price risks mainly originate from the Group's proprietary and margin trading business involving securities investment. The Group has established a risk indicator monitoring system including sensitivity analysis, Greek letters, value at risk (VaR), and stress testing, and calculates relevant indicators through daily position monitoring. When these indicators reach or exceed the risk limit authorized by the Company, measures such as timely lightening of positions will be taken to control risks.

On each balance sheet date, the amount and proportion of the Group's equity and equity derivatives at fair value are as follows:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Fair value | Proportion in total assets | Fair value | Proportion in total assets |
| | RMB | % | RMB | % |
| | | | | |
| Financial assets at FVTPL | | | | |
| Stock investment | 5,292,110,961.46 | 3.41 | 7,945,728,739.32 | 5.19 |
| Funds and segregated accounts | 3,004,921,820.74 | 1.94 | 3,002,782,568.97 | 1.96 |
| Sub-total | 8,297,032,782.20 | 5.35 | 10,948,511,308.29 | 7.15 |
| | | | | |
| Available-for-sale financial assets | | | | |
| Stock investment | 396,144,595.20 | 0.26 | 887,054,909.61 | 0.58 |
| Funds and segregated accounts | 722,359,473.62 | 0.47 | 663,213,949.75 | 0.43 |
| Asset management schemes of securities companies | 725,019,635.39 | 0.47 | 810,396,391.57 | 0.53 |
| Others | 2,641,496,054.56 | 1.70 | 2,838,264,360.76 | 1.86 |
| Sub-total | 4,485,019,758.77 | 2.90 | 5,198,929,611.69 | 3.40 |
| | | | | |
| Total | 12,782,052,540.97 | 8.25 | 16,147,440,919.98 | 10.55 |
| | | | | |
| | Nominal principal / contract market value | | Nominal principal / contract market value | |
| | RMB | | RMB | |
| Derivative financial instruments | | | | |
| Stock Index Futures | 98,852,380.50 | | 3,323,080.00 | |
| Equity swap | - | | 31,000,000.00 | |
| Index fund options | 6,339,600.00 | | - | |
| | | | | |
| Total | 105,191,980.50 | | 34,323,080.00 | |

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(1) Market risk - continued

(1.1) Equity and other price risks - continued

Sensitivity analysis

Assuming that the market price of the above-mentioned investment rises or falls by 10%, other variables remain unchanged and the impairment of available-for-sale financial assets is not triggered, the impact of the above-mentioned assets on the Group's net profit and other comprehensive income on the balance sheet date is as follows:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Net profit | Other comprehensive income | Net profit | Other comprehensive income |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | |
| Up by 10% | 630,167 | 336,376 | 823,713 | 389,920 |
| Down by 10% | (630,167) | (336,376) | (823,713) | (389,920) |

As there is non-systematic risk of investment, the above sensitivity analysis may vary from the actual situation.

(1.2) Interest rate risk

Interest rate risk is the risk that the Group's financial position and cash flows, as well as the prices of proprietary fixed-income investments, will fluctuate due to changes in market interest rates. The Group's interest-earning assets mainly includes bank deposits, clearing settlement funds, margin accounts from financing business, refundable deposits and bond investment. The customer funds deposit from securities brokerage business and accounts payable to brokerage and margin clients match in currency and duration, and the currency and duration structure of the interest sensitive assets and liabilities of the Company's brokerage services basically match, therefore, the interest rate risk is controllable. The Group's proprietary fixed-income investments mainly includes corporate bonds and enterprise bonds. The Group manages interest rate risk through monitoring indicators such as durations, convexities and value of basic points, and assesses the loss that may occurs to the proprietary fixed-income investment portfolio through pressure test system.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(1) Market risk - continued

(1.2) Interest rate risk - continued

On each balance sheet date, the interest rate repricing date or maturity date (the earlier) of the Group's financial assets and financial liabilities are as follows:

By: RMB

| | Closing balance | | | | | |
|---|---|---|---|---|---|---|
| | Within 3 months | 3 months - 1 year | 1-5 years | More than 5 years | Non-interest bearing | Total |
| Financial assets: | | | | | | |
| Cash and bank balances | 25,296,481,935.14 | 2,016,918,479.88 | - | - | - | 27,313,400,415.02 |
| Clearing settlement funds | 6,027,321,671.10 | - | - | - | - | 6,027,321,671.10 |
| Margin accounts | 9,541,840,269.00 | 7,914,728,774.83 | - | - | 35,553,348.26 | 17,492,122,392.09 |
| Financial assets at FVTPL | 799,351,846.40 | 2,930,939,088.11 | 18,344,763,038.34 | 1,053,181,194.23 | 17,346,031,313.39 | 40,474,266,480.47 |
| Derivative financial assets | - | - | - | - | 4,738,721.96 | 4,738,721.96 |
| Financial assets held under resale agreements | 5,530,038,501.71 | 10,937,104,461.98 | 4,114,878,775.80 | - | 553,185,312.48 | 21,135,207,051.97 |
| Accounts receivable | - | - | - | - | 2,258,413,112.06 | 2,258,413,112.06 |
| Refundable deposits | - | - | - | - | 3,016,807,850.88 | 3,016,807,850.88 |
| Available-for-sale financial assets | 587,825,430.00 | 295,813,789.08 | 13,320,505,607.32 | 11,404,991,850.00 | 5,533,284,298.89 | 31,142,420,975.29 |
| Other financial assets | 1,314,300.00 | 60,370,180.00 | 5,000,000.00 | - | 1,910,645,959.15 | 1,977,330,439.15 |
| Total financial assets | 47,784,173,953.35 | 24,155,874,773.88 | 35,785,147,421.46 | 12,458,173,044.23 | 30,658,659,917.07 | 150,842,029,109.99 |
| | | | | | | |
| Financial liabilities: | | | | | | |
| Short-term loans | 5,019,189,307.24 | 1,218,396,450.52 | - | - | - | 6,237,585,757.76 |
| Short-term financing payable | 587,797,877.00 | 54,894,280.48 | - | - | - | 642,692,157.48 |
| Placements from banks and other financial institutions | - | 1,000,000,000.00 | - | - | - | 1,000,000,000.00 |
| Financial liabilities at fair value through profit or loss | - | - | - | - | 1,414,669,869.66 | 1,414,669,869.66 |
| Derivative financial liabilities | - | - | - | - | 10,849,807.14 | 10,849,807.14 |
| Financial assets sold under repurchase agreements | 24,624,584,167.35 | 263,463,851.76 | - | - | - | 24,888,048,019.11 |
| Accounts payable to brokerage and margin clients | 26,393,764,961.34 | - | - | - | - | 26,393,764,961.34 |
| Accounts payable | - | - | - | - | 963,705,331.55 | 963,705,331.55 |
| Bonds payable | 4,630,693,673.33 | 14,974,830,496.14 | 28,895,952,973.57 | | | 48,501,477,143.04 |
| Long-term loans | 2,961,556,000.00 | - | - | - | - | 2,961,556,000.00 |
| Other financial liabilities | - | - | - | - | 2,793,926,577.84 | 2,793,926,577.84 |
| Total financial liabilities | 64,217,585,986.26 | 17,511,585,078.90 | 28,895,952,973.57 | - | 5,183,151,586.19 | 115,808,275,624.92 |
| | | | | | | |
| Net position of financial assets and liabilities | (16,433,412,032.91) | 6,644,289,694.98 | 6,889,194,447.89 | 12,458,173,044.23 | 25,475,508,330.88 | 35,033,753,485.07 |

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(1) Market risk - continued

(1.2) Interest rate risk - continued

By: RMB

| | Opening balance | | | | | |
|---|---|---|---|---|---|---|
| | Within 3 months | 3 months - 1 year | 1-5 years | More than 5 years | Non-interest bearing | Total |
| Financial assets: | | | | | | |
| Cash and bank balances | 19,953,571,474.59 | 2,887,115,234.80 | - | - | - | 22,840,686,709.39 |
| Clearing settlement funds | 4,506,562,332.45 | - | - | - | - | 4,506,562,332.45 |
| Margin accounts | 7,349,738,988.18 | 10,748,374,160.59 | - | - | - | 18,098,113,148.77 |
| Financial assets at FVTPL | 1,419,571,755.60 | 3,185,954,590.01 | 14,016,861,040.21 | 2,611,551,296.52 | 20,417,875,850.32 | 41,651,814,532.66 |
| Derivative financial assets | - | - | - | - | 5,076,947.94 | 5,076,947.94 |
| Financial assets held under resale agreements | 6,684,743,811.55 | 11,624,798,356.15 | 14,699,795,068.42 | - | 152,377,804.93 | 33,161,715,041.05 |
| Accounts receivable | - | - | - | - | 1,423,003,736.39 | 1,423,003,736.39 |
| Refundable deposits | - | - | - | - | 3,418,479,947.96 | 3,418,479,947.96 |
| Available-for-sale financial assets | - | 534,417,949.25 | 7,132,188,941.23 | 10,246,682,818.94 | 6,236,439,416.19 | 24,149,729,125.61 |
| Other financial assets | - | 90,612,644.00 | 3,761,595.00 | - | 1,666,895,274.12 | 1,761,269,513.12 |
| Total financial assets | 39,914,188,362.37 | 29,071,272,934.80 | 35,852,606,644.86 | 12,858,234,115.46 | 33,320,148,977.85 | 151,016,451,035.34 |
| | | | | | | |
| Financial liabilities: | | | | | | |
| Short-term loans | 4,598,961,320.11 | 983,637,655.50 | - | - | - | 5,582,598,975.61 |
| Short-term financing payable | 4,306,416,142.00 | 8,232,111,786.07 | - | - | - | 12,538,527,928.07 |
| Placements from banks and other financial institutions | 1,000,000,000.00 | - | - | - | - | 1,000,000,000.00 |
| Financial liabilities at FVTPL | - | - | - | - | 1,531,288,132.64 | 1,531,288,132.64 |
| Derivative financial liabilities | - | - | - | - | 23,931,316.23 | 23,931,316.23 |
| Financial assets sold under repurchase agreements | 14,172,335,884.48 | 3,600,000,000.00 | - | - | - | 17,772,335,884.48 |
| Accounts payable to brokerage and margin clients | 23,614,658,921.42 | - | - | - | - | 23,614,658,921.42 |
| Accounts payable | - | - | - | - | 1,201,770,975.27 | 1,201,770,975.27 |
| Bonds payable | 1,525,560,273.98 | 4,993,042,231.04 | 40,011,994,344.61 | - | - | 46,530,596,849.63 |
| Long-term loans | - | - | - | - | 3,099,274,612.46 | 3,099,274,612.46 |
| Other financial liabilities | 49,217,932,541.99 | 17,808,791,672.61 | 40,011,994,344.61 | - | 5,856,265,036.60 | 112,894,983,595.81 |
| | | | | | | |
| Net position of financial assets and liabilities | (9,303,744,179.62) | 11,262,481,262.19 | (4,159,387,699.75) | 12,858,234,115.46 | 27,463,883,941.25 | 38,121,467,439.53 |

The following table shows the impact on net profit and other comprehensive income based on the structure of financial assets and financial liabilities as at the balance sheet date when the interest rates of all currencies rise or fall by 25 basis points at the same time.

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Net profit | Other comprehensive income | Net profit | Other comprehensive income |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | |
| Increase by 25 basis point | (84,794) | (147,015) | (85,254) | (114,215) |
| Decrease by 25 basis point | 85,189 | 149,182 | 85,766 | 116,036 |

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(1) Market risk - continued

(1.2) Interest rate risk - continued

The effect on profit represent the effect on the interest income from net interest-bearing position within 1 year and revaluation of financial assets and financial liabilities held for trading at the end of the year,.

The effect on other comprehensive income represents the effect on changes in fair value arising from revaluation of available-for-sale financial assets with a fixed interest rate held at year end on the basis of certain change in interest rate.

The above sensitivity analysis assumes the yield of assets and liabilities of various maturities shift up/down in parallel, therefore, it does not reflect the possible effect arising from that only certain interest rates changed while the rest interest rates remained unchanged. Such prediction is based on other simplified assumption, including all positions will be held to maturity.

The assumption does not represent the Group's use of fund and interest rate risk management policy; therefore, the above effect may differ from actual circumstances.

In addition, the above analysis of effect of interest rate changes is only as an illustration, showing the estimated changes in total profit and other comprehensive income under various expected yields scenarios and the Group's current interest rate risk conditions. But the effect does not take into consideration of the risk management activities that the management may take to manage interest rate risk.

(1.3) Currency risk

Currency risk represents the risk of the securities company's operating loss due to changes in value of the underlying assets resulting from fluctuations in exchange rate. Currently, the Group's overseas investments mainly includes investments in Southbound Trading Link and QDII fund. The Group monitors the exchange rate risk of Hong Kong stocks by monitoring the fluctuations in exchange rate of RMB against Hong Kong dollar on a daily basis.

The Group has established a relatively comprehensive system of key market risk indicators to assess various types of market risks through analysis of risk exposure, sensitivity, volatility and value at risk (VaR), to track relevant risk indicators, and to understand the trend of changes in market value of the investment portfolio and the risk to which the Company is exposed. The Group has established a market risk management information system and introduced the Risk Metrics market risk measurement engine so as to ensure that the Company can assess market risk in an accurate, timely and complete manner.

Overall, the Group's market risk is measurable, controllable and tolerable, and no significant market risk events occurred during the reporting period.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(2) Liquidity risk

Liquidity risk is the risk that the securities company can't obtain sufficient funds at reasonable cost in a timely manner so as to repay the matured debts, perform other payment obligations and satisfy the funds demand for normal business operations. As the Company's business leverage increases, the maturity mismatch of the Company's assets and liabilities gradually increases and the Company will face certain liquidity risk.

The Group established liquidity risk limit and warning system. The Group defines the liquidity risk limit and monitors the implementation according to the size, nature, complexity, liquidity risk appetite of the Group's business and external market development and changes, and track recent market changes and the Group's liquidity in a timely manner, ensuring the responsive measures are taken in a time manner whenever the Group's cash flows is abnormal.

The Group established liquidity risk reporting mechanism, specifying the type, content, form, frequency and channel of reporting liquidity risk, so as to ensure the board of directors, management and other management members understand the liquidity risk level and conditions in a timely manner; Currently, the Group has established a comprehensive fund reporting system (including daily, weekly and monthly fund reporting), which covers the reporting of situations of currency market interest rate, market financing, the Company's financing, implementation of liquidity risk limit, completion of capital budget, income from the utilization of operating funds, credit granted by or to other financial institutions and fund position, etc.

The Group enhances daily liquidity management, ensuring the Group has sufficient daily liquidity position and financing arrangement, and timely satisfying the daily payment demands under the normal and pressure scenarios.

The Group actively carries out financing channel management, ensuring the stability and reliability of funds source. Currently, the Group's financing channel includes corporate bonds, subordinated bonds, short-term bonds, income credentials, refinancing of securities and financial companies, placements with other financial institutions, financial assets sold under repurchase agreements and transfer of usufruct of debts.

The Group establishes high-quality liquidity reserve pool, keeping certain quantity of liquidity reserve assets, monitoring its cashability, ensuring the realization can be completed within normal settlement period so as to make up the gap of cash flows and reduce liquidity risk.

The Group establishes liquidity risk emergency mechanism, makes liquidity risk contingency plans and exercises and tests the contingency plans on regular basis, continuously updates and improves the contingency plans, ensuring the Group may address the liquidity demand under emergency conditions.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(2) Liquidity risk - continued

The Group has established a liquidity risk management information system to provide technical support for the Group's liquidity risk management and to ensure that the Group can continuously measure and monitor the Company's indicators such as liquidity coverage ratio and net stable funding ratio in an accurate and timely manner. In the future, the Company will further improve the construction of liquidity risk management information system so that the Company can respond to and control liquidity risk in a timely manner.

In addition, the Group's management of market risk and credit risk can prevent liquidity risk to some extent. During the reporting period, there was no significant liquidity risk events occurred in the Company.

The analysis of undiscounted cash flows of the Group's financial assets and financial liabilities by maturities of remaining contractual obligations is as follows.

By: RMB

| | Closing balance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Overdue/infinite | Total |
| Financial assets: | | | | | | | | |
| Cash and bank balances | 24,832,940,777.23 | 303,099,139.19 | 31,422,871.28 | 1,503,797,502.62 | - | - | 775,015,137.95 | 27,446,275,428.27 |
| Clearing settlement funds | 6,027,321,671.10 | - | - | - | - | - | - | 6,027,321,671.10 |
| Margin accounts | - | 6,314,848,431.62 | 3,748,523,712.67 | 8,725,047,223.93 | - | - | 35,553,348.26 | 18,823,972,716.48 |
| Financial assets at FVTPL | 18,706,562,809.87 | 16,743,245,856.00 | 4,569,126,543.22 | 25,775,915,810.53 | 86,172,793,585.97 | 26,930,160,293.40 | - | 178,897,804,898.99 |
| Derivative financial assets | - | 396,872.91 | 54,871.90 | 1,355,234.44 | 4,185,366.51 | 71,262.38 | - | 6,063,608.14 |
| Financial assets held under resale agreements | - | 3,005,115,260.05 | 3,805,239,340.09 | 13,330,284,425.62 | 3,366,195,804.74 | - | 1,825,382,834.06 | 25,332,217,664.56 |
| Accounts receivable | - | 1,804,369,880.55 | 295,004,396.94 | 113,527,767.10 | 45,511,067.47 | - | - | 2,258,413,112.06 |
| Refundable deposits | 2,145,005,197.89 | 356,462,464.11 | 2,697,000.00 | 2,063,870.26 | 150,673,780.25 | 41,160,000.00 | 318,745,538.37 | 3,016,807,850.88 |
| Available-for-sale financial assets | 1,382,286,668.52 | 230,495,000.00 | 823,856,500.00 | 3,089,657,435.85 | 24,927,299,200.00 | 13,470,193,000.00 | 4,150,997,630.37 | 48,074,785,434.74 |
| Other financial assets | - | 48,714,702.72 | 108,600,382.65 | 118,535,436.10 | 20,704,837.80 | 270,123.00 | 100,001,570.00 | 396,827,052.27 |
| Total financial assets: | 53,094,117,124.61 | 28,806,747,607.15 | 13,384,525,618.75 | 52,660,184,706.45 | 114,687,363,642.74 | 40,441,854,678.78 | 7,205,696,059.01 | 310,280,489,437.49 |
| | | | | | | | | |
| Financial liabilities: | | | | | | | | |
| Short-term loans | - | 4,955,039,442.14 | 70,898,851.97 | 1,286,314,790.64 | - | - | - | 6,312,253,084.75 |
| Short-term financing payable | - | 83,983,336.82 | 514,605,771.86 | 56,541,108.89 | - | - | - | 655,130,217.57 |
| Placements from banks and other financial institutions | - | - | - | 1,021,558,904.11 | - | - | - | 1,021,558,904.11 |
| Financial liabilities at FVTPL | 548,889,153.66 | 5,772,599.09 | - | 720,466,610.47 | 139,541,506.44 | - | - | 1,414,669,869.66 |
| Derivative financial liabilities | - | 343,483.14 | (38,496.79) | 914,959.04 | 3,001,456.29 | (55,574.51) | - | 4,165,827.17 |
| Financial assets sold under resale agreements | - | 24,675,670,971.95 | - | 265,838,742.62 | - | - | - | 24,941,509,714.57 |
| Accounts payable to brokerage and margin clients | 26,394,896,469.85 | - | - | - | - | - | - | 26,394,896,469.85 |
| Accounts payable | 167,824,664.85 | 286,458,864.76 | 240,624,780.65 | 160,367,014.34 | 27,456,754.46 | 80,973,252.49 | - | 963,705,331.55 |
| Bonds payable | - | 919,764,000.00 | 4,473,500,000.00 | 16,624,000,000.00 | 31,331,300,000.00 | - | - | 53,348,564,000.00 |
| Long-term loans | - | 2,966,530,873.59 | - | - | - | - | - | 2,966,530,873.59 |
| Other financial liabilities | - | 79,140,537.83 | 308,531,369.54 | 1,041,004,567.90 | 4,667,516.55 | - | - | 1,433,343,991.82 |
| Total financial liabilities | 27,111,610,288.36 | 33,972,704,109.32 | 5,608,122,277.23 | 21,177,006,698.01 | 31,505,967,233.74 | 80,917,677.98 | - | 119,456,328,284.64 |
| | | | | | | | | |
| Net positions | 25,982,506,836.25 | (5,165,956,502.17) | 7,776,403,341.52 | 31,483,178,008.44 | 83,181,396,409.00 | 40,360,937,000.80 | 7,205,696,059.01 | 190,824,161,152.85 |

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(2) Liquidity risk - continued

By: RMB

| | Opening balance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | 1 to 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Overdue/infinite | Total |
| Financial assets: | | | | | | | | |
| Cash and bank balances | 10,700,595,383.65 | 6,966,748,922.66 | 2,073,792,949.71 | 2,846,414,640.36 | - | - | 517,271,500.27 | 23,104,823,396.65 |
| Clearing settlement funds | 4,506,562,332.45 | - | - | - | - | - | - | 4,506,562,332.45 |
| Margin accounts | - | 4,174,762,851.73 | 3,367,185,766.28 | 11,047,611,864.58 | - | - | - | 18,589,560,482.59 |
| Financial assets at FVTPL | 20,172,713,022.41 | 802,139,704.05 | 1,304,058,570.43 | 4,442,848,740.41 | 16,349,709,270.09 | 2,970,793,409.35 | - | 46,042,262,716.74 |
| Derivative financial assets | - | 551,952.26 | 217,259.52 | 2,307,635.34 | 6,511,340.46 | 404,373.76 | - | 9,992,561.34 |
| Financial assets held under resale agreements | - | 4,004,849,607.99 | 3,098,388,998.23 | 12,567,288,393.75 | 16,849,733,523.42 | - | 152,377,804.93 | 36,672,638,328.32 |
| Accounts receivable | - | 405,809,639.94 | 270,792,137.56 | 337,572,333.71 | 408,829,625.18 | - | - | 1,423,003,736.39 |
| Refundable deposits | 2,746,913,647.30 | 421,407,814.98 | - | 25,564,572.57 | 133,501,027.44 | 37,459,323.31 | 53,633,562.36 | 3,418,479,947.96 |
| Available-for-sale financial assets | 1,649,240,122.38 | 102,049,944.00 | 694,286,724.76 | 1,629,132,405.85 | 11,010,664,891.82 | 12,232,219,634.00 | 3,948,502,308.61 | 31,266,096,031.42 |
| Other financial assets | - | 93,363,738.89 | 298,977,264.32 | 6,756,520.88 | 8,999,052.32 | 121,923.00 | 100,001,570.00 | 508,220,069.41 |
| Total financial assets: | 39,776,024,508.19 | 16,971,684,176.50 | 11,107,699,670.81 | 32,905,497,107.45 | 44,767,948,730.73 | 15,240,998,663.42 | 4,771,786,746.17 | 165,541,639,603.27 |
| | | | | | | | | |
| Financial liabilities: | | | | | | | | |
| Short-term loans | - | 4,357,044,280.35 | 252,527,740.18 | 1,035,607,865.77 | - | - | - | 5,645,179,886.30 |
| Short-term financing payable | - | 1,881,283,047.04 | 2,514,612,319.79 | 8,592,071,079.65 | - | - | - | 12,987,966,446.48 |
| Placements from banks and other financial institutions | - | 1,025,569,863.01 | - | - | - | - | - | 1,025,569,863.01 |
| Financial liabilities at FVTPL | 895,260,288.02 | 15,598,553.68 | - | 500,022,266.61 | 120,407,024.33 | - | - | 1,531,288,132.64 |
| Derivative financial liabilities | - | 408,854.16 | (243,338.16) | 496,547.99 | 6,571,468.86 | 16,974,445.38 | - | 24,207,978.23 |
| Financial assets sold under resale agreements | - | 14,197,766,309.68 | 302,393.42 | 3,672,900,000.00 | - | - | - | 17,870,968,703.10 |
| Accounts payable to brokerage and margin clients | 23,616,289,783.43 | - | - | - | - | - | - | 23,616,289,783.43 |
| Accounts payable | - | 614,197,816.43 | 232,158,276.21 | 169,956,639.34 | 90,346,469.08 | 95,111,774.21 | - | 1,201,770,975.27 |
| Bonds payable | - | - | 1,971,512,328.77 | 6,700,800,000.00 | 43,263,614,323.29 | - | - | 51,935,926,652.06 |
| Long-term loans | - | 79,140,537.83 | 308,531,369.54 | 1,470,083,792.69 | 4,667,516.55 | - | - | 1,862,423,216.61 |
| Other financial liabilities | 24,511,550,071.45 | 22,171,009,262.18 | 5,279,401,089.75 | 22,141,938,192.05 | 43,485,606,802.11 | 112,086,219.59 | - | 117,701,591,637.13 |
| | | | | | | | | |
| Net positions | 15,264,474,436.74 | (5,199,325,085.68) | 5,828,298,581.06 | 10,763,558,915.40 | 1,282,341,928.62 | 15,128,912,443.83 | 4,771,786,746.17 | 47,840,047,966.14 |

(3) Credit risk

Credit risk is the risk of loss due to failures or inabilities to fulfil obligations by debtors or counterparties.

Credit risk mainly comes from four aspects: First, there is the risk of brokerage business, i.e., acting as an agent for customers to buy and sell securities and futures. If the customer is not required to pay the full margin in advance in accordance with the law, in the event that the customer's funds are not sufficient to satisfy the needs of the transaction on the day of settlement, or that the customer's funds are in shortage due to other reasons, the responsibility to settle on behalf of the customer and the resulting loss fall on the Company. Second, there is the risk of default for bond investment, i.e., the risk of loss of assets and change in earnings due to default and refusal to pay due principal and interest by the issuer of the invested bonds. Third, there is the counterparty credit risk, which is the risk that the Company suffers losses due to the failure of the counterparty to perform, and the Company's counterparty credit risk is mainly concentrated in the interest rate swap business. Fourth, financing business risk, which refers to the loss caused by the customer's failure to repay debts in full and on time as agreed in the contract. The financing business is the collective name of three businesses: margin financing and securities lending businesses, agreed-upon repurchase of securities and equity securities held under resale agreements.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(3) Credit risk - continued

To address the credit risk of brokerage business, the Company settles securities transactions conducted on behalf of customers with full margin. The settlement risk associated with the volume of trading business is controlled to a large extent by means of full margin settlement. For the bond repo business conducted by customers, strict requirements are imposed on the qualification of customers who apply to conduct repo business, the ratio of standard securities used by customers and the repo multiplier are controlled, and special personnel are arranged to monitor in real time and contact customers in a timely manner to resolve any risks. During the reporting period, there were no significant credit risk events with respect to the Company's brokerage business.

With respect to the default risk of bond investment, the Company has formulated the "Operating Procedures for Internal Rating of Fixed Income Investment of Industrial Securities Co., Ltd". The Company has strict restrictions on the debt rating requirements of its investment bonds. On the basis of obtaining external credit ratings, the Company has developed internal credit rating models for bonds in cooperation with external professional institutions to internally rate the bonds invested by the Company. Through comprehensive analysis and dynamic comparison of internal ratings and external ratings, the Company closely tracks the operation and creditworthiness of the bond issuers in order to identify credit risks in advance, to adjust the position structure and to avoid default losses. In addition, to address the concentration risk of bond investment, the Company has established a corresponding threshold monitoring system and implemented diversified investment to avoid significant losses to the Company caused by the decline of credit rating or default of individual bonds. During the reporting period, in case of default of the Company's investment bonds, the Company has filed judicial proceedings and property preservation.

With respect to counterparty credit risk, the Company investigates and researches potential counterparties in advance and sets internal ratings and counterparty limits based on the counterparty's industry status, asset size and operating conditions. During the reporting period, the scale of business with each counterparty did not exceed the limits and no counterparty default occurred.

To address the credit risk of financing business, the Company has established a scientific customer qualification review mechanism with reference to the requirements of internal and external regulations to review the financial status, creditworthiness, financing purpose, risk tolerance of customers and fluctuation of the securities market, etc. At the same time, it has established a scientific and effective project risk management evaluation system to prudently judge the customer's willingness and ability to repay debts, reasonably assess the probability of default of customers and default loss, and strictly control the transaction amount of customers. Based on the analysis of customer subjects, the Company focuses on analysing the credit status of customer financing projects and strictly controls the business scale of individual investor and individual security. At the same time, the Company includes relevant risk data as key monitoring values, set risk monitoring and early warning thresholds in the monitoring system, implements daily market to market and timely warning; establishes a quantitative credit risk analysis system, and assesses credit risk through stress tests and other means. During the reporting period, in the event of defaults of contracts for the Company's financing business, the Company properly resolved the risks by negotiating with the customers or carrying out disposals in accordance with the agreements.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(3) Credit risk - continued

(3.1) Without considering the collaterals or other credit enhancements, at the balance sheet date, the maximum credit risk exposure represents the carrying amount of financial assets net of impairment provision. The Group's maximum credit risk exposure is presented as follows:

By: RMB

| | Closing balance | Opening balance |
|---|---|---|
| | | |
| Cash and bank balances | 27,313,400,415.02 | 22,840,686,709.39 |
| Clearing settlement funds | 6,027,321,671.10 | 4,506,562,332.45 |
| Margin accounts | 17,492,122,392.09 | 18,098,113,148.77 |
| Financial assets at FVTPL (Note) | 32,152,233,698.27 | 30,678,303,224.37 |
| Including: Money market funds | 9,231,915,494.52 | 9,469,364,542.03 |
| Derivative financial assets | 4,738,721.96 | 5,076,947.94 |
| Financial assets held under resale agreements | 21,135,207,051.97 | 33,161,715,041.05 |
| Accounts receivables | 2,258,413,112.06 | 1,423,003,736.39 |
| Refundable deposits | 3,016,807,850.88 | 3,418,479,947.96 |
| Available-for-sale financial assets (Note) | 25,636,041,045.00 | 17,930,447,138.92 |
| Including: Securities to margin clients | 26,904,368.60 | 17,157,429.50 |
| Other financial assets | 1,977,330,439.15 | 1,761,269,513.12 |
| Total | 137,013,616,397.50 | 133,823,657,740.36 |

The above financial assets at FVTPL and available-for-sale financial assets include bond investment, money market funds and securities financed to customers under financing securities business.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(3) Credit risk - continued

(3.2) The credit risk analysis of the Group's financial assets purchased under resale agreements and margin accounts is as follows:

By: RMB

| | Financial assets held under resale agreements | Margin accounts | Total |
|---|---|---|---|
| | RMB | RMB | RMB |
| | | | |
| Impairment provision accrued individually : | | | |
| Total assets | 1,225,609,612.48 | 299,718,414.61 | 1,525,328,027.09 |
| Provision for impairment | 672,420,246.59 | 264,165,066.35 | 936,585,312.94 |
| Net assets | 553,189,365.89 | 35,553,348.26 | 588,742,714.15 |
| | | | |
| Overdue and without impairment provision accrued individually: | | | |
| Total assets | 966,687,205.30 | - | 966,687,205.30 |
| Provision for impairment | 966,687.21 | - | 966,687.21 |
| Net assets | 965,720,518.09 | - | 965,720,518.09 |
| | | | |
| Not overdue and without impairment provision accrued individually: | | | |
| Total assets | 19,634,841,032.71 | 17,468,994,385.52 | 37,103,835,418.23 |
| Provision for impairment | 18,543,864.72 | 12,425,341.69 | 30,969,206.41 |
| Net assets | 19,616,297,167.99 | 17,456,569,043.83 | 37,072,866,211.82 |
| | | | |
| Total net assets | 21,135,207,051.97 | 17,492,122,392.09 | 38,627,329,444.06 |

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(3) Credit risk - continued

(3.3) At each balance sheet date, the distribution of the Group's bond investment is as follows:

| | Closing balance | | Opening balance | |
|---|---|---|---|---|
| | Fair value | Proportion in total assets | Fair value | Proportion in total assets |
| | RMB | % | RMB | % |
| | | | | |
| Financial assets at FVTPL | 23,131,832,958.19 | 14.91 | 21,233,938,682.34 | 13.87 |
| Available-for-sale financial assets | 25,609,136,676.40 | 16.51 | 17,913,289,709.42 | 11.70 |
| Total | 48,740,969,634.59 | 31.42 | 39,147,228,391.76 | 25.57 |

(3.4) Bond investment by short-term credit rating

By: RMB

| Short-term credit rating | Closing balance | Opening balance |
|---|---|---|
| | | |
| A-1 | 289,011,100.00 | 835,638,250.00 |
| B | 31,211,996.40 | 293,874,003.61 |
| Total | 320,223,096.40 | 1,129,512,253.61 |

(3.5) Bond investment by long-term credit rating

By: RMB

| Long-term credit rating | Closing balance | Opening balance |
|---|---|---|
| | | |
| AAA | 25,269,788,015.97 | 13,286,305,016.48 |
| AA+ | 5,570,258,923.95 | 5,648,984,194.20 |
| AA | 5,545,129,960.61 | 9,132,923,646.03 |
| AA- | 1,357,032.90 | 82,962,510.00 |
| A+ | - | 72,352,785.41 |
| A | 260,185,087.84 | 13,167,979.05 |
| A- | 387,688,036.99 | 110,800,379.92 |
| BBB+ | 351,070,433.45 | 629,812,400.30 |
| BBB | 220,183,627.49 | 168,765,459.39 |
| BBB- | - | 131,338,664.73 |
| BB+ | 401,322,718.25 | 177,258,805.89 |
| BB | 23,330,206.44 | 830,781,792.34 |
| BB- | 156,753,362.63 | 222,306,854.33 |
| B+ | 13,774,072.86 | 331,990,565.11 |
| B | - | 111,079,908.67 |
| B- | - | 33,452,548.28 |
| CCC+ | 106,506,569.16 | - |
| C | 63,293,750.45 | - |
| Total | 38,370,641,798.99 | 30,984,283,510.13 |

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(3) Credit risk - continued

(3.6) Unrated bond investment

By: RMB

| Unrated | Closing balance | Opening balance |
|---|---|---|
| | | |
| National bonds | 10,082,000.00 | 558,575,673.90 |
| Corporate bonds (Note) | 1,840,278,600.00 | 166,363,305.20 |
| Medium-term notes | 357,958,930.00 | - |
| Financial bonds | 2,641,699,080.00 | 4,812,891,750.83 |
| Exchangeable bonds | 408,089,190.00 | 450,099,620.00 |
| Overseas OTC corporate bonds | 4,766,996,939.20 | 1,020,440,693.69 |
| Convertible bonds | 25,000,000.00 | 25,061,584.40 |
| Total | 10,050,104,739.20 | 7,033,432,628.02 |

Note: those are private placement bonds by non-public offering.

(4) Operational risk

Operational risk refers to the risk of direct or indirect loss due to imperfect or problematic internal operational process, personnel, system or external events.

In order to prevent operational risk, the Company established a perfect corporate governance structure and internal control system, established a sound operational risk identification and assessment system, used scientific and effective methods to identify and assess the operational risk points of the Group, and gradually improved the operational risk measurement method, so as to effectively reduce the probability of operational risk. The Company has established an operational risk management system, which is gradually popularized by means of pilot, and gradually promoted the instruments of operational risk and control, such as implementation of self-assessment, construction of monitoring key risk indicators, and collection of risk loss. Improve the operational risk management by systematic instruments applying, collecting and analysing the risk information of business links, and carrying out the timely warning of operational risk in the meantime. During the reporting period, the submission management of key risk indicators and monthly risk reports was further strengthened, and the timeliness of submission by various departments was significantly improved. During the reporting period, no significant operational risk events occurred in the Company.

XI. RISK MANAGEMENT - continued

2. Risk analysis - continued

(5) Net capital and other risk control indicators

In accordance with the provisions of Measures for the Management of Risk Control Indicators of Securities Companies issued by the China Securities Regulatory Commission, the Company has formulated the Measures for the Dynamic Monitoring and Management of Risk Control Indicators of Industrial Securities Co., Ltd. and the Measures for the Management of Net Capital Replenishment of Industrial Securities Co., Ltd., so as to ensure that the net capital and other risk control indicators continue to meet the regulatory standards and improve the anti-risk capability. During the reporting period, the Company timely revised the Company's relevant systems and online monitoring system according to the revision of risk control indicators by the China Securities Regulatory Commission to ensure that all risk control indicators meet the regulatory requirements at any point in time.

The Company strictly monitors the net capital and other risk control indicators specified by the China Securities Regulatory Commission. The threshold of risk control indicators is more stringent on the basis of external regulatory standards. The Company's risk control indicator dynamic monitoring system realizes the dynamic monitoring of the Company's various businesses, and can timely reflect the change of risk control indicators.

XII. TRANSFER OF FINANCIAL ASSETS

In daily business, some transactions of the Group transfer the recognized financial assets to a third party or customer, but the Group still retains the risks and rewards of the transferred financial assets, so it does not derecognize such financial assets in the balance sheet.

Repurchase agreements

The Group obtains funds by pledging or transferring financial assets measured at fair value though profit or loss, available-for-sale financial assets, bonds borrowed in bond lending business and buyout resale transfer bonds to counterparties, and signs an agreement with them to repurchase the above assets. According to the agreement, the counterparties have the right to collect the contractual cash flow during the term of the securities agreement and use the securities for security again, and undertake the obligation to return the securities to the Group on the maturity date specified in the agreement. The Group believes that the risk and reward of the above financial assets measured at fair value though profit or loss and available-for-sale financial assets have not been transferred, so the above financial assets are not derecognized in the balance sheet.

The Group obtains funds by transferring the right to income from margin accounts and financial assets held under resale agreements to counterparties, and signs a repurchase agreement with them. According to the repurchase agreement, the usufruct transferred by the Group to counterparties includes financing principal, agreed interest and any other property income that the Group may obtain under the margin financing and securities lending business and repurchase contract. After the expiration of the repurchase period, the counterparties would sell the above-mentioned usufruct back to the Group. The Group believes that the risks and rewards of the above financial assets have not been transferred, so the above financial assets have not been derecognized in the balance sheet.

## XII. TRANSFER OF FINANCIAL ASSETS - continued

Securities to margin clients

The Group has entered into agreements with customers to lend financial assets at fair value through profit or loss and available-for-sale financial assets to customers, with customers' securities or deposits as collateral. As the Group still retains all risks of relevant securities, the recognition of such securities has not been terminated in the balance sheet.

Financial assets and related liabilities that have been transferred but not recognized are as follows:

| Closing balance | Financial assets at FVTPL | Available-for-sale financial assets | Securities lending | Right to income from purchase of financial assets under resale agreements | Right to income from margin accounts | Total |
|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | |
| Carrying amount of transferred assets | 13,607,860,258.40 | 16,254,574,455.34 | 2,640,500,954.00 | - | - | 32,502,935,667.74 |
| Book value of related liabilities | 9,926,410,426.60 | 12,522,512,467.86 | 3,726,180,882.41 | - | - | 26,175,103,776.87 |

| Opening balance | Financial assets at FVTPL | Available-for-sale financial assets | Securities lending | Right to income from purchase of financial assets under resale agreements | Right to income from margin accounts | Total |
|---|---|---|---|---|---|---|
| | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | |
| Carrying amount of transferred assets | 10,820,865,365.01 | 9,735,482,501.14 | - | 2,062,751,540.00 | 9,128,882,258.80 | 31,747,981,664.95 |
| Book value of related liabilities | 7,404,360,121.16 | 7,302,223,414.00 | - | 1,072,084,571.43 | 3,000,000,000.00 | 18,778,668,106.59 |

## XIII. DISCLOSURE OF FAIR VALUE

1. Financial instruments measured at fair value

Fair values of the financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active markets are determined with reference to quoted market bid prices and ask prices respectively;

(ii) The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions;

(iii) The fair value of derivative instruments is determined with reference to quoted market prices in active markets. Where such quoted prices are not available, the fair value of a non-option-based derivative is estimated using discounted cash flow analysis and on the basis of the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

XIII. DISCLOSURE OF FAIR VALUE - continued

1. Financial instruments measured at fair value - continued

The Group uses the three levels of fair value input as described in Note II, 2 to determine and disclose the fair value of financial instruments.

The following table analyses financial instruments by fair value valuation hierarchy method:

Group

| | Closing balance | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | RMB | RMB | RMB | RMB |
| | | | | |
| I. Financial assets at FVTPL | | | | |
| 1. Held-for-trading financial assets | | | | |
| (1) Debt instruments | 13,733,251,082.05 | 9,187,067,121.70 | - | 22,920,318,203.75 |
| (2) Equity instruments | 13,014,657,110.14 | 2,615,576,983.06 | 289,553,724.41 | 15,919,787,817.61 |
| 2. Financial assets designated as at FVTPL | - | 1,307,786,537.17 | 326,373,921.94 | 1,634,160,459.11 |
| II. Available-for-sale financial assets | | | | |
| (1) Debt instruments | 15,249,070,980.00 | 10,360,065,696.40 | - | 25,609,136,676.40 |
| (2) Equity instruments | 123,217,080.16 | 3,868,061,828.31 | 493,740,850.30 | 4,485,019,758.77 |
| III. Derivative financial assets | - | 4,738,721.96 | - | 4,738,721.96 |
| Total assets | 42,120,196,252.35 | 27,343,296,888.60 | 1,109,668,496.65 | 70,573,161,637.60 |
| | | | | |
| IV. Held-for-trading financial liabilities | 91,582,176.40 | - | - | 91,582,176.40 |
| V. Financial liabilities at FVTPL | - | 1,323,087,693.26 | - | 1,323,087,693.26 |
| VI. Derivative financial liabilities | - | 10,108,502.17 | 741,304.97 | 10,849,807.14 |
| Total liabilities | 91,582,176.40 | 1,333,196,195.43 | 741,304.97 | 1,425,519,676.80 |

| | Opening balance | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | RMB | RMB | RMB | RMB |
| | | | | |
| I. Financial assets at FVTPL | | | | |
| 1. Held-for-trading financial assets | | | | |
| (1) Debt instruments | 13,074,629,120.71 | 7,842,032,706.45 | - | 20,916,661,827.16 |
| (2) Equity instruments | 16,969,017,377.96 | 729,368,995.19 | 173,886,215.46 | 17,872,272,588.61 |
| 2. Financial assets designated as at FVTPL | - | 2,862,880,116.89 | - | 2,862,880,116.89 |
| II. Available-for-sale financial assets | | | | |
| (1) Debt instruments | 8,601,208,887.50 | 9,312,080,821.92 | - | 17,913,289,709.42 |
| (2) Equity instruments | 311,136,801.83 | 4,798,329,483.83 | 89,463,326.03 | 5,198,929,611.69 |
| III. Derivative financial assets | - | 5,076,947.94 | - | 5,076,947.94 |
| Total assets | 38,955,992,188.00 | 25,549,769,072.22 | 263,349,541.49 | 64,769,110,801.71 |
| | | | | |
| IV. Held-for-trading financial liabilities | 2,272,003.38 | - | - | 2,272,003.38 |
| V. Financial liabilities at FVTPL | - | 1,529,016,129.26 | - | 1,529,016,129.26 |
| VI. Derivative financial liabilities | - | 23,931,316.23 | - | 23,931,316.23 |
| Total liabilities | 2,272,003.38 | 1,552,947,445.49 | - | 1,555,219,448.87 |

In 2018 and 2017, the Group did not transfer the fair value of financial instruments from level 1 and level 2 to level 3, nor did it transfer the fair value of financial instruments between level 1 and level 2.

XIII. DISCLOSURE OF FAIR VALUE - continued

2. Basis for determining the market price of items continuously measured at fair value

The market price of the level 1 fair value measurement items of the Group and the Company is the closing price of the active market such as the exchange at the end of the year.

3. Qualitative and quantitative information of valuation techniques and key parameters used in continuous level 2 fair value measurement

By: RMB

| Item | 31/12/2018 | 31/12/2017 | Valuation techniques | Inputs |
|---|---|---|---|---|
| Assets | | | | |
| Financial assets at FVTPL | 13,110,430,641.93 | 11,434,281,818.53 | | |
| Bonds | 9,187,067,121.70 | 8,159,309,561.63 | Discounted cash flows | Bond yield |
| Stocks | 387,379,321.68 | 1,171,723,709.71 | Index of Income Approach | Industry index ups and downs |
| Funds | 2,275,419,515.79 | - | Market price combination method | Market price of investment target |
| Other equity instruments | 1,260,564,682.76 | 2,103,248,547.19 | Market price combination method | Market price of investment target |
| Available-for-sale financial assets | 14,228,127,524.71 | 14,110,410,305.75 | | |
| Bonds | 10,360,065,696.40 | 9,312,080,821.92 | Discounted cash flows | Bond yield |
| Stocks | 52,998,204.20 | 638,696,985.20 | Index of Income Approach | Industry index ups and downs |
| Asset management schemes | 676,300,965.39 | 810,396,391.57 | Market price combination method | Market price of investment target |
| Funds and segregated accounts | 673,817,201.96 | 448,681,204.13 | Market price combination method | Market price of investment target |
| Other investments | 2,464,945,456.76 | 2,900,554,902.93 | Market price combination method | Market price of investment target |
| Derivative financial assets | 4,738,721.96 | 5,076,947.94 | | |
| - Interest rate swap | 296,149.53 | 2,407,099.21 | Discounted cash flows | Forward rate / discount rate |
| - Forward derivatives | 2,035,023.54 | - | Discounted cash flows | Forward rate / discount rate |
| - Credit derivatives | 2,407,548.89 | 2,669,848.73 | Discounted cash flows | Forward rate / discount rate |
| Total | 27,343,296,888.60 | 25,549,769,072.22 | | |
| | | | | |
| Liabilities | | | | |
| Financial Liabilities at FVTPL | 1,323,087,693.26 | 1,529,016,129.26 | | |
| Structured notes | 182,024,390.67 | 147,681,638.34 | Discounted cash flows | Discount rate |
| Others | 1,141,063,302.59 | 1,381,334,490.92 | Market price combination method | Market price of investment target |
| Derivative financial liabilities | 10,108,502.17 | 23,931,316.23 | | |
| -Interest rate swap | 296,149.53 | 2,476,699.51 | Discounted cash flows | Forward rate / discount rate |
| - Equity income swap | - | 16,563,629.68 | Discounted cash flows | Return on related equity securities |
| - Forward derivatives | - | 4,392,067.67 | Discounted cash flows | Forward rate / discount rate |
| - Credit derivatives | 9,812,352.64 | 498,919.37 | Discounted cash flows | Forward rate / discount rate |
| Total | 1,333,196,195.43 | 1,552,947,445.49 | | |

XIII. DISCLOSURE OF FAIR VALUE - continued

4. Qualitative and quantitative information of valuation techniques and key parameters used in continuous level 3 fair value measurement

By: RMB

| Item | 31/12/2018 | 31/12/2017 | Valuation techniques | Inputs | Effect |
|---|---|---|---|---|---|
| Asset | | | | | |
| Financial assets at FVTPL | 615,927,646.35 | 173,886,215.46 | | | |
| Stocks | 267,800,150.32 | 173,886,215.46 | Market price discount method | Lack of liquidity discount | The higher the discount, the lower the fair value |
| Funds | 21,753,574.09 | - | Net portfolio value method for investment target | Net value of investment target | The higher the net value, the higher the fair value |
| Other equity instruments | 326,373,921.94 | - | Market price discount method | Lack of liquidity discount | The higher the discount, the lower the fair value |
| Available-for-sale financial assets | 493,740,850.30 | 89,463,326.03 | | | |
| Stocks | 268,471,582.50 | - | Market price discount method | Lack of liquidity discount | The higher the discount, the lower the fair value |
| Others | 225,269,267.80 | 89,463,326.03 | Discounted cash flows | Discount rate | The higher the discount, the lower the fair value |
| Liabilities | | | | | |
| Derivative financial liabilities | 741,304.97 | - | | | |
| Over-the-counter option | 144,817.20 | - | Option pricing model | Volatility | The higher the volatility, the higher the fair value |
| Credit derivatives | 596,487.77 | - | Option-Adjusted Spread | Debt spread | The higher the spread, the lower the fair value |

## XIII. DISCLOSURE OF FAIR VALUE - continued

5. Continuous level 3 fair value measurement items and reconciliation between book value at the beginning of the year and the end of the year

By: RMB

| Item | 2018/01/01 | Transfer to level 3 | Transfer from level 3 | Total profit or loss for the year | | Purchase, issue, sale and settlement | | | | 2018/12/31 | For the assets held at the end of the reporting period, the changes of unrealized gains or losses in the current period included in the profit or loss |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Included in profit or loss | Included in other comprehensive income | Purchase | Issue | Sale and settlement | Transfer out | | |
| | | | | | | | | | | | |
| Financial assets at FVTPL | | | | | | | | | | | |
| Stocks | 173,886,215.46 | 125,743,021.45 | (57,529,502.56) | 23,737,915.39 | - | 15,378,900.92 | - | (13,416,400.34) | - | 267,800,150.32 | (3,108,629.04) |
| Funds | - | - | - | 1,182,807.64 | - | 20,570,766.45 | - | - | - | 21,753,574.09 | 1,182,807.64 |
| Other equity instruments | - | - | - | 51,967,675.69 | - | 274,406,246.25 | - | - | - | 326,373,921.94 | 51,967,675.69 |
| | | | | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | | | | |
| Stocks | - | 228,451,582.50 | - | - | - | 40,020,000.00 | - | - | - | 268,471,582.50 | - |
| Others | 89,463,326.03 | - | - | - | 2,635,141.77 | 133,170,800.00 | - | - | - | 225,269,267.80 | - |
| | | | | | | | | | | | |
| Derivative financial liabilities | | | | | | | | | | | |
| Over-the-counter option | - | - | - | 619,564.80 | - | (1,069,983.24) | - | 305,601.24 | - | (144,817.20) | 125,182.80 |
| Credit derivatives | - | - | - | (596,487.77) | - | - | - | - | - | (596,487.77) | (596,487.77) |

6. Fair value of financial assets and financial liabilities not measured at fair value

The management believes that, except for the following items, the carrying amount of financial assets and financial liabilities not measured at fair value at the end of the year is close to the fair value of such assets and liabilities.

| | 2018/12/31 | | Level of fair value measurement on December 31, 2018 | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | Level 1 | Level 2 | Level 3 |
| | RMB | RMB | RMB | RMB | RMB |
| | | | | | |
| Bonds payable | 48,501,477,143.04 | 48,547,444,529.17 | - | 48,547,444,529.17 | - |
| | | | | | |
| Total | 48,501,477,143.04 | 48,547,444,529.17 | - | 48,547,444,529.17 | - |

## XIV. CONTINGENCIES

### 1. Outstanding litigation and arbitration matters

(1) A series of disputes over liability for security misrepresentation between the Company and individual investors of Dandong Xintai Electric Co.,Ltd. (" Xintai Electric ").

On 9 June 2017, the Company established the advance compensation special fund for Xintai Electric to compensate qualified investors in advance for investment losses due to fraudulent issuance of Xintai Electric. During the preparation and implementation of advance compensation, some investors of Xintai Electric filed a lawsuit for liability for security misrepresentation against the Company and Xintai Electric:

From February to April 2017, 26 investors of Xintai Electric, including Zhao Dawei, filed 26 lawsuits with Shenyang Intermediate People's Court for false records and major omissions in the IPO application documents of Xintai Electric, claiming Xintai Electric to compensate for the total loss of about RMB 2.9472 million, and the Company, as sponsor and lead underwriter, was jointly and severally liable. On 30 November 2017, Shenyang Intermediate People's Court held the first instance of the above-mentioned 26 Xintai Electric investor litigation cases filed from February to April 2017, and the plaintiff changed the amount of claim to RMB 2.816 million. On 30 June 2018, the court of first instance rejected the plaintiff's claims in 26 cases. So far, 11 investors have appealed, and the cases are in the second instance, involving an amount of RMB 1.2415 million.

From October to November 2017, Ji Lin and other three investors of Xintai Electric filed a lawsuit over liability for security misrepresentation with Shenyang Intermediate People's Court against Xintai Electric, the Company and Xinghua Certified Public Accountants, which were as defendants. The four investors claimed a total amount of RMB 3.9675 million for losses.

From March to September 2017, Hou Haibo and other 24 investors of Xintai Electric filed a lawsuit over liability for security misrepresentation with Fuzhou Intermediate People's Court, claiming the Company, as sponsor and lead underwriter of Xintai Electric, to compensate the loss of RMB 4.4719 million due to Xintai Electric's misrepresentation. Among them, Gui Guoxing also took the Company and Xinghua Certified Public Accountants as defendants. From July to August 2017, three investors, including Gui Guoxing, declared compensation through special funds and applied for withdrawing the lawsuit. In December 2017, Fuzhou Intermediate People's Court made a first instance judgment on the remaining cases. For non-qualified investors of special funds, it rejected all claims. For qualified investors of special funds, it decided to pay the losses according to the compensation standard of special funds and rejected the claims exceeding the compensation amount of special funds. This part of the effective judgments have been fulfilled. On 3 May 2018, Zhang Zhiguo, an investor of Xintai Electric, refused to accept the judgment of first instance and took Xintai Electric, the Company and Xinghua Certified Public Accountants as co-defendants, claiming compensation of RMB 279.2 thousands.

By the end of this year, it was expected that the outflow of economic benefits related to the case is less likely, and no provision was accrued.

XIV. CONTINGENCIES - continued

1. Outstanding litigation and arbitration matters - continued

(2) A series of disputes over liability for security misrepresentation between the Company and Guangdong Finance Trust Co., Ltd

In October 2017, Guangdong Finance Trust Co., Ltd. sued Xintai Electric, Liaoning Xintai Stock Co., Ltd., Wen Deyi and the Company, which purchased and held 11035768 shares of Xintai Electric from 17 March 2016 to 20 April 2016, and claimed the defendants to jointly repurchase the above shares at the price of RMB 15.37 per share, with a total amount of RMB 169,619.8 thousands. Xintai Electric filed a jurisdictional objection, but Shenyang Intermediate People's Court rejected Xintai Electric's jurisdictional objection, and Xintai Electric filed an appeal. In May 2018, Liaoning Higher People's Court rejected the appeal and the case was in the first instance. By the end of this year, the Company had hired a lawyer for the case, and accrued provision of RMB 3.3924 million for the lawyer's risk agency fee. In addition, the Company expects that the outflow of other economic benefits related to the case is less likely, and no other provision is made.

(3) Disputes over entrusted financial management contract between the Company and Chen Hang, etc.

In August 2015, Chen Hang filed a lawsuit with Gulou District Court of Fuzhou City, claiming that Li Ping (former employee of Wuyi Middle Road Business Department of Industrial Securities) and Weng Yingqi had operated his securities account from 21 June 2007 to 15 September 2010, resulting in a loss of RMB 3.2 million. He claimed that the court judged Li Ping and Weng Yingqi to compensate for his losses and Wusi Road Securities Business Department and the Company bore joint and several liability. On 5 January 2017, Gulou District Court of Fuzhou City ruled to transfer the case to Cangshan District Court of Fuzhou City. In March 2017, Chen Hang changed his claim and claimed that the court awarded Li Ping and Weng Yingqi a compensation of RMB 1.542 million for his losses and Wusi Road Securities Business Department and the Company bore joint and several liability. In January 2018, the Company received the first instance judgment of Cangshan District Court of Fuzhou City, which ordered Li Ping and Weng Yingqi to compensate Chen Hang's loss principal of RMB 1.542 million, and rejected Chen Hang's other claims. In January 2018, Li Ping and Weng Yingqi filed an appeal. In September 2018, the Fuzhou Intermediate People's Court ruled to cancel the first instance judgment and send it back for retrial. By the end of this year, it is expected that the outflow of economic benefits related to the case is less likely and no provision is made.

## XV. COMMITMENTS

### 1. Operating lease commitments

At the balance sheet date, the Group had the following commitments in respect of non-cancellable operating leases:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| Minimum lease payments under non-cancellable operating leases | | |
| 1st year subsequent to the balance sheet date | 304,450,448.77 | 261,373,510.06 |
| 2nd year subsequent to the balance sheet date | 266,480,659.38 | 225,602,132.61 |
| 3rd year subsequent to the balance sheet date | 233,023,360.85 | 188,372,478.01 |
| Subsequent years | 662,964,398.66 | 827,755,947.93 |
| Total | 1,466,918,867.66 | 1,503,104,068.61 |

## XVI. COLLATERALS

### 1. Assets as collateral

(1) The carrying amount of assets as collateral for repurchase is as follows:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Bonds (Note 1) | 28,122,509,607.85 | 19,346,868,435.74 |
| Including: Financial assets at FVTPL | 12,366,158,536.90 | 10,009,896,328.42 |
| Available-for-sale financial assets | 15,932,147,413.95 | 8,853,332,567.32 |
| Financial assets held under resale agreements | - | 483,639,540.00 |
| Right to income from margin accounts | - | 9,128,882,258.80 |
| Right to income from purchase of financial assets under resale agreements | - | 1,579,112,000.00 |
| Total | 28,298,305,950.85 | 30,054,862,694.54 |

Note 1: it does not include the bonds in note XVI, 1 (3) which are integrated through bond borrowing and lending.

(2) The carrying amount of the assets as collateral under the refinancing agreement is:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Refundable deposits | 247,457,514.60 | 236,056,311.98 |
| Total | 247,457,514.60 | 236,056,311.98 |

Note: the margin ratio of China Securities Finance Co., Ltd. varies from 20% to 50% according to credit investigation and risk control.

XVI. COLLATERALS - continued

1. Assets as collateral - continued

(3) The carrying amount of the assets as collateral under the bond lending agreement is:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Bonds | 2,640,500,954.00 | - |
| Including: Financial assets at FVTPL | 475,629,105.00 | - |
| Available-for-sale financial assets | 2,028,685,849.00 | - |
| Bonds borrowed | 136,186,000.00 | - |

Note: as at December 31, 2018, the market value of the Group's above-mentioned bonds as collateral through bond borrowing and lending is RMB 4,685,931,120.00, and the market value of the bonds that continue to be used in repurchase business as collateral is RMB 4,342,580,264.00.

(4) The carrying amount of the assets as collateral under the pledge loan is as follows:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Bonds | 1,537,224,394.29 | 1,675,961,540.91 |
| Including: Financial assets at FVTPL | 1,241,701,721.50 | 810,969,036.59 |
| Available-for-sale financial assets | 295,522,672.79 | 864,992,504.32 |

Note: as at December 31, 2018, the carrying amount of the Group's pledge loan with the above bonds as collateral was RMB 1,287,055,757.76 (December 31, 2017: RMB 1,006,332,222.11).

2. Collateral obtained

(1) The fair value of the collateral assets obtained under financial assets held under resale agreements is as follows:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Bonds | 371,168,909.00 | 1,992,093,115.00 |
| Stocks (Note 1) | 40,683,460,431.10 | 79,271,006,192.99 |
| Funds | - | 94,201.20 |
| Total | 41,054,629,340.10 | 81,263,193,509.19 |

Note 1: As at December 31, 2018, the fair value of the stock with restriction in liquidity was RMB 11,965,983,340.32 and its fair value was calculated at market value (31 December 2017: RMB 31,791,345,841.67)

XVI. COLLATERALS - continued

2. Collateral obtained - continued

Note 2: With respect to the reverse repo transactions of national bonds made via the exchange, the transactions are matched automatically and fully guaranteed and the pledge information of the counterparties is not accessible and cannot be disclosed. Therefore, the amount does not include the fair value of the collaterals obtained from the reverse repo transactions of national bonds made via the exchange. As at 31 December 2018, the balance of the guaranteed financial assets held under resale agreement was RMB 698,001,550.00 (31 December 2017: RMB 259,376,483.00).

Note 3: As at 31 December 2018, the amount of the bond collateral obtained through the exchange and the inter-bank buyout purchases under agreements to act as collateral for financial assets sold under repurchase agreements was RMB 0.00 (31 December 2017: RMB 483,639,540.00).

(2) The fair value of the collateral assets obtained under margin financing and securities lending business agreement is as follows:

| | Closing balance | Opening balance |
|---|---|---|
| | RMB | RMB |
| | | |
| Cash and bank balances | 1,651,456,680.41 | 3,547,420,712.76 |
| Bonds | 1,087,604,045.38 | 1,282,700,018.20 |
| Stocks | 50,544,442,328.41 | 62,872,638,110.39 |
| Funds | 429,149,563.15 | 85,826,828.10 |
| Total | 53,712,652,617.35 | 67,788,585,669.45 |

XVII. SUBSEQUENT MATTERS TO BALANCE SHEET DATE

Profit distribution

As approved by the 15th meeting of the 5th board of directors on 1 April 2019, the Company plans to make the following cash dividend: RMB 0.50 (tax included) for every 10 shares, and the total cash dividend to be distributed is RMB 334,833,583.70 based on the 6,696,671,674 issued shares of the Company. The above dividend distribution plan has yet to be approved by the general meeting of shareholders.

## XVIII. OTHER SIGNIFICANT MATTERS

### 1. Charitable contribution

In 2018, the Group made a total of RMB 17,271,919.00 of charitable contribution, including RMB 12,645,047.00 of charitable donations and RMB 4,626,872.00of educational subsidies.

### 2. Assets with restricted ownership or use right

| Item | Carrying amount at the end of the year | Reasons for restriction |
|---|---|---|
| | | |
| Cash and bank balances | 1,054,716,055.06 | RMB 1,053,930,057.22 is the special risk reserve fund for Group subsidiaries AEGON-Industrial Fund and China Industrial Securities Capital Management Co., Ltd.. The fund is deposited in a dedicated account and can only be used in certain circumstances in accordance with the requirements of the CSRC, fund contract, and the limited partnership agreement; RMB 785,997.84 is the housing maintenance fund of the business department, which can only be used after meeting the requirements and obtaining the approval of relevant departments |
| Refundable deposits | 247,457,514.60 | Refinancing collaterals |
| Financial assets at FVTPL | 14,083,489,363.40 | Collateral for repurchase agreements, bond lending and borrowing and pledged loans |
| Available-for-sale financial assets | 18,256,355,935.74 | Collateral for repurchase agreements, bond lending and borrowing and pledged loans |
| Total | 33,642,018,868.80 | |

XVIII. OTHER SIGNIFICANT MATTERS - continued

3. Foreign currency monetary items

| Item | Closing balance | Exchange rate | Into Chinese RMB |
|---|---|---|---|
| | | | |
| Cash and bank balances | | | |
| Including: USD | 408,233,359.70 | 6.86320 | 2,801,787,194.28 |
| EUR | 193,158.40 | 7.85710 | 1,517,664.87 |
| HKD | 3,242,581,287.11 | 0.87620 | 2,841,149,723.77 |
| Others | | | 85,844,472.99 |
| | | | |
| Clearing settlement funds | | | |
| Including: USD | 2,420,780.06 | 6.86320 | 16,614,297.71 |
| HKD | 10,210,730.54 | 0.87620 | 8,946,642.10 |
| | | | |
| Margin accounts | | | |
| Including: HKD | 6,098,346,396.59 | 0.87620 | 5,343,371,112.69 |
| | | | |
| Refundable deposits | | | |
| Including: USD | 45,311,702.82 | 6.86320 | 310,983,278.79 |
| HKD | 25,679,208.68 | 0.87620 | 22,500,122.65 |
| | | | |
| Accounts receivable | | | |
| Including: HKD | 1,499,775,057.45 | 0.87620 | 1,314,102,905.33 |
| | | | |
| Short-term loans | | | |
| Including: USD | 187,529,979.86 | 6.86320 | 1,287,055,757.76 |
| HKD | 5,650,000,000.00 | 0.87620 | 4,950,530,000.00 |
| | | | |
| Accounts payable to brokerage and margin clients | | | |
| Including: USD | 370,464,644.09 | 6.86320 | 2,542,572,945.29 |
| HKD | 2,484,260,581.23 | 0.87620 | 2,176,709,121.24 |
| Others | | | 102,191,089.49 |
| | | | |
| Accounts payable | | | |
| Including: USD | 4,747.19 | 6.86320 | 32,580.91 |
| HKD | 398,661,635.06 | 0.87620 | 349,307,324.64 |

XVIII. OTHER SIGNIFICANT MATTERS - continued

4. Segment reporting

The Group determines the operating segments based on the internal organizational structure, management requirements and internal reporting system, and determines the reporting segments based on the operating segments. The main divisions of the Group are wealth management business, securities proprietary business, investment banking business, asset management business, overseas business and other business. Segment accounting policies are consistent with those of consolidated financial statements. Aside from the income and expenses of internal fund occupation of the segments determined by the internal management price, the income and expense of the segments are determined according to the actual income and expenses of each segment.

| | Amount for the current year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wealth management business | Securities proprietary business | Investment banking business | Asset management business | Overseas business | Others | Inter-segment offset | Total |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| | | | | | | | | |
| Operating income | | | | | | | | |
| Net fee and commission income | 1,333,435,650.15 | (5,003,735.32) | 678,817,992.90 | 1,947,493,352.84 | 272,060,954.18 | 98,282,340.33 | (2,777,232.59) | 4,322,309,322.49 |
| Investment gains | 29,075,009.71 | 2,298,937,736.85 | 18,625,687.21 | 63,438,275.75 | 178,448,752.30 | 1,433,111,506.41 | (1,161,556,231.91) | 2,860,080,736.32 |
| Others | 1,536,568,152.86 | (1,702,166,423.10) | 5,296,893.34 | 167,086,011.35 | 63,101,946.99 | 263,621,721.87 | (1,016,524,924.98) | (683,016,621.67) |
| Total operating income | 2,899,078,812.72 | 591,767,578.43 | 702,740,573.45 | 2,178,017,639.94 | 513,611,653.47 | 1,795,015,568.61 | (2,180,858,389.48) | 6,499,373,437.14 |
| | | | | | | | | |
| Operating expense | 2,452,272,691.75 | 1,137,534,059.53 | 483,338,832.61 | 1,114,341,500.82 | 320,442,392.96 | 1,343,955,888.72 | (1,018,601,586.09) | 5,833,283,780.30 |
| | | | | | | | | |
| Operating profit /(loss) | 446,806,120.97 | (545,766,481.10) | 219,401,740.84 | 1,063,676,139.12 | 193,169,260.51 | 451,059,679.89 | (1,162,256,803.39) | 666,089,656.84 |
| | | | | | | | | |
| Total assets | 66,232,470,992.64 | 45,844,473,731.30 | 556,588,258.59 | 5,292,516,623.17 | 20,600,452,779.98 | 65,120,423,658.13 | (48,509,110,163.19) | 155,137,815,880.62 |
| | | | | | | | | |
| Total liabilities | 62,730,723,050.03 | 45,135,096,654.67 | 360,077,082.52 | 2,566,921,507.27 | 16,673,309,190.18 | 34,600,546,193.59 | (42,236,687,895.67) | 119,829,985,782.59 |
| | | | | | | | | |
| Supplementary information | | | | | | | | |
| 1.Depreciation and amortization | 36,908,561.07 | 1,059,364.00 | 3,884,826.59 | 25,044,385.83 | 13,251,109.53 | 93,998,110.31 | - | 174,146,357.33 |
| 2.Capital expenditure | 58,589,922.89 | 1,892,872.93 | 2,502,861.38 | 21,931,160.42 | 70,438,800.34 | 121,554,167.32 | - | 276,909,785.28 |
| 3.Impairment losses of assets | 600,179,623.79 | 45,167,591.31 | (20,284.38) | 7,994,398.31 | 10,153,883.22 | 26,237,815.03 | - | 689,713,027.28 |

XVIII. OTHER SIGNIFICANT MATTERS - continued

4. Segment reporting - continued

| | Amount for the previous year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Wealth management business | Securities proprietary business | Investment banking business | Asset management business | Overseas business | Others | Inter-segment offset | Total |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| Operating income | | | | | | | | |
| Net fee and commission income | 1,492,572,972.15 | (4,691,774.29) | 1,108,140,160.08 | 1,662,224,558.02 | 186,231,413.71 | 101,595,130.64 | (3,972,101.68) | 4,542,100,358.63 |
| Investment gains | 4,449,096.29 | 2,970,706,086.47 | 21,939,066.11 | 6,838,921.44 | 237,407,998.07 | 725,515,547.69 | (376,501,288.53) | 3,590,355,427.54 |
| Others | 1,099,479,782.06 | (440,024,853.02) | 3,547,192.63 | 193,249,738.68 | 234,540,830.86 | 395,490,032.20 | (798,349,899.44) | 687,932,823.97 |
| Total operating income | 2,596,501,850.50 | 2,525,989,459.16 | 1,133,626,418.82 | 1,862,313,218.14 | 658,180,242.64 | 1,222,600,710.53 | (1,178,823,289.65) | 8,820,388,610.14 |
| Operating expense | 1,671,424,798.57 | 1,042,933,432.56 | 671,255,148.75 | 965,031,479.40 | 504,177,001.01 | 1,619,807,086.08 | (804,326,313.74) | 5,670,302,632.63 |
| Operating profit /(loss) | 925,077,051.93 | 1,483,056,026.60 | 462,371,270.07 | 897,281,738.74 | 154,003,241.63 | (397,206,375.55) | (374,496,975.91) | 3,150,085,977.51 |
| Total assets | 78,937,336,107.31 | 47,474,487,924.83 | 797,364,800.38 | 5,539,317,441.02 | 14,333,685,936.12 | 87,738,618,274.44 | (81,765,409,531.17) | 153,055,400,952.93 |
| Total liabilities | 75,452,521,722.78 | 45,012,658,113.05 | 373,142,728.19 | 2,810,155,802.33 | 10,631,750,794.53 | 59,151,613,842.85 | (76,254,734,376.59) | 117,177,108,627.14 |
| Supplementary information | | | | | | | | |
| 1.Depreciation and amortization | 41,373,133.48 | 1,208,843.72 | 2,715,142.75 | 19,724,805.45 | 8,220,313.90 | 71,922,441.12 | - | 145,164,680.42 |
| 2.Capital expenditure | 55,720,500.83 | 1,947,469.03 | 4,329,447.71 | 32,091,503.45 | 18,453,403.19 | 77,854,225.09 | - | 190,396,549.30 |
| 3.Impairment losses of assets | 77,585,040.15 | 321,316.45 | (103,788.54) | 931,102.97 | 249,526,947.31 | 7,371,101.31 | - | 335,631,719.65 |

The above segment income comes from the transactions within the country (including Hong Kong, Macao and Taiwan), and the non-current assets are located in the country (including Hong Kong, Macao and Taiwan).

5. Comparative figures

When preparing the financial statements, the Company represented some comparative figures of the financial statements.

XIX. APPROVAL OF THE FINANCIAL STATEMENTS

The Company's and consolidated financial statements have been approved by the board of directors of the Company and authorized for issue on 1 April 2019.

*** END OF THE FINANCIAL STATEMENTS***

# INDEPENDENT AUDITOR'S REPORT

KPMG

**To the shareholders of China Industrial Securities International Financial Group Limited**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Industrial Securities International Financial Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 58 to 183, which comprise the consolidated statement of financial position as at 31 December 2019, 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 year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements section* of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Impairment assessment for margin loans | |
|---|---|
| *Refer to note 22 to the consolidated financial statements and the accounting policies on page 77.* | |
| **The Key Audit Matter** | **How the matter was addressed in our audit** |
| At 31 December 2019, the gross amount of margin loans and its related impairment allowance amounted to HK$4,249 million and HK$406 million respectively. The net carrying amount represented 16% of the Group's total assets.<br><br>Management exercises significant judgement in determining the expected credit loss ("ECL") of margin loans. The ECL is subject to a number of key parameters and assumptions, including the classification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.<br><br>Margin loans is categorized as Stage 3 when it is credit-impaired. Management performs individual assessment for each client by considering various factors including the credit enhancements provided to the Group. This is primarily in the form of securities of which the value can be referenced to quoted prices. In cases of collateral shortfalls, management will consider other factors such as remedies available for recovery and the financial situation of the borrower.<br><br>We identified the impairment assessment for margin loans as a key audit matter due to its significance to the consolidated financial statements and the significant management estimates and judgement required in the measurement. | Our audit procedures for the impairment assessment for margin loans included the following:<br><br>• understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the approval, recording and monitoring of margin loans and collateral shortfalls and the ECL assessment procedures. For the key underlying systems used for the processing of transactions in relation to margin loans, this included involving our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant key internal controls over access to these systems and controls over data and change management;<br><br>• understanding and assessing the established policies and procedures on impairment assessment including the staging criteria, application of assumptions and inputs into the model;<br><br>• evaluating, with the assistance of our internal valuation specialists, the reasonableness and appropriateness of the ECL model and the critical assumptions, inputs and parameters used in the model;<br><br>• assessing the valuation of collateral held for a sample of margin loan balances with publicly available market prices;<br><br>• assessing the existence of collateral by comparing a sample of securities held as collateral as extracted from the Group's records with independent confirmations or third party statements from brokers or clearing houses; and<br><br>• assessing the existence and quality of collateral, guarantees or other forms of credit support in evaluating the adequacy of impairment allowance made by the Group for material margin loans classified as Stage 3. |

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ko Sze Man.

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
27 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | Notes | 2019<br>HK$ | 2018<br>HK$<br>*(Note)* |
|---|---|---|---|
| Commission and fee income from customers | *5* | **358,648,790** | 443,052,558 |
| Interest revenue | *5* | **535,096,512** | 433,136,939 |
| Net investment income and gains or losses | *5* | **367,817,965** | 134,856,105 |
| Total revenue | *5* | **1,261,563,267** | 1,011,045,602 |
| Other income | *5* | **131,340,135** | 53,584,083 |
| Share of result of a joint venture | *16* | **(7,188,844)** | (498,698) |
| Finance costs | *7* | **(569,952,191)** | (386,951,178) |
| Commission and fee expenses | *8* | **(72,846,533)** | (111,605,723) |
| Staff costs | *9* | **(232,101,080)** | (187,040,901) |
| Other operating expenses | | **(175,163,993)** | (182,361,532) |
| Impairment losses on financial assets | *9* | **(874,301,268)** | (6,105,250) |
| Other gains or losses | *9* | **1,027,010** | 10,483,808 |
| (Loss)/profit before taxation | *9* | **(537,623,497)** | 200,550,211 |
| Taxation | *10* | **75,764,050** | (56,749,540) |
| (Loss)/profit for the year | | **(461,859,447)** | 143,800,671 |
| Total comprehensive income for the year attributable to owners of the Company | | **(461,859,447)** | 143,800,671 |
| (Loss)/earnings per share | | | |
| Basic (expressed in HKD) | *13* | **(0.1155)** | 0.0360 |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

The notes on pages 64 to 183 form part of these financial statements. Details of dividends declared for the year are set out in note 12.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | 2019 HK$ | 2018 HK$ (Note) |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | 14 | **29,522,322** | 26,668,610 |
| Intangible assets | 15 | **6,897,819** | 2,822,898 |
| Interest in a joint venture | 16 | **32,345,418** | 39,534,262 |
| Financial assets at fair value through profit or loss | 17 | **48,004,707** | 46,987,812 |
| Reverse repurchase agreements | 19 | **169,074,404** | – |
| Statutory deposits | 20 | **12,094,229** | 11,132,259 |
| Deferred tax assets | 28 | **84,368,068** | 3,896,066 |
| Deposits, other receivables, prepayments and other assets | 21 | **48,187,079** | 13,546,949 |
| | | **430,494,046** | 144,588,856 |
| Current assets | | | |
| Accounts receivable | 22 | **5,543,114,617** | 6,907,207,392 |
| Loans receivable | 18 | **–** | 71,444,048 |
| Reverse repurchase agreements | 19 | **856,955,362** | 334,317,392 |
| Financial assets at fair value through profit or loss | 17 | **9,077,929,636** | 8,734,109,327 |
| Statutory deposits | 20 | **14,133,035** | 11,859,727 |
| Deposits, other receivables, prepayments and other assets | 21 | **1,171,699,907** | 394,214,270 |
| Tax receivable | | **64,522** | 43,178 |
| Bank balances – trust accounts | 23 | **1,850,331,251** | 5,228,829,297 |
| Bank balances – general accounts and cash | 23 | **5,359,950,333** | 1,517,226,830 |
| | | **23,874,178,663** | 23,199,251,461 |
| Current liabilities | | | |
| Accounts payable | 26 | **3,411,501,538** | 5,991,194,627 |
| Accruals and other payables | 27 | **179,145,153** | 181,422,911 |
| Amount due to a related party | 24 | **5,744,417** | 3,174,615 |
| Contract liabilities | | **179,333** | 126,000 |
| Tax payable | | **66,906,352** | 86,791,183 |
| Financial liabilities at fair value through profit or loss | 25 | **39,401,016** | 288,701,100 |
| Repurchase agreements | 29 | **3,101,099,261** | 1,542,080,825 |
| Bank borrowings | 30 | **6,371,479,379** | 5,586,797,616 |
| Other borrowings | 31 | **196,217,064** | 1,485,297,574 |
| Notes | 32 | **31,302,195** | 62,850,751 |
| Bonds | 32 | **2,173,672,130** | – |
| Lease liabilities | 33 | **13,404,498** | – |
| Other liabilities | 47 | **546,215,309** | 399,729,979 |
| | | **16,136,267,645** | 15,628,167,181 |
| Net current assets | | **7,737,911,018** | 7,571,084,280 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | Notes | 2019 HK$ | 2018 HK$ (Note) |
|---|---|---|---|
| Non-current liabilities | | | |
| Accruals and other payables | 27 | **–** | 785,704 |
| Financial liabilities at fair value through profit or loss | 25 | **639,840,032** | – |
| Repurchase agreements | 29 | **340,765,474** | – |
| Bank borrowings | 30 | **3,348,128,927** | 3,322,863,676 |
| Deferred tax liabilities | 28 | **28,715** | 950,184 |
| | | **4,328,763,148** | 3,324,599,564 |
| Net assets | | **3,839,641,916** | 4,391,073,572 |
| Capital and reserves | | | |
| Share capital | 34 | **400,000,000** | 400,000,000 |
| Share premium | | **3,379,895,424** | 3,379,895,424 |
| (Accumulated loss)/retained earnings | | **(394,273,173)** | 157,158,483 |
| Other reserve | | **11,577,844** | 11,577,844 |
| Capital reserve | 35 | **442,441,821** | 442,441,821 |
| Equity attributable to owners of the Company | | **3,839,641,916** | 4,391,073,572 |

The consolidated financial statements on pages 64 to 183 were approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

| | |
|---|---|
| **Li Baochen** | **Zhang Chunjuan** |
| *DIRECTOR* | *DIRECTOR* |

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital HK$ *(Note 34)* | Share premium HK$ | Capital reserve HK$ *(Note 35)* | Other reserve HK$ | Retained earnings/ (Accumulated loss) HK$ | Total equity HK$ |
| At 1 January 2018 | 400,000,000 | 3,379,895,424 | 442,441,821 | 11,577,844 | 133,357,812 | 4,367,272,901 |
| Dividends recognised as distribution *(note 12)* | – | – | – | – | (120,000,000) | (120,000,000) |
| Profit and total comprehensive income for the year | – | – | – | – | 143,800,671 | 143,800,671 |
| At 31 December 2018 | 400,000,000 | 3,379,895,424 | 442,441,821 | 11,577,844 | 157,158,483 | 4,391,073,572 |
| HKFRS 16 adjustment on retained earnings *(note 3)* | – | – | – | – | 2,427,791 | 2,427,791 |
| At 1 January 2019 (after adjustment) | 400,000,000 | 3,379,895,424 | 442,441,821 | 11,577,844 | 159,586,274 | 4,393,501,363 |
| Dividends recognised as distribution *(note 12)* | – | – | – | – | (92,000,000) | (92,000,000) |
| Loss and total comprehensive income for the year | – | – | – | – | (461,859,447) | (461,859,447) |
| At 31 December 2019 | 400,000,000 | 3,379,895,424 | 442,441,821 | 11,577,844 | (394,273,173) | 3,839,641,916 |

The notes on pages 64 to 183 form part of these financial statements.

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 3.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Notes | 2019 HK$ | 2018 HK$ (Note) |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| (Loss)/profit before taxation | | **(537,623,497)** | 200,550,211 |
| Adjustments for: | | | |
| Finance costs | | **569,952,191** | 386,951,178 |
| Depreciation of property and equipment | | **44,358,192** | 9,799,999 |
| Losses on written off/disposal of property and equipment, net | | **–** | 30,795 |
| Amortisation of intangible assets | | **1,850,322** | 551,226 |
| Impairment losses on financial assets | | **874,301,268** | 6,105,250 |
| Fair value changes of interest held by third-party unitholders/ shareholders of consolidated investment funds | | **(29,298,504)** | (15,936,005) |
| Share of result of a joint venture | | **7,188,844** | 498,698 |
| Operating cash flows before movements in working capital | | **930,728,816** | 588,551,352 |
| (Increase)/decrease in statutory deposits | | **(3,235,278)** | 6,347,343 |
| Increase in deposits, other receivables, prepayments and other assets | | **(812,125,767)** | (93,434,945) |
| Increase in financial assets at fair value through profit or loss | | **(342,533,744)** | (1,816,931,223) |
| Decrease/(increase) in accounts receivable | | **490,415,720** | (1,950,209,820) |
| Decrease in loans receivable | | **71,614,048** | 41,285,952 |
| Increase in reverse repurchase agreements | | **(691,712,374)** | (335,307,392) |
| Decrease/(increase) in bank balances – trust accounts | | **3,378,498,046** | (1,839,087,622) |
| (Decrease)/increase in accounts payable | | **(2,579,693,089)** | 1,787,522,888 |
| Increase in accruals and other payables | | **181,635** | 18,559,278 |
| Increase in financial liabilities at fair value through profit or loss | | **389,156,241** | 101,978,262 |
| Increase in repurchase agreements | | **1,891,414,430** | 440,546,639 |
| Increase in contract liabilities | | **53,333** | 126,000 |
| Increase in amount due to a related party | | **2,569,802** | 217,468 |
| Cash generated from/(used in) operations | | **2,725,331,819** | (3,049,835,820) |
| Tax paid | | **(25,535,596)** | (8,242,557) |
| NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES | | **2,699,796,223** | (3,058,078,377) |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | **(3,299,697)** | (16,728,101) |
| Proceeds from disposal of property and equipment | | **129,802** | 812,633 |
| Purchase of intangible assets | | **(5,925,243)** | (1,757,583) |
| Acquisition of a consolidated structured entity | *45* | **302,964** | – |
| Acquisition of interest in a joint venture | *16* | **–** | (40,032,960) |
| Disposal of a consolidated structured entity | *44* | **–** | 12,903,367 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(8,792,174)** | (44,802,644) |

| | Notes | 2019 HK$ | 2018 HK$ (Note) |
|---|---|---|---|
| FINANCING ACTIVITIES | 42 | | |
| Interest paid | | **(509,060,046)** | (370,264,865) |
| Bank borrowings raised | | **18,298,700,000** | 40,582,001,825 |
| Repayments of bank borrowings | | **(17,518,700,000)** | (37,083,730,813) |
| Other borrowings raised | | **663,357,145** | 790,022,977 |
| Repayments of other borrowings | | **(1,937,874,069)** | (524,992,892) |
| Proceeds from issue of notes | | **31,148,400** | 62,650,400 |
| Redemption of notes | | **(62,650,400)** | (62,549,900) |
| Proceeds from issue of bonds | | **2,139,012,259** | – |
| Capital element of lease rentals paid | | **(31,806,509)** | – |
| Interest element of lease rentals paid | | **(1,142,215)** | – |
| Dividends paid | | **(92,000,000)** | (120,000,000) |
| Contributions from third-party unitholders/shareholders of consolidated investment funds | | **201,718,606** | 177,054,702 |
| Withdrawals from third-party unitholders/shareholders of consolidated investment funds | | **(28,983,717)** | (11,454,513) |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | **1,151,719,454** | 3,438,736,921 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **3,842,723,503** | 335,855,900 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **1,517,226,830** | 1,181,370,930 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | **5,359,950,333** | 1,517,226,830 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances – general accounts and cash | 23 | **5,359,950,333** | 1,517,226,830 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE | | | |
| Interest received | | **1,034,352,170** | 825,769,200 |
| Dividend received | | **8,210,326** | 17,019,408 |

*Note:*

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

The notes on pages 64 to 183 form part of these financial statements.

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The shares of the Company have been listed in GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the 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. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investments in debt and equity securities (see note 2(k));

– derivative financial instruments (see note 2(k)); and

– net assets attributable to third-party unit holder/shareholders' interests in consolidated investment funds (see note 2(k)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and 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 recognised 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 HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, but possesses the practical ability to direct the relevant activities of the investee, the Group considers all relevant facts and circumstances in assessing whether or not the Group has power over the investee, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Basis of consolidation *(Continued)*

When the Group, which is acting as a fund manager, manages and has an investment in a fund, it may determine that its decision-making powers over the relevant activities of the fund are exercised in the capacity of an agent of the investors as a group and, therefore, that it does not control the fund.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether it is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Different weightings shall be applied by the Group to each of the factors on the basis of particular facts and circumstances unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds managed by the Group are considered as "structured entities".

The Group serves as the investment manager of investment funds. These investment funds invest mainly in equities, debt securities and cash and cash equivalents. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such investment funds, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated financial statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units/shares in such investment funds for cash. These are presented as "Third-party interests in consolidated structured entities" within other liabilities in the consolidated statement of financial position, if any.

### (e) Investment in a joint venture

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

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method. 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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Group's equity investment. 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 notes 2(i)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in 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 any other long-term interests that in substance form part of the Group's net investment in the joint venture (after applying the ECL model to such other long-term interests where applicable (see 2(k)).

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (e) Investment in a joint venture *(Continued)*

If an investment in an joint venture becomes an investment in an associate, the 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 joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(k)).

In the Company's statement of financial position, investment in a joint venture is stated at cost less impairment losses (see note 2(i)).

### (f) Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Revenue from contracts with customers *(Continued)*

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Details of the Group's performance obligations for revenue for contracts with customers resulting from application of HKFRS 15 are set out in note 5.

**Contracts with multiple performance obligations (including allocation of transaction price)**

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand- alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

*Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

**Variable consideration**

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Revenue from contracts with customers *(Continued)*

**Variable consideration** *(Continued)*

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Commission income arising from broking business of securities, and futures and option contracts dealings is recorded as income on a trade-date basis;

(ii) Commission income arising from insurance brokerage business is recognised as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed, generally at the effective date of the applicable insurance policies;

(iii) Corporate advisory fee and sponsor fee, asset management fee, investment advisory fee, custodian and handling fee income and arrangement fee income are recognised when the Group has fulfilled its obligations under the respective contracts. Depending on the nature of the services and the contract terms, corporate advisory fee and sponsor fee are recognised in profit or loss over time using a method that depicts the Group's performance, or at point in time when the service is completed;

(iv) Commission income arising from placing, underwriting and sub-underwriting is recognised as income when the Group has fulfilled its obligations its obligations in accordance with the terms of the agreements;

(v) Realised profits or losses from financial assets/financial liabilities at fair value through profit or loss ("FVTPL") and derivatives are recognized on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses of financial assets/financial liabilities at FVTPL and derivatives are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments;

(vi) Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(k)); and

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Property and equipment

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(i)):

– right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest; and

– items of equipment, including right-of-use assets arising from leases of underlying equipment (see note 2(q)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Leasehold improvement | Over the lease term |
| Motor vehicles | 12.5% |
| Furniture and fixtures | 20% |
| Computer equipment | 50% |
| Properties leased for own use | Over the lease term |

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (h) Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Intangible assets *(Continued)*

Financial guarantee contracts is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the original or modified terms of a debt instrument. A contract is classified as a financial guarantee contract when the following conditions are satisfied:

– The reference obligation is a debt instrument

– The holder is compensated only for a loss that it incurs

– The contract does not compensate the holder for more than the actual loss that it incurs.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

| | |
|---|---|
| Software | 3 years |

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised 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 amortisation of intangible assets with finite lives as set out above.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (i) Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amounts individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro- rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that including a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

### (k) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the gross carrying amount of a financial asset or the amortised cost of a financial liability.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

**Financial assets**

*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Classification and subsequent measurement of financial assets (Continued)*

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Classification and subsequent measurement of financial assets (Continued)*

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The unrealised gain or loss is determined as the change in the fair values of the financial asset between the reporting period, whilst realised gain is determined as difference between the transaction price and the fair value at the prior period-end. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net investment income and gains or losses" line item.

*Impairment of financial assets*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts receivable, loans receivable, reverse repurchase agreements, deposits and other receivables, bank balances and loan commitment). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

(i) Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due (except for secured margin loans where a shorter period of 30 days past due has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable, loans receivable, deposits and other receivables and bank balances are each assessed as a separate group);

- Past-due status; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and

(b) the cash flows that the Group expects to receive if the loan is drawn down.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and loans receivable where the corresponding adjustment is recognised through a loss allowance account.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (Continued)*

(vi) Financial guarantee contracts held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.


The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.


If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial asset'.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset other than equity investment, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

**Financial liabilities and equity**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities at amortised cost*

Financial liabilities not classified as at FVTPL (including amount due to a related party, accounts payable, bank borrowings, other borrowings, notes, repurchase agreements, contract liabilities, other liabilities and other payables) are subsequently measured at amortised cost using the effective interest method.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial liabilities and equity** *(Continued)*

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial liabilities and equity** *(Continued)*

*Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds*

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment fund after deducting the consolidated investment fund's other liabilities.

As at year end, such financial liability of net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds is presented as an "other liabilities" in the consolidated statement of financial position.

In the case of acquisition or disposals of such non-controlling interests in consolidated investment funds, any difference between the acquisition cost or sale price of these non-controlling interests and the carrying value of these non-controlling interests is recognised as an increase or decrease in a liability which would be reflected in the consolidated statement of profit or loss.

*Derecognition/substantial modification of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Financial instruments *(Continued)*

**Financial liabilities and equity** *(Continued)*

*Non-substantial modifications of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

**Derivative financial instruments**

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

**Repurchase agreements**

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position and continue to be recognised as "financial assets at FVTPL". The proceeds from selling such assets are presented as "Repurchase agreements" in the consolidated statement of financial position. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

**Reverse repurchase agreements**

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the consolidated statement of financial position. The cost of purchasing such assets is presented under "Reverse repurchase agreements" in the consolidated statement of financial position. Reverse repurchase agreements are measured at amortised cost as they are held for the collection of contractual cash flows which represent solely payments of principal and interest. Reverse repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

**Offsetting a financial asset and a financial liability**

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when the Group currently has legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### (l) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(f)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(k)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial 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 changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2(k).

### (n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (o) Taxation

Income tax expense represents the sum of the income tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Taxation *(Continued)*

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### (p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

### (q) Leased asset

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

**As a lessee**

*(A) Policy applicable from 1 January 2019*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Leased asset *(Continued)*

**As a lessee** *(Continued)*

*(A) Policy applicable from 1 January 2019 (Continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see 2(g) and 2(i)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and presents lease liabilities separately in the statement of financial position.

*(B) Policy applicable prior to 1 January 2019*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### (s) Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

**Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") as defined contribution benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

### (t) Related parties

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

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

(ii) has significant influence over the Group; or

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Related parties *(Continued)*

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

(i) 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).

(ii) 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).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

### (u) Segment reporting

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

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Fiduciary activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of its customers. These client securities arising thereon are excluded from the consolidated financial statements, as they are not assets of the Group.

The Group maintains segregated accounts with authorised institutions to hold clients' monies arising from its normal course of the regulated business activities. The Group has classified the "bank balances — trust and segregated accounts" within the current assets in the consolidated statement of financial position and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies.

The Group is not allowed to use the clients' monies to settle its own obligations. The cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019.

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

### HKFRS 16, Leases *(Continued)*

Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

**a. New definition of a lease**

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

**b. Lessee accounting and transitional impact**

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are in relation to properties as disclosed in note 14. For an explanation of how the Group applies lessee accounting, see note 2(q).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.72%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

### HKFRS 16, Leases *(Continued)*

**b. Lessee accounting and transitional impact** *(Continued)*

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 36(a) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

| | HK$ |
|---|---|
| Operating lease commitments at 31 December 2018 | 47,067,005 |
| Less: short term leases with remaining lease term ending on or before 31 December 2019 that are exempt from capitalisation | (569,382) |
| Less: total future interest expenses | (1,286,616) |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 | 45,211,007 |
| Analysed as | |
| Current | 32,294,847 |
| Non-current | 12,916,160 |
| | 45,211,007 |

The right-of-use assets in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16).

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

### HKFRS 16, Leases *(Continued)*

**b. Lessee accounting and transitional impact** *(Continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | **Carrying amount at 31 December 2018 HK$** | Derecognition of accrued rent under HKAS 17 HK$ | Capitalisation of operating lease contracts HK$ | Carrying amount at 1 January 2019 HK$ |
|---|---|---|---|---|
| **Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:** | | | | |
| Property and equipment | **26,668,610** | – | 44,042,009 | 70,710,619 |
| **Total non-current assets** | **144,588,856** | – | 44,042,009 | 188,630,865 |
| Accruals and other payable | **(181,422,911)** | 2,811,085 | – | (178,611,826) |
| Lease liabilities | **–** | – | (32,294,847) | (32,294,847) |
| **Total current liabilities** | **(15,628,167,181)** | 2,811,085 | (32,294,847) | (15,657,650,943) |
| **Net current assets** | **7,571,084,280** | 2,811,085 | (32,294,847) | 7,541,600,518 |
| Accruals and other payable (non-current) | **(785,704)** | 785,704 | – | – |
| Lease liabilities (non-current) | **–** | – | (12,916,160) | (12,916,160) |
| **Total non-current liabilities** | **(3,324,599,564)** | 785,704 | (12,916,160) | (3,336,730,020) |
| **Net assets** | **4,391,073,572** | 3,596,789 | (1,168,998) | 4,393,501,363 |

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

| | **As at 31 December 2019 HK$** | As at 1 January 2019 HK$ |
|---|---|---|
| **Included in "property and equipment"** | | |
| Other properties leased for own use, carried at depreciated cost | **12,843,200** | 44,042,009 |

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

### HKFRS 16, Leases *(Continued)*

**c. Impact on the financial result and cash flows of the Group**

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 23(a)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17. Impact of the adoption of HKFRS 16 on the Group's segment results are not prepared as the leases are unallocated.

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Amounts reported under HKFRS 16<br>HK$ | HKFRS 16 depreciation and interest expense<br>HK$ | Deduct: estimated amounts related to operating lease as if under HKAS 17<br>HK$ | Hypothetical amounts for 2019 as if under HKAS 17<br>HK$ | Compared to amounts reported for 2018 under HKAS 17<br>HK$ |
| **Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:** | | | | | |
| Finance costs | **(569,952,191)** | **1,142,215** | **–** | **(568,809,976)** | (386,951,178) |
| Other operating expenses | **(175,163,993)** | **31,198,809** | **(30,137,639)** | **(174,102,823)** | (182,361,532) |
| (Loss)/profit before taxation | **(537,623,497)** | **32,341,024** | **(30,137,639)** | **(535,420,112)** | 200,550,211 |
| (Loss)/profit for the period | **(461,859,447)** | **32,341,024** | **(30,137,639)** | **(459,656,062)** | 143,800,671 |

## 3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs *(Continued)*

### HKFRS 16, Leases *(Continued)*

**c. Impact on the financial result and cash flows of the Group** *(Continued)*

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | 2019 | | | 2018 |
| | Amounts reported under HKFRS 16 HK$ | Deduct: estimated amounts related to operating lease as if under HKAS 17 HK$ | Hypothetical amounts for 2019 as if under HKAS 17 HK$ | Compared to amounts reported for 2018 under HKAS 17 HK$ |
| **Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:** | | | | |
| **Net cash generated from/(used in) operating activities** | **2,699,796,223** | **(32,948,724)** | **2,666,847,499** | (3,058,078,377) |
| **Net cash used in investing activities** | **(8,792,174)** | **–** | **(8,792,174)** | (44,802,644) |
| **Net cash generated from financing activities** | **1,151,719,454** | **32,948,724** | **1,184,668,178** | 3,438,736,921 |

*Note 1*: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

*Note 2*: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

**Measurement of ECL**

A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

– Determining criteria for significant increase in credit risk;

– Selecting appropriate models and assumptions for the measurement of ECL;

– Establishing the relative probability weightings of forward-looking scenarios.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Critical judgements in applying accounting policies *(Continued)*

**Measurement of ECL** *(Continued)*

*Significant increase in credit risk*

ECL of different financial assets is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined in note 40. A financial asset moves to Stage 2 when its credit risk has increased significantly since initial recognition, and it comes to Stage 3 when it is credit-impaired (but it is not purchased original credit impaired). In assessing whether the credit risk of a financial asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information with significant judgements involved.

*Models and assumptions used*

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the appropriate model for each type of financial assets, as well as the assumptions used in these models. Please refer to note 40 for more details on ECL.

### Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

**Fair value measurement of financial instruments**

Financial assets at FVTPL and financial liabilities at FVTPL amounting to HK$310,414,419 and HK$8,460,016 respectively as at 31 December 2019 (2018: HK$399,350,992 and HK$680,767 respectively) are measured at fair values with fair values being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40 for further disclosures.

**Measurement of ECL**

*Impairment assessment under ECL for accounts receivable (except for secured margin loans)*

The Group uses a provision matrix to calculate ECL for the accounts receivable (except for secured margin loans) that result from transactions within the scope of HKFRS 15. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information is considered. In addition, accounts receivable with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 40.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

**Measurement of ECL** *(Continued)*

*Impairment assessment under ECL for financial assets at amortised cost other than accounts receivable (including secured margin loans, loans receivable, reverse repurchase agreements, deposits, other receivables and bank balances)*

The impairment assessment under ECL for financial assets at amortised cost (including secured margin loans, loans receivable, reverse repurchase agreements, deposits, other receivables and bank balances) is an area that requires the use of models and assumptions about future economic conditions and the credit risk of the respective financial instrument.

(i) Inputs, assumptions and estimation techniques
ECL is the discounted product of expected future cash flows by using the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), of which PD and LGD are estimates based on significant management judgement. For credit-impaired financial assets, the management perform individual assessment for each client by considering various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Group and likelihood of subsequent settlement and additional collaterals received.

(ii) Forward-looking information
In measuring ECL in accordance with HKFRS 9, it should consider forward-looking information. The calculation of ECL incorporates forward-looking information through the use of publicly available economic data and forecasts based on assumptions and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

Details of the impairment assessment of financial assets at amortised cost is disclosed in note 40.

**Income taxes**

Deferred tax asset of HK$82,410,899 has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK$499 million as at 31 December 2019 (2018:HK$ Nil) for subsidiaries that are expected to have taxable profits in the future. No deferred tax asset was recognised for tax losses of approximately HK$313 million (2018: HK$215 million) in respect of subsidiaries where it is not probable that sufficient profits will be generated. Details of the tax losses and the deferred tax are disclosed in note 28.

## 5. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

### Revenue

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| **Commission and fee income from customers** | | |
| Brokerage: | | |
| Commission and fee income from securities brokerage | **137,547,325** | 182,195,344 |
| Commission and fee income from futures and options brokerage | **24,283,654** | 27,042,191 |
| Commission income from insurance brokerage | **5,966,448** | 3,257,129 |
| | **167,797,427** | 212,494,664 |
| Corporate finance: | | |
| Commission on placing, underwriting and sub-underwriting | | |
| – Debt securities | **62,580,777** | 124,986,524 |
| – Equity securities | **53,820,935** | 50,221,728 |
| Corporate advisory fee income | **830,464** | 3,141,044 |
| Sponsor fee income | **7,800,000** | 7,990,000 |
| Arrangement fee | **29,743,094** | 24,992,911 |
| | **154,775,270** | 211,332,207 |
| Asset management: | | |
| Asset management fee income | **31,834,962** | 16,412,089 |
| Investment advisory fee income | **4,241,131** | 2,813,598 |
| | **36,076,093** | 19,225,687 |
| | **358,648,790** | 443,052,558 |
| **Interest revenue** | | |
| Loans and financing: | | |
| Interest income from margin financing | **477,843,577** | 422,945,725 |
| Interest income from money lending activities | **1,354,094** | 5,224,634 |
| | **479,197,671** | 428,170,359 |
| Financial products and investments: | | |
| Interest income from reverse repurchase agreements | **55,898,841** | 4,966,580 |
| | **535,096,512** | 433,136,939 |

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Revenue *(Continued)*

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| **Net investment income and gains or losses** | | |
| Financial products and investments: | | |
| Interest income from financial assets at fair value through profit or loss | **372,191,758** | 461,578,805 |
| Dividend income from financial assets at fair value through profit or loss | **8,210,326** | 12,189,462 |
| Net realised gain/(loss) on financial assets at fair value through profit or loss | **56,272,961** | (258,760,737) |
| Net unrealised loss on financial assets at fair value through profit or loss | **(59,186,141)** | (215,663,069) |
| Interest income from derivatives | **10,406,981** | – |
| Net realised (loss)/gain on derivatives | **(66,079,277)** | 28,323,024 |
| Net unrealised gain on derivatives | **26,259,591** | 6,323,484 |
| Net realised loss on financial liabilities at fair value through profit or loss | **(6,365,184)** | (1,774,809) |
| Net unrealised gain on financial liabilities at fair value through profit or loss | **26,106,950** | 102,639,945 |
| | **367,817,965** | 134,856,105 |
| **Total revenue** | **1,261,563,267** | 1,011,045,602 |

Timing of revenue recognition for commission and fee income from customers

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| A point in time | **308,519,103** | 411,702,093 |
| Over time | **50,129,687** | 31,350,465 |
| Total | **358,648,790** | 443,052,558 |

### Performance obligations for commission and fee income from customers

**(1) Brokerage**

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group also provide handling service for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed.

The Group provides custodian services for securities, futures and options customer accounts. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Performance obligations for commission and fee income from customers *(Continued)*

**(1) Brokerage** *(Continued)*

The Group also provides placement services for insurance and wealth products to customers. Commission income is recognised at a point in time when the placement is completed and is calculated at a certain percentage of the premium paid for certain period of the insurance and wealth products.

**(2) Corporate finance**

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also structured products arrangement services. Revenue is recognised when the relevant placing, underwriting, sub-underwriting or structured products arrangement activities are completed. Accordingly, the revenue is recognised at a point in time.

The Group also provides sponsoring services to clients for their fund raising activities and corporate advisory services to corporate clients for their corporate actions. The Group considers that all the services promised in a particular contract of being a sponsor or corporate advisor are interdependent and interrelated and should be therefore accounted for as a single performance obligation. As there is enforceable right to payment for the Group for the performance of services completed up to date based on the contracts with customers regarding sponsor or corporate advisory services, the revenue is recognised over time.

**(3) Asset management**

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receive and consume the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. Investment advisory fee income is charged at a fixed amount per month for managing the investment portfolio of each client.

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

*Transaction price allocated to the remaining performance obligation for contracts with customers*

The following table shows the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partly unsatisfied) as at 31 December 2019 and 2018 and the expected timing of recognising revenue are as follows:

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Within one year | **5,000,000** | 10,550,000 |

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Performance obligations for commission and fee income from customers *(Continued)*

*Transaction price allocated to the remaining performance obligation for contracts with customers (Continued)*

This amount represents revenue expected to be recognised in the future from the contracts for corporate advisory services. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur over the next 12 months.

### Other Income

| | **2019** | 2018 |
|---|---|---|
| | **HK$** | HK$ |
| Interest income from financial institutions | **116,656,919** | 47,769,201 |
| Sundry income | **14,683,216** | 5,814,882 |
| | **131,340,135** | 53,584,083 |

## 6. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong.

The Group's reportable and operating segments under HKFRS 8 are as follows:

Brokerage – provision of securities, futures and options and insurance brokerage services;

Loans and financing – provision of margin financing and secured or unsecured loans to customers;

Corporate finance – provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management – provision of fund management, discretionary account management and investment advisory services;

Financial products and investments – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group's accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the normally charged to third party customers, the nature of services or the costs incurred.

## 6. SEGMENT REPORTING *(Continued)*

### For the year ended 31 December 2019

| | Brokerage HK$ | Loans and financing HK$ | Corporate finance HK$ | Asset management HK$ | Financial products and investments HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| **Segment revenue and result** | | | | | | | |
| Revenue from external customers | 167,797,427 | 479,197,671 | 154,775,270 | 36,076,093 | 55,898,841 | – | 893,745,302 |
| Net gains on financial products and investments | – | – | – | – | 367,817,965 | – | 367,817,965 |
| Inter-segment revenue | 2,322,166 | – | – | 33,468,628 | – | (35,790,794) | – |
| Segment revenue and net gains on financial products and investments | 170,119,593 | 479,197,671 | 154,775,270 | 69,544,721 | 423,716,806 | (35,790,794) | 1,261,563,267 |
| Revenue presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 1,261,563,267 |
| Segment results | 83,443,930 | (776,274,497) | 60,512,183 | 34,530,612 | 64,203,622 | – | (533,584,150) |
| Unallocated expenses | | | | | | | (4,039,347) |
| Loss before taxation presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | (537,623,497) |
| **Other segmental information included in the measure of segment results** | | | | | | | |
| Impairment losses on financial assets | – | 874,301,268 | – | – | – | – | 874,301,268 |
| Depreciation | 30,723 | – | – | – | – | – | 30,723 |
| Unallocated: | | | | | | | 44,327,469 |
| | | | | | | | 44,358,192 |
| Amortisation | 1,493,474 | – | – | – | – | – | 1,493,474 |
| Unallocated: | | | | | | | 356,848 |
| | | | | | | | 1,850,322 |
| Interest income | 67,813,584 | 479,203,008 | 601,484 | 9,428 | 460,776,508 | – | 1,008,404,012 |
| Unallocated: | | | | | | | 25,948,158 |
| | | | | | | | 1,034,352,170 |
| Interest expenses | 3,005,764 | 277,915,931 | – | – | 298,148,766 | – | 579,070,461 |
| Unallocated: | | | | | | | (9,118,270) |
| | | | | | | | 569,952,191 |
| Dividend income | – | – | – | – | 8,210,326 | – | 8,210,326 |

## 6. SEGMENT REPORTING *(Continued)*

### For the year ended 31 December 2018

| | Brokerage HK$ | Loans and financing HK$ | Corporate finance HK$ | Asset management HK$ | Financial products and investments HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| **Segment revenue and result** | | | | | | | |
| Revenue from external customers | 212,494,664 | 428,170,359 | 211,332,207 | 19,225,687 | 4,966,580 | – | 876,189,497 |
| Net gains on financial products and investments | – | – | – | – | 134,856,105 | – | 134,856,105 |
| Inter-segment revenue | 4,287,884 | – | – | 23,037,687 | – | (27,325,571) | – |
| Segment revenue and net gains on financial products and investments | 216,782,548 | 428,170,359 | 211,332,207 | 42,263,374 | 139,822,685 | (27,325,571) | 1,011,045,602 |
| Revenue presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 1,011,045,602 |
| Segment results | 90,987,409 | 226,431,938 | 112,075,789 | 22,605,370 | (223,586,908) | – | 228,513,598 |
| Unallocated expenses | | | | | | | (27,963,387) |
| Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 200,550,211 |
| **Other segmental information included in the measure of segment results** | | | | | | | |
| Impairment losses on financial assets | 898,000 | 3,704,383 | – | 512,867 | 990,000 | – | 6,105,250 |
| Depreciation | 140,265 | – | 513 | – | – | – | 140,778 |
| Unallocated: | | | | | | | 9,659,221 |
| | | | | | | | 9,799,999 |
| Amortisation | 281,835 | – | 333 | – | – | – | 282,168 |
| Unallocated: | | | | | | | 269,058 |
| | | | | | | | 551,226 |
| Interest income | 43,760,755 | 428,171,679 | 440,769 | 4,640 | 467,081,623 | – | 939,459,466 |
| Unallocated: | | | | | | | 3,025,479 |
| | | | | | | | 942,484,945 |
| Interest expenses | 4,895,755 | 114,494,448 | – | – | 294,726,071 | (27,165,096) | 386,951,178 |
| Dividend income | – | – | – | – | 12,189,462 | – | 12,189,462 |

## 6. SEGMENT REPORTING *(Continued)*

### Geographical information

For the years ended 31 December 2019 and 2018, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluding financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

### Information about major customers

No single customer contributes 10% or more to the Group's revenue from external customers for both years.

## 7. FINANCE COSTS

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Interest on bank borrowings | **417,023,627** | 285,292,485 |
| Interest on bonds | **34,659,871** | – |
| Interest on other borrowings | **61,979,209** | 48,821,087 |
| Interest on repurchase agreements | **47,976,009** | 39,331,735 |
| Interest on secured margin loans from brokers | **138,979** | 2,517,605 |
| Interest on notes | **2,724,153** | 4,457,547 |
| Interest on clients' account | **2,924,421** | 4,517,724 |
| Interest on financial liabilities at fair value through profit or loss | **1,383,707** | 1,482,048 |
| Interest on lease liabilities | **1,142,215** | – |
| Others | **–** | 530,947 |
| | **569,952,191** | 386,951,178 |

## 8. COMMISSION AND FEE EXPENSES

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Sales commission paid to account executives | **32,122,641** | 51,977,493 |
| Commission and fee paid to brokers | **19,674,417** | 44,393,284 |
| Others *(note)* | **21,049,475** | 15,234,946 |
| | **72,846,533** | 111,605,723 |

*Note:* Amount includes the custodian fees, scrip fee, clearing fee and other handling fee.

## 9. (LOSS)/PROFIT BEFORE TAXATION

| | **2019 HK$** | 2018 HK$ |
|---|---|---|
| (Loss)/profit before taxation has been arrived at after charging/(crediting): | | |
| Staff costs (including directors' remuneration and five highest paid employees) *(note a)* | **232,101,080** | 187,040,901 |
| Salaries and bonuses | **227,654,163** | 183,449,208 |
| Contribution to the MPF Scheme | **3,323,910** | 2,757,924 |
| Other staff costs | **1,123,007** | 833,769 |
| Auditor's remuneration | **2,200,000** | 2,779,561 |
| Legal and professional fee | **16,665,860** | 21,769,909 |
| Expenses on transfer of listing | **–** | 5,856,211 |
| Minimum operating lease payments | **–** | 29,917,847 |
| Amortisation of intangible assets | **1,850,322** | 551,226 |
| Depreciation of property and equipment | **44,358,192** | 9,799,999 |
| Telephone and postage | **4,258,286** | 4,589,329 |
| Maintenance fee | **19,869,431** | 16,768,135 |
| Transportation expenses | **6,376,466** | 4,941,763 |
| Entertainment expenses | **7,243,039** | 7,525,643 |
| Impairment losses on financial assets | **874,301,268** | 6,105,250 |
| Impairment losses on secured margin loans *(note c)* | **874,471,268** | 3,534,383 |
| Impairment losses on accounts receivable (except for secured margin loans) | **–** | 1,160,867 |
| (Reversal of)/impairment losses on loans receivable | **(170,000)** | 170,000 |
| Impairment losses on reverse repurchase agreements | **–** | 990,000 |
| Impairment losses on bank balances – trust accounts | **–** | 250,000 |
| Other gains or losses | **(1,027,010)** | (10,483,808) |
| Exchange losses, net | **28,271,494** | 5,421,402 |
| Other gains *(note b)* | **(29,298,504)** | (15,936,005) |
| Losses on written off/disposal of property and equipment, net | **–** | 30,795 |

*Notes:*

(a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance. Details of the MPF Scheme is disclosed in note 37.

(b) Included in other gains is the net gain of consolidated investment funds attributable to third-party unit holders/shareholders of HK$29,298,504 (2018: net gain of HK$15,936,005). Details of the Group's interest in consolidated investment funds are disclosed in note 47.

(c) According to the assessment of the expected credit loss model, impairment losses on secured margin loans of HK$874,471,268 (2018:HK$3,534,383) were made for the year, including (i) impairment losses recognised of HK$942,528,700 (2018: HK$22,999,486); net of (ii) reversal of impairment losses of HK$33,527,296 (2018: HK$19,465,103); and (iii) reversal of impairment losses upon the recognition of guarantees amounted to HK$34,530,136 (2018: nil).

## 10. TAXATION

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Hong Kong Profit Tax: | | |
| Current year | **5,026,863** | 61,784,010 |
| Under/(over) provision in prior year | **602,558** | (1,197,069) |
| | **5,629,421** | 60,586,941 |
| Deferred Tax: | | |
| Current year *(note 28)* | **(81,393,471)** | (3,837,401) |
| | **(75,764,050)** | 56,749,540 |

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The provision for Hong Kong Profits Tax for 2019 is taken into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2018-19 subject to a maximum reduction of $20,000 for each business (2018: a maximum reduction of $30,000 was granted for the year of assessment 2017-18 and was taken into account in calculating the provision for 2018).

The tax (credit)/charge for the years ended 31 December 2019 and 2018 can be reconciled to the (loss)/profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| (Loss)/profit before taxation | **(537,623,497)** | 200,550,211 |
| Notional tax on (loss)/profit before taxation, calculated at 16.5% (2018: 16.5%) | **(88,707,877)** | 33,090,785 |
| Tax effect of expenses not deductible for tax purpose | **24,205,817** | 40,337,438 |
| Tax effect of income not taxable for tax purpose | **(29,274,620)** | (17,004,969) |
| Tax at concessionary tax rate of 8.25% (2018: 8.25%) | **(165,000)** | (165,000) |
| Tax effect of deductible temporary difference not previously provided for | **849,429** | (4,120,000) |
| Tax effect of tax losses not recognised | **16,198,609** | 9,429,259 |
| Utilisation of tax losses previously not recognised | **(30,660)** | (3,707,438) |
| Under/(over) provision in prior years | **602,558** | (1,197,069) |
| Others | **557,694** | 86,534 |
| Tax (credit)/charge for the year | **(75,764,050)** | 56,749,540 |

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

During the years ended 31 December 2019 and 2018, the emoluments paid or payable by the Group are as follows:

| | Fees HK$ | Salaries and allowances HK$ | Benefits in kind HK$ | Discretionary bonus HK$ *(note b)* | Retirement benefit schemes contributions HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2019** | | | | | | |
| Yang Huahui *(note e)* | – | – | – | – | – | – |
| Huang Yilin *(note e)* | – | – | – | – | – | – |
| Huang Jinguang *(note a and c)* | – | 2,943,352 | – | 2,488,900 | – | 5,432,252 |
| Wang Xiang *(note a and c)* | – | 2,344,352 | – | 1,851,000 | – | 4,195,352 |
| Zeng Yanxia *(note a and c)* | – | 2,104,352 | – | 1,755,800 | – | 3,860,152 |
| Zhang Chunjuan *(note a and c)* | – | 1,461,847 | – | 801,200 | – | 2,263,047 |
| Hong Ying *(note d)* | 221,952 | – | – | – | – | 221,952 |
| Tian Li *(note d)* | 221,952 | – | – | – | – | 221,952 |
| Qin Shuo *(note d)* | 209,027 | – | – | – | – | 209,027 |
| | 652,931 | 8,853,903 | – | 6,896,900 | – | 16,403,734 |

| | Fees HK$ | Salaries and allowances HK$ | Benefits in kind # HK$ | Discretionary bonus HK$ *(note b)* | Retirement benefit schemes contributions HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | | |
| Huang Jinguang *(note a and c)* | – | 1,787,968 | 576,000 | 2,780,000 | – | 5,143,968 |
| Wang Xiang *(note a and c)* | – | 1,520,028 | 324,000 | 2,230,000 | – | 4,074,028 |
| Zeng Yanxia *(note a and c)* | – | 1,331,097 | 311,700 | 1,990,000 | – | 3,632,797 |
| Hong Ying *(note d)* | 200,000 | – | – | – | – | 200,000 |
| Tian Li *(note d)* | 200,000 | – | – | – | – | 200,000 |
| Qin Shuo *(note d)* | 200,000 | – | – | – | – | 200,000 |
| | 600,000 | 4,639,093 | 1,211,700 | 7,000,000 | – | 13,450,793 |

# Amounts represent benefits in kind of accommodation provided by the Group.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

*Notes:*

(a) No retirement benefit schemes contributions was paid or payable by the Group to Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia during the years ended 31 December 2019 and 2018 and Ms. Zhang Chunjuan during the year ended 31 December 2019 as they are also employees of the ultimate holding company and the cost of retirement benefit scheme contribution is borne by the ultimate holding company.

(b) The discretionary bonus of directors or chief executive of the Company was determined by the management of the ultimate and intermediate holding companies and by reference to the Group's financial performance and the directors' and the chief executive's duties, responsibilities and individual performance within the Group.

(c) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(d) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

(e) The remuneration of Mr. Yang Huahui and Mr. Huang Yilin for the years was borne by the ultimate holding company and there is no basis of allocation of their remuneration between the ultimate holding company and the Group.

### (b) Highest paid individuals

The five individuals with the highest emoluments in the Group included one director of the Company for the year ended 31 December 2019 (2018: One) and details of whose emoluments are included in the disclosure above. The emoluments of the remaining four individuals for the year ended 31 December 2019 (2018: Four) are as below:

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Employees | | |
| – salaries and allowances | **9,285,000** | 7,653,000 |
| – discretionary bonus | **13,970,000** | 12,505,000 |
| – retirement benefit schemes contributions | **69,000** | 72,000 |
| | **23,324,000** | 20,230,000 |

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (b) Highest paid individuals *(Continued)*

Their emoluments were within the following bands:

| | Number of employees 2019 | 2018 |
|---|---|---|
| HK$4,000,001 to HK$4,500,000 | **1** | 1 |
| HK$4,500,001 to HK$5,000,000 | **1** | 2 |
| HK$5,500,000 to HK$6,000,000 | **1** | – |
| HK$6,500,001 to HK$7,000,000 | **–** | 1 |
| HK$8,500,001 to HK$9,000,000 | **1** | – |

During the year ended 31 December 2019, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office (2018: Nil). None of the directors waived any emoluments during both years.

## 12. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| 2018 Final – HK$0.023 (2018: 2017 Final – HK$0.03) per share | **92,000,000** | 120,000,000 |

Subsequent to the end of the reporting period, the directors of the Company did not recommend any payment of final dividend in respect of the year ended 31 December 2019 (2018: a final dividend in respect of the year ended 31 December 2018 of HK$0.023 per ordinary share, in an aggregate amount of HK$92,000,000, has been proposed by the directors of the Company) and is subject to approval by the shareholders in the forthcoming general meeting.

## 13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share attributable to owners of the Company is based on the following data:

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| (Loss)/earnings (HK$) | | |
| (Loss)/earnings for the purpose of basic (loss)/earnings per share: | | |
| (Loss)/profit for the year attributable to owners of the Company | **(461,859,447)** | 143,800,671 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | **4,000,000,000** | 4,000,000,000 |

For each of the years ended 31 December 2019 and 2018, there were no potential ordinary shares in issue, thus no diluted (loss)/earnings per share is presented.

## 14. PROPERTY AND EQUIPMENT

### (a) Reconciliation of carrying amount

| | Leasehold improvement HK$ | Motor vehicles HK$ | Furniture and fixtures HK$ | Computer equipment HK$ | Properties leased for own use carried cost HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| At 1 January 2018 | 24,350,078 | 769,307 | 1,065,789 | 21,381,657 | – | 47,566,831 |
| Additions | 6,557,034 | 854,934 | 730,451 | 8,585,682 | – | 16,728,101 |
| Disposal | – | (854,934) | – | – | – | (854,934) |
| Written off | – | – | – | (615,891) | – | (615,891) |
| At 31 December 2018 | 30,907,112 | 769,307 | 1,796,240 | 29,351,448 | – | 62,824,107 |
| Impact on initial application of HKFRS 16 *(Note)* | – | – | – | – | 44,042,009 | 44,042,009 |
| Additions | 314,872 | – | 4,821 | 2,980,004 | – | 3,299,697 |
| Disposals | – | (769,307) | – | – | – | (769,307) |
| At 31 December 2019 | 31,221,984 | – | 1,801,061 | 32,331,452 | 44,042,009 | 109,396,506 |
| Depreciation | | | | | | |
| At 1 January 2018 | (9,075,911) | (510,111) | (159,156) | (17,237,717) | – | (26,982,895) |
| Written off | – | – | – | 585,096 | – | 585,096 |
| Disposals | – | 42,301 | – | – | – | 42,301 |
| Charge for the year | (5,897,824) | (133,638) | (198,787) | (3,569,750) | – | (9,799,999) |
| At 31 December 2018 | (14,973,735) | (601,448) | (357,943) | (20,222,371) | – | (36,155,497) |
| Disposals | – | 639,505 | – | – | – | 639,505 |
| Charge for the year | (9,939,370) | (38,057) | (360,788) | (2,821,168) | (31,198,809) | (44,358,192) |
| At 31 December 2019 | (24,913,105) | – | (718,731) | (23,043,539) | (31,198,809) | (79,874,184) |
| Carrying values | | | | | | |
| At 31 December 2019 | 6,308,879 | – | 1,082,330 | 9,287,913 | 12,843,200 | 29,522,322 |
| At 31 December 2018 | 15,933,377 | 167,859 | 1,438,297 | 9,129,077 | – | 26,668,610 |

*Note:* The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 3.

## 14. PROPERTY AND EQUIPMENT *(Continued)*

### (b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

| | 31 December 2019 HK$ | 1 January 2019 HK$ |
|---|---|---|
| Other properties leased for own use, carried at depreciated cost | **12,843,200** | 44,042,009 |

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

| | 2019 HK$ | 2018 *(Note)* HK$ |
|---|---|---|
| Depreciation charge of right-of-use assets | **31,198,809** | – |
| Interest on lease liabilities *(note 7)* | **1,142,215** | – |
| Total minimum lease payments for leases previously classified as operating leases under HKAS 17 | **–** | 29,917,847 |

*Note:* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

There were no additions to right-of-use assets during the year except for the capitalisation of leases at 1 January 2019.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 23(a) and 33, respectively.

The lease typically runs for 2-3 years.

## 15. INTANGIBLE ASSETS

| | Software | Trading rights | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Cost: | | | |
| At 1 January 2018 | 4,291,659 | 1,000,000 | 5,291,659 |
| Additions | 1,757,583 | – | 1,757,583 |
| At 31 December 2018 | 6,049,242 | 1,000,000 | 7,049,242 |
| Additions | 5,925,243 | – | 5,925,243 |
| At 31 December 2019 | 11,974,485 | 1,000,000 | 12,974,485 |
| Amortisation | | | |
| At 1 January 2018 | (3,675,118) | – | (3,675,118) |
| Charge for the year | (551,226) | – | (551,226) |
| At 31 December 2018 | (4,226,344) | – | (4,226,344) |
| Charge for the year | (1,850,322) | – | (1,850,322) |
| At 31 December 2019 | (6,076,666) | – | (6,076,666) |
| Carrying values | | | |
| At 31 December 2019 | 5,897,819 | 1,000,000 | 6,897,819 |
| At 31 December 2018 | 1,822,898 | 1,000,000 | 2,822,898 |

Intangible assets include trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited with indefinite useful life and the using rights of software with finite life.

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired.

## 16. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Cost of investment in a joint venture | **40,032,960** | 40,032,960 |
| Share of post-acquisition loss | **(7,687,542)** | (498,698) |
| | **32,345,418** | 39,534,262 |

Details of the Group's joint venture at the end of the reporting period are as follows:

| Name of entity | Country of incorporation/ registration | Principal place of business | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | **2019** | 2018 | **2019** | 2018 | |
| IS Investment Fund Segregated Portfolio Company – CIS New China Ever-Growing Fund Segregated Portfolio ("CISNCEF") *(note)* | Cayman Islands | Hong Kong | **28.62%** | 28.62% | **50%** | 50% | Investment trading |

On 17 August 2018, the Group subscribed approximately 28.62% of issued unit of CISNCEF for a consideration of HK$40,032,960.

*Note:* As at 31 December 2019, the Group held the interest of participating shares of CISNCEF as disclosed above such that the participating shares provide the Group with the share of returns from CISNCEF. As at 31 December 2019, the Group and an independent third party act as co-manager of CISNCEF. Both parties jointly established an investment committee which comprises four members, with two from the Group and two from the independent third party. The investment committee is empowered to make all the key financing and operating decisions in CISNCEF and requires unanimous consent of all investment committee members. The arrangement of co-management is contractually agreed by both parties. As such, the interest of the Group in CISNCEF is classified as a joint venture.

The joint venture is an unlisted entity without quoted market price available.

There is no unfulfilled capital commitment to CISNCEF. As at 31 December 2019, the current carrying amount of HK$32.3 million (2018: HK$39.5 million) in the consolidated statement of financial position represents the Group's maximum exposure in CISNCEF.

## 16. INTEREST IN A JOINT VENTURE *(Continued)*

### Summarised financial information of a joint venture

Summarised financial information of CISNCEF, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements are disclosed below:

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Current assets | **114,762,960** | 139,693,438 |
| Current liabilities | **(1,756,809)** | (1,571,408) |
| Net current assets and net assets | **113,006,151** | 138,122,030 |
| Included in the above assets and liabilities | | |
| Cash and cash equivalents | **3,333,798** | 5,917,802 |

| | For the year ended 31 December 2019<br>HK$ | For the period from 17 August 2018 (date of incorporation) to 31 December 2018<br>HK$ |
|---|---|---|
| Investment gains or losses | **(25,214,659)** | (1,742,314) |
| Included in the above loss: | | |
| Interest income | **4,894** | 3,020 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in CISNCEF recognised in the consolidated financial statements:

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Net assets of CISNCEF | **113,006,151** | 138,122,030 |
| Proportion of the Group's ownership interest in CISNCEF | **28.62%** | 28.62% |
| | **32,345,418** | 39,534,262 |

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Equity securities | | |
| – Listed in Hong Kong | **137,131,620** | 171,742,442 |
| – Listed outside Hong Kong | **196,490,625** | 78,745,632 |
| – Unlisted *(note a)* | **241,171,753** | 374,529,995 |
| Debt securities *(note b)* | | |
| – Listed in Hong Kong | **4,939,309,654** | 2,984,265,913 |
| – Listed outside Hong Kong | **512,412,359** | 1,658,668,927 |
| – Unlisted | **2,887,543,807** | 1,784,955,456 |
| Foreign currency forward contracts *(note c)* | **3,936,218** | 2,322,556 |
| Credit derivative *(note d)* | **1,183,320** | 2,747,716 |
| Funds | | |
| – Listed in Hong Kong | **101,311,650** | 69,441,600 |
| – Unlisted | **69,242,666** | 160,337,247 |
| Convertible bonds | | |
| – Listed in Hong Kong | **–** | 148,120,335 |
| – Listed outside Hong Kong | **36,200,671** | 65,128,500 |
| Unlisted equity-linked note | **–** | 398,055,808 |
| Unlisted debt-linked note | **–** | 882,035,012 |
| | **9,125,934,343** | 8,781,097,139 |
| Analysed as | | |
| Current | **9,077,929,636** | 8,734,109,327 |
| Non-current *(note e)* | **48,004,707** | 46,987,812 |
| | **9,125,934,343** | 8,781,097,139 |

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

*Notes:*

(a) For the years ended 31 December 2019 and 2018, the Group invested in an unlisted equity investment of which the principal business was in the telecommunication industry.

(b) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK$1,743,086,603 at 31 December 2018, to non-bank financial institutions and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2018 as the Group retains significant risks and rewards of the transferred debt securities. There was no such arrangement at 31 December 2019. Apart from this, there were arrangements to sell debt securities under a repurchase agreement for the year ended 31 December 2019. Details of the arrangement are set out in note 29 and 38.

(c) For the year ended 31 December 2019, the Group entered into foreign currency forward contracts with total notional amount of US$400,505,697 (2018: US$30,000,000) with a non-bank financial institution. The foreign currency forward contracts sell USD and buy HKD at forward rate USD:HKD at 1:7.834 and buy USD and sell HKD weighted average rate USD:HKD at 1:7.814 (2018: sell USD and buy RMB at weighted average forward exchange rate USD:RMB at 1:6.79). The maturity date of the foreign currency forward contracts is within one year.

(d) As at 31 December 2019, notional amount of credit derivative contract with a non-bank financial institution was US$100,000,000 (2018: US$100,000,000).

(e) As at 31 December 2019 and 2018, included in the non-current portion is an unlisted investment fund that the directors of the Group do not expect to realise within twelve months after the reporting period.

## 18. LOANS RECEIVABLE

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Fixed-rate loans receivable | – | 71,614,048 |
| Less: impairment allowance | – | (170,000) |
| | – | 71,444,048 |
| Analysed as: | | |
| Current | – | 71,444,048 |
| Non-current | – | – |
| | – | 71,444,048 |

## 18. LOANS RECEIVABLE *(Continued)*

The credit quality of loans receivable are summarised as follows:

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Neither past due nor credit-impaired | – | 71,614,048 |

The exposure of the Group's fixed-rate loans receivable to interest rate risks and their contractual maturity dates are as follows:

### Fixed-rate loans receivable denominated in HKD

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Within one year | – | 71,614,048 |
| Effective interest rate | N/A | 3.00% to 8.38% per annum |

As at 31 December 2018, included in the Group's loans receivable balance are debtors with aggregate gross amount and carrying amount of HK$71,614,048 and HK$71,444,048 respectively which are not past due as at the reporting date. The directors of the Company are of the view that there have been no significant increase in credit risk nor default because no loans receivable has been overdue.

As at 31 December 2018, the loans receivable amounting to HK$66,974,995 were secured by listed securities from the borrowers and cash balance in their cash clients' accounts with an aggregate fair value of HK$103,133,000.

All of the loans receivable were settled during the year ended 31 December 2019.

## 19. REVERSE REPURCHASE AGREEMENTS

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Analysed by collateral type: | | |
| Debt securities | | |
| – Hong Kong stock exchange | **431,819,345** | 258,297,619 |
| – Singapore stock exchange | **116,895,984** | 77,009,773 |
| – Unlisted | **386,895,404** | – |
| Unlisted equity securities | **91,409,033** | – |
| Less: impairment allowance | **(990,000)** | (990,000) |
| | **1,026,029,766** | 334,317,392 |
| Analysed as: | | |
| Current | **856,955,362** | 334,317,392 |
| Non-current | **169,074,404** | – |
| | **1,026,029,766** | 344,317,392 |

The reverse repurchase agreements are those repurchase agreements which the external investors entered into with the Group under which assets were sold to the Group with a concurrent commitment to purchase the specified debt securities from the Group at a future date of an agreed price. The resale prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities. Accordingly, the Group recognises these as collateralised lending asset for the price paid to purchase the assets.

As at 31 December 2019, the fair value of the collateral was HK$1,974,019,719 (2018: HK$598,573,042).

## 20. STATUTORY DEPOSITS

Statutory deposits represent deposits with clearing houses. They are non-interest bearing.

### Non-current portion

In accordance with the rules of Central Clearing and Settlement System ("CCASS"), admission fee, basic contribution and dynamic contribution to the guarantee fund of a defaulting clearing participant will be used to offset its indebtedness arising in the course of dealing in securities as disclosed in note 41 in accordance with the rules of CCASS.

Under the arrangement with HKFE Clearing Corporation Limited ("HKCC"), the statutory deposit could be used to set off against accounts payable to HKCC.

The directors of the Company do not expect to realise the amounts within twelve months after the reporting period.

### Current portion

In accordance with the rules of CCASS, the Group is required to provide to Hong Kong Securities Clearing Company Limited (the "HKSCC") deposits from time to time as determined by HKSCC, as the Group has become a China Connect Clearing Participant under the rules of CCASS since year 2014. Amounts will be used to offset the Group's indebtedness arising in the course of dealing in securities as disclosed in note 41 in accordance with the rules of CCASS.

## 21. DEPOSITS, OTHER RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Deposits *(note a)* | **165,752,020** | 366,354,772 |
| Other receivables *(note b)* | **1,014,904,195** | 35,823,665 |
| Prepayments | **4,700,635** | 5,582,782 |
| Other assets *(note c)* | **34,530,136** | – |
| | **1,219,886,986** | 407,761,219 |
| Analysed as: | | |
| Current | **1,171,699,907** | 394,214,270 |
| Non-current | **48,187,079** | 13,546,949 |
| | **1,219,886,986** | 407,761,219 |

*Notes:*

(a) As at 31 December 2019 and 2018, the amount mainly comprises of cash collaterals posted to in banks and other financial institutions for total return swaps, sales and repurchase agreements and credit derivatives transaction.

(b) As at 31 December 2019, the balance included receivable from the derecognition of margin loans amounting to HK$1,003 million during the year. The amounts has been subsequently settled in 2020. Details are set out in note 22.

(c) Other assets represent compensation rights arising from financial guarantee contracts held by the Group. These guarantees are provided in respect of credit impaired margin loans after the origination of the loans and therefore are not determined as an integral element of the debt instruments. The compensation right is recognised when the Group recognises the related ECL as it is certain that the compensation will be received when enforced. Details of the ECL of the relevant margin loans are set out in note 40.

## 22. ACCOUNTS RECEIVABLE

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Accounts receivable arising from the business of dealing in securities: | | |
| Secured margin loans | **4,248,656,051** | 6,226,035,162 |
| Less: impairment allowance | **(405,810,868)** | (323,921,857) |
| | **3,842,845,183** | 5,902,113,305 |
| Clearing house | **1,148,102,205** | 366,488,173 |
| Cash clients | **126,836,285** | 85,689,554 |
| Brokers | **57,056,336** | 10,361,343 |
| Clients for subscription of new shares in IPO | **30,302** | 97,743 |
| Less: impairment allowance | **(560,000)** | (560,000) |
| | **1,331,465,128** | 462,076,813 |
| | **5,174,310,311** | 6,364,190,118 |
| Accounts receivable arising from the business of dealing in futures and options contracts: | | |
| Clearing house | **36,125,995** | 53,940,464 |
| Brokers | **129,540,770** | 169,970,214 |
| Less: impairment allowance | **(88,000)** | (88,000) |
| | **165,578,765** | 223,822,678 |
| Accounts receivable arising from the business of corporate finance | **17,695,697** | 20,526,889 |
| Accounts receivable arising from the business of asset management | **28,823,967** | 12,637,892 |
| Less: impairment allowance | **(512,867)** | (512,867) |
| | **28,311,100** | 12,125,025 |
| Accounts receivable arising from the business of financial products and investments: | | |
| Brokers | **157,218,744** | 286,542,682 |
| | **5,543,114,617** | 6,907,207,392 |

## 22. ACCOUNTS RECEIVABLE *(Continued)*

### Secured margin loans

The Group provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The Group seeks to maintain strict control over its outstanding receivables and has a credit risk management department to monitor credit risks. To minimise the Group's exposure to credit risk, the credit risk management department is responsible for the evaluation of the customers' credit rating, financial background and repayment abilities. Management of the Group has set up the credit limits for each individual customer which could be changed at the Group's discretion. Any further extension of credit beyond these approval limits has to be first approved by the credit risk management department and then by the senior management of the Group on individual basis. The maximum credit limit granted for each customer is based on the customer's creditworthiness, financial strength, the past collection statistic and the quality of related collateral. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group.

As at 31 December 2019 and 2018, the loans are repayable on demand subsequent to settlement date and are analysed as follows:

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Non credit-impaired secured margin loans | | |
| – Gross amount | **3,172,077,966** | 4,339,375,688 |
| – Carrying amount | **3,152,414,321** | 4,317,543,447 |
| | | |
| Credit-impaired secured margin loans | | |
| – Gross amount | **1,076,578,085** | 1,886,659,474 |
| – Carrying amount | **690,430,862** | 1,584,569,858 |
| | | |
| Market value of securities pledged in respect of all margin loans | **13,969,953,000** | 17,905,274,000 |

Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the margin value of securities deposited. The Group has obtained additional guarantee arrangements for margin clients who had repayment difficulties.

The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. As at 31 December 2019 and 2018, no bank borrowings were secured by charges over client's pledged securities.

During the year ended 31 December 2019, the Group has issued structured notes to third parties to transfer the cash flows of margin loans amounting to HK$1,876 million at a consideration of HK$1,339 million. Substantially all the risks and rewards have been transferred to the third party investors as the Group will pass all collected cash without material delay and is not obliged to pay if no cash is received by the Group. As a result, the related margin loans have been derecognised. The difference between consideration received and the carrying value of the relevant margin loans has been recognised as an impairment loss in the consolidated statement of profit or loss and other comprehensive income. The issued structured notes will expire in 2024 and the redemption price will be determined by the fair value of the underlying exposure upon expiry.

## 22. ACCOUNTS RECEIVABLE *(Continued)*

### Accounts receivable (except for secured margin loans)

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivable with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date. Included in accounts receivable due from brokers arising from the business of financial products and investments, there is cash collateral of HK$43,170,824 paid under total return swap which is repayable upon expiry of relevant total return swap. Details are set out in note 38.

The following is an aging analysis of gross accounts receivable arising from the business of corporate finance and asset management based on date of invoice at the reporting date:

**Corporate finance clients**

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Less than 31 days | **11,886,520** | 6,855,259 |
| 31–60 days | **–** | 4,775,135 |
| 61–90 days | **116,807** | 1,004,012 |
| 91–180 days | **–** | 5,723,815 |
| Over 180 days | **5,692,370** | 2,168,668 |
| | **17,695,697** | 20,526,889 |

## 22. ACCOUNTS RECEIVABLE *(Continued)*

### Accounts receivable (except for secured margin loans) *(Continued)*

**Asset management clients**

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Less than 31 days | **18,434,772** | 1,489,528 |
| 31–60 days | **1,549,502** | 1,852,007 |
| 61–90 days | **1,362,061** | 1,683,734 |
| 91–180 days | **3,034,312** | 3,567,853 |
| Over 180 days | **4,443,320** | 4,044,770 |
| | **28,823,967** | 12,637,892 |

During the years ended 31 December 2019 and 2018, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously. Details are set out in note 41.

## 23. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH

The Group maintains segregated accounts with authorised institutions to hold clients' money arising from its normal course of business of the regulated activities. The cash held on behalf of clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

The general accounts held by the Group comprises current and saving deposits held by the Group at prevailing market interest rate and bank deposits bearing interest at commercial rate with original maturity of three months or less.

## 23. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH *(Continued)*

### (a) Total cash outflow for leases

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Within operating cash flows | **–** | 30,081,225 |
| Within investing cash flows | **–** | – |
| Within financing cash flows | **32,948,724** | – |

*Note:* As explained in the note 3(c), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amount relate to lease rentals paid.

## 24. AMOUNT DUE TO A RELATED PARTY

The Group had the following balance with a related party at the end of each reporting period:

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Amount due to Industrial Securities (Shenzhen) *(note)* | **5,744,417** | 3,174,615 |

*Note:* Amount due to Industrial Securities Consultancy Service (Shenzhen) Company Limited ("Industrial Securities (Shenzhen)"), a fellow subsidiary, was mainly arising from the consultancy services provided by Industrial Securities (Shenzhen), which is unsecured, non-interest bearing and repayable on demand.

## 25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| **Held for trading** | | |
| Short position in listed equity securities | **30,853,500** | 104,522,000 |
| Credit derivatives *(note a)* | **8,460,016** | 11,879,526 |
| Foreign currency forward contracts *(note c)* | **87,500** | – |
| | **39,401,016** | 116,401,526 |
| **Designated at fair value through profit or loss** | | |
| Unlisted issued structured products *(note b)* | **639,840,032** | 172,299,574 |
| | **679,241,048** | 288,701,100 |
| Analysed as: | | |
| Current | **39,401,016** | 288,701,100 |
| Non-current | **639,840,032** | – |
| | **679,241,048** | 288,701,100 |

*Notes:*

(a) For the year ended 31 December 2019, the Group held one credit derivative contract with a non-bank financial institution at a notional amount of USD130,000,000 of which the reference entity was within the banking sector in Hong Kong.

For the year ended 31 December 2018, the Group entered into two credit derivative contracts with a non-bank financial institution at notional amounts HK$100,000,000 and USD130,000,000, of which the reference entities were within the real estate sector in Hong Kong and the banking sector in Hong Kong respectively.

(b) As at 31 December 2019 and 2018, included in financial liabilities designated at FVTPL are the issued structured notes which arise from selling structured products generally in the form of notes with the underlying investments related to listed debt security traded in the Stock Exchange and unlisted debt investment traded in over-the-counter markets.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets at FVTPL. These structured products are designated at FVTPL as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

The amount of change in fair values of the financial liabilities designated at FVTPL, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

(c) As at the year ended 31 December 2019, the Group entered into foreign currency forward contracts with total notional amount of US$35,000,000 with bank. The foreign currency forward contracts sell USD at forward rate USD: HKD at 1:7.7837 and buy USD forward rate USD:HKD at 1:7.7862.

## 26. ACCOUNTS PAYABLE

| | 2019<br>HK$ | 2018<br>HK$ |
|---|---|---|
| Accounts payable arising from the business of dealing in securities: | | |
| Clearing house | **15,699,420** | 26,949,086 |
| Brokers | **8,448,927** | 9,925,735 |
| Clients | **2,988,451,031** | 5,582,040,242 |
| | **3,012,599,378** | 5,618,915,063 |
| Accounts payable arising from the business of dealing in futures and options contracts: | | |
| Clients | **324,921,275** | 350,780,379 |
| Accounts payable arising from the business of financial products and investments: | | |
| Brokers | **73,980,885** | 21,499,185 |
| | **3,411,501,538** | 5,991,194,627 |

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers as disclosed in note 22 and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

## 26. ACCOUNTS PAYABLE *(Continued)*

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

The Group has accounts payable arising from the business of dealing in securities of HK$98,718,717 due to the immediate holding company as at 31 December 2019 (2018: HK$53,006,312).

## 27. ACCRUALS AND OTHER PAYABLES

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Accrued charges *(note)* | **173,716,496** | 156,249,234 |
| Other payables | **5,428,657** | 25,959,381 |
| | **179,145,153** | 182,208,615 |
| Analysed as: | | |
| Current | **179,145,153** | 181,422,911 |
| Non-current | **–** | 785,704 |
| | **179,145,153** | 182,208,615 |

*Note:* The amount mainly comprises of the accrued operating expenses including staff salary and bonus and also commission to accounts executives.

## 28. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2019** | 2018 |
|---|---|---|
| | **HK$** | HK$ |
| Deferred tax assets | **84,368,068** | 3,896,066 |
| Deferred tax liabilities | **(28,715)** | (950,184) |
| | **84,339,353** | 2,945,882 |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2019 and 2018:

| | **Tax loss** | **ECL provision** | **Accelerated tax depreciation** | **Total** |
|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ |
| At 1 January 2018 | – | – | (891,519) | (891,519) |
| Charge to profit or loss *(note 10)* | – | 4,092,000 | (254,599) | 3,837,401 |
| At 31 December 2018 | – | 4,092,000 | (1,146,118) | 2,945,882 |
| Credit/(charge) to profit or loss *(note 10)* | 82,410,899 | (821,429) | (195,999) | 81,393,471 |
| At 31 December 2019 | 82,410,899 | 3,270,571 | (1,342,117) | 84,339,353 |

Deferred tax asset has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK$499 million as at 31 December 2019 (2018: HK$ Nil). No deferred tax has been recognised in the consolidated statement of financial position in relation to the deductible temporary differences of approximately HK$75 million arising from the unrealised gain (2018: HK$175 million arising from the unrealised losses) of debt securities under financial assets at FVTPL, and estimated unused tax losses of approximately of HK$313 million (2018: HK$215 million) as at 31 December 2019 as it is uncertain whether future taxable profits will be available.

## 29. REPURCHASE AGREEMENTS

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Analysed as: | | |
| Current | **3,101,099,261** | 1,542,080,825 |
| Non-current | **340,765,474** | – |
| | **3,441,864,735** | 1,542,080,825 |

As at 31 December 2019, debt securities which are classified as financial assets at FVTPL with carrying amount of HK$3,611,655,724 (2018: HK$2,042,711,942) were sold under repurchase agreements with other financial institutions which the Group simultaneously agreed to repurchase these debt securities at the agreed date and price. Details of the arrangement are set out in note 38. The interest rate of the Group's repurchase agreement as at 31 December 2019 is at fixed interest rage ranges from of 2.10% to 4.01% per annum (2018: 2.35% to 4.20% per annum) and repayable within 3 years.

## 30. BANK BORROWINGS

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Variable rate borrowings | **9,719,608,306** | 8,909,661,292 |
| Repayable within one year and contain a repayable on demand clause | **6,371,479,379** | 5,586,797,616 |
| Repayable within a period of more than one year but not exceeding two years | **3,348,128,927** | – |
| Repayable within a period of more than two years but not exceeding five years | **–** | 3,322,863,676 |
| | **9,719,608,306** | 8,909,661,292 |

The bank borrowings consist of loans borrowed by the Group from banks to facilitate investment and general working capital.

The interest rate of the Group's bank borrowings as at 31 December 2019 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.3% to HIBOR+2.3% (2018: HIBOR+1.4% to HIBOR+2.3%).

At 31 December 2019, HK$9,703,599,612 (net of bank charge) (2018: HK$8,902,863,676) had been drawn under the aggregated banking facilities of HK$13,160,000,000 (2018: HK$15,017,200,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK$9,790,000,000 as at 31 December 2019 (2018: HK$9,180,000,000). Out of which HK$8,090,000,000 have been drawn as at 31 December 2019 (2018: HK$6,980,000,000).

No bank borrowings were secured by charges over clients' pledged securities as at 31 December 2019 and 2018.

The Group did not fulfil one of the bank covenants (i.e. consolidated EBITDA >150% finance charge) for bank borrowings amounting to HK$3,580,000,000 as at 31 December 2019. Management has taken actions to rectify this by requesting for waiver from the relevant banks and putting in place additional funding to manage the liquidity risk arising thereon.

## 31. OTHER BORROWINGS

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Borrowings associated with transferred assets *(as disclosed in note 38)* | **196,217,064** | 1,485,297,574 |

The interest rate of the Group's other borrowings as at 31 December 2019 is at fixed interest rate of 4.30% to 6.00% per annum (2018: 3.58% to 4.85% per annum). The other borrowings are repayable within one year. As at 31 December 2019, client securities amounting to HK$391,006,060 has been pledged to other borrowings (2018: pledged by financial assets amounting to HK$1,786,257,427 as set out in note 38).

## 32. NOTES AND BONDS

During the years ended 31 December 2019 and 2018, the Company's wholly owned subsidiary issued guaranteed notes with fixed interest rate of 3% per annum with a one year maturity which is guaranteed by the Company.

During the year ended 31 December 2019, the Company issued corporate bonds with fixed interest rate of 5% per annum with a one year maturity which is guaranteed by the Company's wholly owned subsidiary.

There were no bonds issued in 2018.

## 33. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

| | 31 December 2019 | | 1 January 2019 | | 31 December 2018 | |
|---|---|---|---|---|---|---|
| | Present value of the minimum lease payment HK$ | Total minimum lease payment HK$ | Present value of the minimum lease payment HK$ | Total minimum lease payment HK$ | Present value of the minimum lease payment HK$ | Total minimum lease payment HK$ |
| Within 1 year | **13,404,498** | **13,548,899** | 32,294,847 | 32,948,724 | – | – |
| After 1 but within 2 years | **–** | **–** | 12,916,160 | 13,548,899 | – | – |
| | **13,404,498** | **13,548,899** | 45,211,007 | 46,497,623 | – | – |
| Less: finance cost | | **(144,401)** | | (1,286,616) | | – |
| Present value lease obligation | | **13,404,498** | | 45,211,007 | | – |

*Note:* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Further details on the impact of the transition to HKFRS 16 are set out in note 3.

## 34. SHARE CAPITAL

Details of the movement of share capital for both years are as follows:

| | Number of ordinary shares of HK$0.10 each | Share capital |
|---|---|---|
| | | HK$ |
| Authorised: | | |
| As at 1 January 2018, 31 December 2018 and 31 December 2019 | 20,000,000,000 | 2,000,000,000 |
| Issued and fully paid: | | |
| As at 1 January 2018, 31 December 2018 and 31 December 2019 | 4,000,000,000 | 400,000,000 |

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 regard to the company's residual assets.

## 35. CAPITAL RESERVE

As at 31 December 2019 and 2018, capital reserve represents the difference between 489,990,000 consideration shares at par value of HK$0.1 each issued by the Company and the consideration for the acquisition of the combined businesses pursuant to the Group reorganisation (as more fully explained in the section headed "History, Reorganisation and Group Structure – Reorganisation" in the prospectus of the Company dated 30 September 2016 (the "Prospectus")).

## 36. COMMITMENTS

### (a) Commitments under operating lease

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2018<br>HK$ |
|---|---|
| Within one year | 33,518,106 |
| In the second to fifth year inclusive | 13,548,899 |
| | 47,067,005 |

For the year ended 31 December 2018, the Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. Operating lease payments represent rentals payable by the Group for its office premises and director/staff apartments. Leases and rentals are negotiated and fixed for periods of two to three years.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2(o), and the details regarding the Group's future lease payments are disclosed in note 33.

### (b) Investment commitments

In the normal course of business, the Group had investment commitments contracted for amounting to HK$451,494,998 (2018: Nil) as at 31 December 2019.

## 37. EMPLOYEE BENEFITS

### Retirement Benefits Schemes

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates (up to HK$1,500 per employee per month) specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The contributions paid to the schemes by the Group are disclosed in note 9.

## 38. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

The Group transfers financial assets that are not derecognised in their entirety primarily through the sale of debt securities with concurrent total return swaps and sales and repurchase agreements.

### (a) Other borrowings

The Group sells debt securities as well as places cash collateral together with the debt securities that are subject to concurrent total return swap. The Group retains substantially all the risks and rewards of ownership of the debt securities. Therefore, the Group continues to recognise the transferred securities in its consolidated statement of financial position. The transferred debt securities and the cash collateral serve as "collateral" to secure these liabilities. The proceeds received are recognised as liabilities under "Other borrowings". As at 31 December 2019, these other borrowings were pledged by client securities amounting to HK$391,006,060 (2018: pledged by financial assets amounting to HK$1,786,257,427).

### (b) Repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a debt security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those debt securities sold. These debt securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these debt securities. The proceeds received on the transfer are recognised as liabilities under "Repurchase agreements".

The following table sets out the carrying amounts of all financial assets transferred that are not derecognised in their entirety and associated liabilities.

| | As at 31 December 2019 | | | | |
|---|---|---|---|---|---|
| **Analysed by liabilities type** | **Carrying amount of transferred assets** | | | **Carrying amount of associated liabilities** | **Net position** |
| | **Accounts receivable – collateral paid under total return swap HK$** | **Financial assets at fair value through profit or loss HK$** | **Total HK$** | **HK$** | **HK$** |
| Repurchase agreements *(note 29)* | **–** | **3,611,655,724** | **3,611,655,724** | **3,441,864,735** | **169,790,989** |

| | As at 31 December 2018 | | | | |
|---|---|---|---|---|---|
| Analysed by liabilities type | Carrying amount of transferred assets | | | Carrying amount of associated liabilities | Net position |
| | Accounts receivable – collateral paid under total return swap HK$ | Financial assets at fair value through profit or loss HK$ | Total HK$ | HK$ | HK$ |
| Other borrowings *(note 31)* | 43,170,824 | 1,743,086,603 | 1,786,257,427 | 1,485,297,574 | 300,959,853 |
| Repurchase agreements *(note 29)* | – | 2,042,711,942 | 2,042,711,942 | 1,542,080,825 | 500,631,117 |

## 39. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, other borrowings, notes and bonds as disclosed in notes 30, 31 and 32, and equity attributable to owners of the Company (comprising issued share capital, reserves and retained earnings) as follows:

| | **2019 HK$** | 2018 HK$ |
|---|---|---|
| Bank borrowings | **9,719,608,306** | 8,909,661,292 |
| Other borrowings | **196,217,064** | 1,485,297,574 |
| Notes | **31,302,195** | 62,850,751 |
| Bonds | **2,173,672,130** | – |
| Equity attributable to owners of the Company | **3,839,641,916** | 4,391,073,572 |
| | **15,960,441,611** | 14,848,883,189 |

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. In view of this, the Group will balance its overall capital structure through new share issues or bank borrowings. The Group's overall strategy remains unchanged throughout the years.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are granted licenses by the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). Management of the Group closely monitors, on a daily basis, the Regulated Subsidiaries' liquid capital level to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Regulated Subsidiaries has no non-compliance of capital requirements imposed by the SF(FR)R throughout both years.

## 40. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2019 HK$** | 2018 HK$ |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **14,986,309,446** | 14,461,203,396 |
| Financial assets at fair value through profit or loss | **9,125,934,343** | 8,781,097,139 |
| **Financial liabilities** | | |
| Financial liabilities at fair value through profit or loss | **1,255,456,357** | 688,431,079 |
| Amortised cost | **18,998,743,540** | 18,264,335,666 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, reverse repurchase agreements, accounts receivable, loans receivable, deposits and other receivables, bank balances and cash, accounts payable, repurchase agreements, bank borrowings, other borrowings, notes, bonds, other liabilities, other payables and amount due to a related party. Details of these financial instruments are disclosed in respective notes. The risks associated with those financial instruments and the policies on how to mitigate these risks are set out below.

The Group's risk management objectives are to achieve a proper balance between risks and yield and minimise the adverse impact of risks on the Group's operating performance. Based on these risk management objectives, the Group's risk management strategy is to identify and analyse the various risks the Group is exposed to, and to establish an appropriate tolerance for risk management practice, so as to monitor, notify and respond to the risks regularly and effectively and to control risks at an acceptable level.

The risks that the Group is exposed to in its daily operating activities mainly include market risk (including currency exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group has established policies and procedures accordingly to identify and analyse the risks. The Group has set up appropriate risk indicators, risk limits, risk policies and internal control process.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

**Market risk**

The Group's activities expose it primarily to the market risk of changes in interest rates, foreign currency risk and other price risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk in relation to fixed-rate debt securities classified as financial assets at FVTPL. The Group currently does not have fair value hedging policy. The Group is also exposed to cash flow interest rate risk mainly from balances with banks, secured margin loans and bank borrowings carrying interest at prevailing market rates.

Management of the Group monitors the related interest rate exposure closely to ensure the interest rate risks are maintained at an acceptable level. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's respective HKD and USD denominated financial instruments.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Interest rate risk (Continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. The analysis is prepared assuming interest-bearing assets and liabilities outstanding at the end of respective reporting period were outstanding for the whole year. When reporting to management of the Group on the interest rate risk, a 50 basis points ("bps") increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates. Interest bearing bank deposit is not included in the sensitivity analysis for the decrease of interest rate as the bank deposit rate is at a low level and management of the Group considers such downward adjustment is unlikely. A positive number below indicates an increase in profit after taxation of the Group or vice versa.

| | **2019**<br>**HK$** | 2018<br>HK$ |
|---|---|---|
| Profit after taxation for the year | | |
| Increase by 50 bps | **(44,323,325)** | (27,584,475) |
| Decrease by 50 bps | **74,386,992** | 51,552,447 |

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as at the year end and exposure does not reflect the exposure during the year.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Foreign currency risk*

The Group undertake certain transactions denominated in currencies other than its functional currencies, hence they are exposed to exchange rate fluctuation. The Group mitigates currency risk using cross-currency forward contracts to hedge movements in exchange rates where necessary.

The major foreign currency exposure of the Group in HKD equivalent is presented below:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2019 HK$** | 2018 HK$ | **2019 HK$** | 2018 HK$ |
| United States dollars ("USD") | **15,557,542,720** | 12,881,314,812 | **7,715,187,473** | 6,255,315,112 |
| Renminbi ("RMB") | **414,970,544** | 674,609,443 | **113,342,550** | 372,500,236 |

*Foreign currency sensitivity*

The directors of the Company do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the HKD pegged system to the USD. The following table details the Group's sensitivity to a 5% strengthening in RMB against HKD, translated at year-end date. 5% sensitivity rate represents management's assessment of a reasonably possible change in foreign exchange rates. For a 5% weakening in RMB against HKD, there would be an equal and opposite impact on the profit after taxation for the year.

| | RMB impact | |
|---|---|---|
| | **2019 HK$** | 2018 HK$ |
| Increase in profit after taxation for the year | **12,593,000** | 12,613,000 |

*Other price risk*

The Group is exposed to price changes arising from investments classified as financial assets at FVTPL.

The Group has established a multi-level management system for its proprietary trading business. The Board has set up the Investment Decision Committee for the purposes of formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. The risk control team is responsible for monitoring the daily operations of its proprietary trading activities and to ensure compliance with its trading policies.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Other price risk (Continued)*

In addition, the Group's exposures are closely monitored by other relevant internal control units, including Risk Management Department, the Finance Department, the Compliance Department and the Internal Audit Department. The Group's exposures are closely monitored by the Finance Department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

The following table summarises the impact on changes in prices/unit prices of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss on the Group's profit after tax for the year:

**2019**

| | Exposure | Impact on a 5% increases in price on profit after tax for the year | Impact on a 5% decreases in price on profit after tax for the year |
|---|---|---|---|
| **Financial assets at fair value through profit or loss (except for foreign currency forward contracts and credit derivative)** | | | |
| Listed equity securities, listed funds, listed and unlisted debt securities, listed convertible bonds | 8,707,632,645 | 435,381,632 | (435,381,632) |
| Unlisted equity securities, investment funds, debt linked note and equity linked note | 310,414,419 | 15,520,721 | (15,520,721) |
| **Financial liabilities at fair value through profit or loss (except for foreign currency exchange contracts and credit derivative)** | | | |
| Unlisted structured financial products | 629,789,650 | (31,489,483) | 31,489,483 |
| Short position | 30,853,500 | (1,542,675) | 1,542,675 |
| **Other liabilities (third parties unit holders of consolidated investment funds)** | 397,754,496 | (19,887,725) | 19,887,725 |
| | | 397,982,470 | (397,982,470) |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Other price risk (Continued)*

2018

| | Exposure | Impact on a 5% increases in price on profit after tax for the year | Impact on a 5% decreases in price on profit after tax for the year |
|---|---|---|---|
| **Financial assets at fair value through profit or loss (except for foreign currency exchange contracts and credit derivatives)** | | | |
| Listed equity securities, listed funds, listed and unlisted debt securities, listed convertible bonds | 6,845,649,709 | 342,282,485 | (342,282,485) |
| Unlisted equity securities, investment funds, debt linked note and equity linked note | 1,814,958,062 | 90,747,903 | (90,747,903) |
| **Financial liabilities at fair value through profit or loss (except for credit derivatives)** | | | |
| Unlisted structured financial products | 168,416,061 | (8,402,803) | 8,402,803 |
| Short position | 104,522,000 | (5,226,100) | 5,226,100 |
| **Other liabilities (third parties unit holders of consolidated investment funds)** | 350,867,555 | (17,543,378) | 17,543,378 |
| | | 401,858,107 | (401,858,107) |

The fair value of derivative financial instruments depends on the foreign currency exchange rate underlying investment linked index and credit spread of reference entities. If the foreign currency linked index or credit spread increased/decreased by 1 bps, profit after tax for the year ended 31 December 2019 would have an estimated HK$1,808,623 decrease/increase (2018: HK$5,224,422 decrease/increase).

In management's opinion, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

#### Credit risk and impairment assessment

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Other than the debt securities in the PRC and overseas, the Group's concentration of credit risk by geographical location is mainly in Hong Kong.

As at 31 December 2019 and 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of respective recognised financial assets as stated in the consolidated statement of financial position during the year. In addition, there was with a maximum exposure of approximately HK$1,090,194,000 (2018: HK$356,626,000) as the Group issued protection under certain credit instruments.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors consider that financial assets at FVTPL, reverse repurchase agreements, accounts receivable, loans receivable, other receivables and bank balances represent the Group's major exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has monitoring procedures in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model. In this regard, the directors of the Company consider that the Group's credit risk is sufficiently managed.

The credit risk on bank balances is limited because the counterparties are with high credit ratings assigned by international credit-rating agencies. More than 75% of bank balances are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

The management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

As described in more details in note 22, the credit risk on accounts receivable is managed through daily monitoring of the outstanding exposures from individual clients, margin values and realisable values of individual client's securities. The Group has concentration of credit risk to ten largest securities margin clients' exposure representing 39% (2018: 24%) of the total loans to margin clients as at 31 December 2019. The balances due from the ten largest securities margin clients were approximately HK$1,517,188,000 (2018: HK$1,439,986,000), of which the amount is secured by clients' securities with an aggregate fair value of HK$5,453,602,000 (2018: HK$5,141,808,000),. Apart from the exposures to ten largest margin clients' exposure mentioned above, the directors of the Company consider that the concentration of credit risk is limited due to the customer base being large and unrelated.

The credit risk for accounts receivable from clearing houses and brokers is considered as not material taking into account the good market reputations and high credit ratings of the counterparties.

The credit risk on loans receivable is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral. As at 31 December 2019, the Group did not have any exposure to credit risk on loans receivable. As at 31 December 2018, apart from the exposures to the concentration of credit risk from two independent counterparties amounting to HK$52,729,158, the Group does not have any other significant concentration of credit risk on loans receivable.

The Group also invested in debt securities and other financial products which exposed it to credit risk. The management of the Group reviews on a regular basis the portfolio of the debt securities and other financial products to ensure that the concentration risk is at an acceptable level. The directors of the Company consider that the credit risk relating to the debt securities and other financial products is closely monitored.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The following table details the aggregate investment grade of debt securities and other financial products investment portfolio, which includes convertible bonds, unlisted collateralised loan obligation, unlisted credit-linked notes and listed note, held by the Group, as rated by well-known rating agencies.

| | **As at 31 December 2019** | As at 31 December 2018 |
|---|---|---|
| Portfolio by issuer rating | | |
| *Financial assets at fair value through profit or loss* | | |
| AAA to A- | **7.5%** | 8.0% |
| BBB+ to BBB- | **21.4%** | 13.8% |
| BB+ and below | **5.5%** | 18.2% |
| Non-rated *(note)* | **65.6%** | 60.0% |
| | **100.0%** | 100.0% |

*Note:* Non-rated financial assets mainly represent debts instruments and other financial products issued by special purpose entities, banks and other financial institutions and large corporations in the industries of industrial and construction, real estate, chemicals, metals and mining, transportation, and trade and retail, which are creditworthy issuers in the market.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

*Impairment assessment policies*

The Group's policy requires the review of individual outstanding amounts at least monthly or more regularly depending on individual circumstances or market condition.

The risk management department is responsible for developing and maintaining the processes for measuring ECL, the impairment requirements under HKFRS 9. The ECL are assessed by the Group on quarterly basis. The Group applies simplified approach to measure ECL on accounts receivable (except for secured margin loans); and general approach to measure ECL on secured margin loans and other financial assets accounted for at amortised cost. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1: 12-month ECL, Stage 2: Lifetime ECL – not credit-impaired and Stage 3: Lifetime ECL – credit-impaired.

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

For such financial assets classified as Stages 1 and 2, the management assesses loss allowances using the risk parameter modelling approach that incorporates key parameters, including PD, LGD and EAD. For credit-impaired financial assets classified as Stage 3, the management assesses the credit loss allowances by estimating the future cash flows expected to arise from the financial assets.

The measurement of ECL adopted by the management involves judgements, assumptions and estimations as follows:

- Determination of the criteria for significant increase in credit risk;
- Selection of the appropriate models and assumptions;
- Establishment of relative probability weightings for forward-looking scenarios.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

*Measurement of ECL*

The ECL are measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

PD represents an estimate of the likelihood of default of a borrower on its financial obligation over a given horizon, i.e. over the next 12 months or over the remaining lifetime. For secured margin loans, the Group determines PD by the internal credit ratings and with reference to the appropriate external credit ratings assigned by international credit-rating agencies. For other financial assets at amortised cost, the external credit ratings and related PD are taken into consideration.

LGD represents an estimate of the loss on default. For secured margin loans, LGD is determined based on factors including the realisation value of collateral, the value of guarantee that is an integral part of the loan, and the estimated volatility. For other financial assets at amortised cost, LGD is determined based on assessed publicly available information from credit-rating agencies.

EAD represents the amounts expected to be owed at the time of default over the next 12 months or over the remaining lifetime taking into account expected changes in the exposure after the reporting date.

*Assessment of significant increase in credit risk*

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment, including forward-looking information. For secured margin loans, the number of days past due and loan-to-collateral value ("LTV") are used to determine significant increase in credit risk. For other financial assets, the number of days past due is used as determinant of credit risk. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition.

*Forward looking information*

The estimation of credit loss under all stages is taking into consideration of forward looking information. The Group identifies the key economic driver impacting credit risk and ECL to be the growth rate of domestic GDP. The Group applied the probability weighted scenarios for incorporating the forward looking information. The growth rate of domestic GDP has been used in determining the probability-weighting of each of the optimistic scenario, base case scenario and pessimistic scenario. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Accounts receivable (except for secured margin loans) | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL – not credit-impaired | 12-month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payment has been overdue for more than 30 days (secured margin loans: LTV over 85% and margin call over 15 days) | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (secured margin loans: LTV over 100% and overdue for more than 30 days) | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | *Note* | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount 2019 HK$ | 2018 HK$ |
|---|---|---|---|---|---|---|
| **Financial assets at amortised costs** | | | | | | |
| Loans receivable | *18* | N/A | Low risk | 12-month ECL | **–** | 71,614,048 |
| Reverse repurchase agreements | *19* | N/A | Low risk | 12-month ECL | **1,027,019,766** | 335,307,392 |
| Secured margin loans | *22* | N/A | Low risk | 12-month ECL | **2,905,253,918** | 3,626,017,967 |
| | | | Doubtful | Lifetime ECL (not credit impaired) | **266,824,048** | 713,357,721 |
| | | | Loss | Credit impaired | **1,076,578,085** | 1,886,659,474 |
| | | | | | **4,248,656,051** | 6,226,035,162 |
| Accounts receivable (except for secured margin loans) | *22* | N/A | (Note 2) | Lifetime ECL (not credit impaired) | **1,698,776,023** | 1,004,575,097 |
| | | | | Lifetime ECL (credit-impaired) | **2,654,278** | 1,679,857 |
| | | | | | **1,701,430,301** | 1,006,254,954 |
| Bank balances – trust accounts | *23* | BBB or above | N/A | 12-month ECL | **1,850,581,251** | 5,229,079,297 |
| Bank balances – general accounts and cash | *23* | BBB or above | N/A | 12-month ECL | **5,359,950,333** | 1,517,226,830 |
| Deposits and other receivables | *21* | N/A | (Note 1) | 12-month ECL | **1,180,656,215** | 402,178,437 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

*Notes:*

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

| | 2019 Past due HK$ | 2019 Not past due/ Repayable on demand HK$ | 2019 Total HK$ | 2018 Past due HK$ | 2018 Not past due/ Repayable on demand HK$ | 2018 Total HK$ |
|---|---|---|---|---|---|---|
| Deposits and other receivables | – | 1,180,656,215 | 1,180,656,215 | – | 402,178,437 | 402,178,437 |

2. For accounts receivable (except for secured margin loans), the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by aging status.

The Group's credit risk exposure of financial assets according to the stage of ECL for which an impairment allowance is recognised as follows:

**As at 31 December 2019**

| | Stage 1 HK$ | Stage 2 HK$ | Stage 3 HK$ | Total HK$ |
|---|---|---|---|---|
| **Reverse repurchase agreements** | | | | |
| Gross carrying amount | 1,027,019,766 | – | – | 1,027,019,766 |
| Loss allowance | (990,000) | – | – | (990,000) |
| Net carrying amount | 1,026,029,766 | – | – | 1,026,029,766 |
| **Secured margin loans** | | | | |
| Gross carrying amount | 2,905,253,918 | 266,824,048 | 1,076,578,085 | 4,248,656,051 |
| Loss allowance | (15,229,222) | (4,434,423) | (386,147,223) | (405,810,868) |
| Net carrying amount | 2,890,024,696 | 262,389,625 | 690,430,862 | 3,842,845,183 |
| **Bank balances – trust accounts** | | | | |
| Gross carrying amount | 1,850,581,251 | – | – | 1,850,581,251 |
| Loss allowance | (250,000) | – | – | (250,000) |
| Net carrying amount | 1,850,331,251 | – | – | 1,850,331,251 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

As at 31 December 2018

| | Stage 1<br>HK$ | Stage 2<br>HK$ | Stage 3<br>HK$ | Total<br>HK$ |
|---|---|---|---|---|
| **Loans receivable** | | | | |
| Gross carrying amount | 71,614,048 | – | – | 71,614,048 |
| Loss allowance | (170,000) | – | – | (170,000) |
| Net carrying amount | 71,444,048 | – | – | 71,444,048 |
| **Reverse repurchase agreements** | | | | |
| Gross carrying amount | 335,307,392 | – | – | 335,307,392 |
| Loss allowance | (990,000) | – | – | (990,000) |
| Net carrying amount | 334,317,392 | – | – | 334,317,392 |
| **Secured margin loans** | | | | |
| Gross carrying amount | 3,626,017,967 | 713,357,721 | 1,886,659,474 | 6,226,035,162 |
| Loss allowance | (15,516,854) | (6,315,387) | (302,089,616) | (323,921,857) |
| Net carrying amount | 3,610,501,113 | 707,042,334 | 1,584,569,858 | 5,902,113,305 |
| **Bank balances – trust accounts** | | | | |
| Gross carrying amount | 5,229,079,297 | – | – | 5,229,079,297 |
| Loss allowance | (250,000) | – | – | (250,000) |
| Net carrying amount | 5,228,829,297 | – | – | 5,228,829,297 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Movement in the allowances for impairment for loans receivable is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 | – | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| – Transfer to Stage 3 | – | – | – | – |
| – Transfer to Stage 2 | – | – | – | – |
| – Transfer to Stage 1 | – | – | – | – |
| Impairment losses recognised | – | – | – | – |
| Impairment losses reversed | – | – | – | – |
| Written-off | – | – | – | – |
| New financial assets originated or purchased | 170,000 | – | – | 170,000 |
| As at 31 December 2018 and 1 January 2019 | 170,000 | – | – | 170,000 |
| Changes due to financial instruments: recognised as at 1 January 2019 | | | | |
| Impairment losses reversed | (170,000) | – | – | (170,000) |
| As at 31 December 2019 | – | – | – | – |

As at 31 December 2018, the Group measured the loss allowance for loans receivable of Stage 1 amounting to HK$170,000, which was contributed by the new loans receivable originated during the year with a gross carrying amount of HK$71.6 million.

Movement in the allowances for impairment for reverse repurchase agreements is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 | – | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| – Transfer to Stage 3 | – | – | – | – |
| – Transfer to Stage 2 | – | – | – | – |
| – Transfer to Stage 1 | – | – | – | – |
| Impairment losses recognised | – | – | – | – |
| Impairment losses reversed | – | – | – | – |
| Written-off | – | – | – | – |
| New financial assets originated or purchased | 990,000 | – | – | 990,000 |
| As at 31 December 2018, 1 January 2019 and 31 December 2019 | 990,000 | – | – | 990,000 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

As at 31 December 2019, the Group measured the loss allowance for reverse repurchase agreements of Stage 1 amounting to HK$990,000 (2018: HK$990,000), which was contributed by the new reverse repurchase agreements originated during the year with a gross carrying amount of HK$1,027.0 million (2018: HK$335.3 million).

Movement in the allowances for impairment for bank balances – trust accounts is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 | – | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| – Transfer to Stage 3 | – | – | – | – |
| – Transfer to Stage 2 | – | – | – | – |
| – Transfer to Stage 1 | – | – | – | – |
| Impairment losses recognised | – | – | – | – |
| Impairment losses reversed | – | – | – | – |
| Written-off | – | – | – | – |
| New financial assets originated or purchased | 250,000 | – | – | 250,000 |
| As at 31 December 2018, 1 January 2019 and 31 December 2019 | 250,000 | – | – | 250,000 |

As at 31 December 2019, the Group measured the loss allowance for bank balances – trust accounts of Stage 1 amounting to HK$250,000 (2018: HK$250,000), which was contributed by the fixed deposits in the trust accounts with a gross carrying amount of HK$1,625.3 million (2018: HK$4,691.7 million).

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Movement in the allowances for impairment for secured margin loans is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 | 10,185,030 | 19,807,883 | 290,394,561 | 320,387,474 |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| – Transfer to Stage 3 | (575,239) | (996,718) | 1,571,957 | – |
| – Transfer to Stage 2 | (813,667) | 892,770 | (79,103) | – |
| – Transfer to Stage 1 | 2,246,315 | (2,232,507) | (13,808) | – |
| Impairment losses recognised | 2,800,817 | 2,781,883 | 11,844,502 | 17,427,202 |
| Impairment losses reversed | (3,898,686) | (13,937,924) | (1,628,493) | (19,465,103) |
| Written-off | – | – | – | – |
| New financial assets originated or purchased | 5,572,284 | – | – | 5,572,284 |
| As at 31 December 2018 and 1 January 2019 | 15,516,854 | 6,315,387 | 302,089,616 | 323,921,857 |
| Changes due to financial instruments recognised as at 1 January 2019: | | | | |
| – Transfer to Stage 3 | (2,526,971) | (3,736,694) | 6,263,665 | – |
| – Transfer to Stage 2 | (852,226) | 1,200,762 | (348,536) | – |
| – Transfer to Stage 1 | 3,497,602 | (2,435,962) | (1,061,640) | – |
| Impairment losses recognised | 11,719,963 | 4,354,349 | 862,570,625 | 878,644,937 |
| Impairment losses reversed | (15,635,259) | (1,343,494) | (16,548,543) | (33,527,296) |
| Written-off | – | – | (290,394,561) | (290,394,561) |
| Derecognised by way of note issuance *(Note 22)* | – | – | (536,717,832) | (536,717,832) |
| New financial assets originated or purchased | 3,509,259 | 80,075 | 60,294,429 | 63,883,763 |
| As at 31 December 2019 | 15,229,222 | 4,434,423 | 386,147,223 | 405,810,868 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The overall increase of the ECL allowance was HK$81.9 million (2018: HK$3.5 million) for the year ended 31 December 2019.

The movement was mainly driven by secured margin loans of Stage 3. Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin accounts. Additional loss allowance of HK$922.9 million (2018: HK$11.8 million) was made for secured margin loans with a gross carrying amount of HK$2,952.3 million (2018: HK$784.7 million) at Stage 3.

This increase was partially set off by write-off of secured margin loans with a gross carrying amount of HK$290.4 million (2018: Nil) at Stage 3, derecognition of margin loans by way of note issuance with a gross carrying amount of HK$1,875.7 million (2018: Nil) and reversal of impairment losses for secured margin loans with a gross carrying amount of HK$2,688.1 million.

In determining the impairment allowance on secured margin loans which were credit-impaired, the management of the Group reviews and assesses each margin client individually based on the evaluation of collectability, aging analysis of accounts and on management's judgement, including the current creditworthiness and the past collection statistics of each client, the realisation value of securities or collaterals from clients and their guarantors which are held by the Group, subsequent settlement or additional collaterals received. The write-off was made in respect of secured margin loans that have been fully provided for in the prior years. These loans were still subject to enforcement activities under the Group's recovery procedures.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group's credit risk exposure of accounts receivable (except for secured margin loans) for which an impairment allowance is recognised as follows based on simplified approach:

**As at 31 December 2019**

| | Lifetime ECL (not credit-impaired) HK$ | Lifetime ECL (Credit-impaired) HK$ | Total HK$ |
|---|---|---|---|
| *Accounts receivable arising from the business of dealing in securities (except for secured margin loans)* | | | |
| Gross carrying amount | 1,329,725,717 | 2,299,411 | 1,332,025,128 |
| Loss allowance | (75,512) | (484,488) | (560,000) |
| Net carrying amount | 1,329,650,205 | 1,814,923 | 1,331,465,128 |
| *Accounts receivable arising from the business of dealing in futures and options contracts* | | | |
| Gross carrying amount | 165,666,765 | – | 165,666,765 |
| Loss allowance | (88,000) | – | (88,000) |
| Net carrying amount | 165,578,765 | – | 165,578,765 |
| *Accounts receivable arising from the business of corporate finance* | | | |
| Gross carrying amount | 17,695,697 | – | 17,695,697 |
| Loss allowance | – | – | – |
| Net carrying amount | 17,695,697 | – | 17,695,697 |
| *Accounts receivable arising from the business of asset management* | | | |
| Gross carrying amount | 28,469,100 | 354,867 | 28,823,967 |
| Loss allowance | (158,000) | (354,867) | (512,867) |
| Net carrying amount | 28,311,100 | – | 28,311,100 |
| Accounts receivable arising from the business of financial products and investments | | | |
| Gross carrying amount | 157,218,744 | – | 157,218,744 |
| Loss allowance | – | – | – |
| Net carrying amount | 157,218,744 | – | 157,218,744 |
| **Total** | | | |
| Gross carrying amount | 1,698,776,023 | 2,654,278 | 1,701,430,301 |
| Loss allowance | (321,512) | (839,355) | (1,160,867) |
| Net carrying amount | 1,698,454,511 | 1,814,923 | 1,700,269,434 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group's credit risk exposure of accounts receivable (except for secured margin loans) for which an impairment allowance is recognised as follows based on simplified approach: *(Continued)*

As at 31 December 2018

| | Lifetime ECL (not credit-impaired) HK$ | Lifetime ECL (Credit-impaired) HK$ | Total HK$ |
|---|---|---|---|
| *Accounts receivable arising from the business of dealing in securities (except for secured margin loans)* | | | |
| Gross carrying amount | 461,311,823 | 1,324,990 | 462,636,813 |
| Loss allowance | (75,512) | (484,488) | (560,000) |
| Net carrying amount | 461,236,311 | 840,502 | 462,076,813 |
| *Accounts receivable arising from the business of dealing in futures and options contracts* | | | |
| Gross carrying amount | 223,910,678 | – | 223,910,678 |
| Loss allowance | (88,000) | – | (88,000) |
| Net carrying amount | 223,822,678 | – | 223,822,678 |
| *Accounts receivable arising from the business of corporate finance* | | | |
| Gross carrying amount | 20,526,889 | – | 20,526,889 |
| Loss allowance | – | – | – |
| Net carrying amount | 20,526,889 | – | 20,526,889 |
| *Accounts receivable arising from the business of asset management* | | | |
| Gross carrying amount | 12,283,025 | 354,867 | 12,637,892 |
| Loss allowance | (158,000) | (354,867) | (512,867) |
| Net carrying amount | 12,125,025 | – | 12,125,025 |
| Accounts receivable arising from the business of financial products and investments | | | |
| Gross carrying amount | 286,542,682 | – | 286,542,682 |
| Loss allowance | – | – | – |
| Net carrying amount | 286,542,682 | – | 286,542,682 |
| **Total** | | | |
| Gross carrying amount | 1,004,575,097 | 1,679,857 | 1,006,254,954 |
| Loss allowance | (321,512) | (839,355) | (1,160,867) |
| Net carrying amount | 1,004,253,585 | 840,502 | 1,005,094,087 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Movement in the allowances for impairment for accounts receivable (except for secured margin loans) is as follows:

| | **Lifetime ECL (not credit-impaired)** | **Lifetime ECL (Credit-impaired)** | **Total** |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| As at 1 January 2018 | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | |
| – Transfer to Stage 3 | – | – | – |
| – Transfer to Stage 2 | – | – | – |
| – Transfer to Stage 1 | – | – | – |
| Impairment losses recognised | – | 839,355 | 839,355 |
| Impairment losses reversed | – | – | – |
| Written-off | – | – | – |
| New financial assets originated or purchased | 321,512 | – | 321,512 |
| As at 31 December 2018, 1 January 2019 and 31 December 2019 | 321,512 | 839,355 | 1,160,867 |

During the year ended 31 December 2018, the Group provided HK$321,512 impairment allowance for accounts receivable (except for secured margin loans) based on simplified approach, which was contributed by the accounts receivable with a gross carrying amount of HK$1,004.6 million. Impairment allowance of HK$839,355 were made on debtors with credit impaired accounts receivable, with a gross carrying amount of HK$1.7 million. Management considers that there were no material changes in the impairment assessment of the accounts receivable (except for secured margin loans) as at 31 December 2019, so there was no movement during the year.

Accounts receivable arising from the business of dealing in securities which are credit-impaired represent accounts receivable from cash clients when clients fail to settle according to settlement terms after taking into consideration the recoverability of collateral.

Accounts receivable arising from the business of asset management which are credit-impaired represent accounts receivable from asset management clients which have not yet been settled by clients over 1 year and the client encountered financial difficulty on the repayment.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from investment securities, which includes debt securities, convertible bonds, unlisted equity-linked note and debt-linked notes held by the Group, is shown below.

| | *Notes* | **2019 Financial assets at fair value through profit or loss HK$** | 2018 Financial assets at fair value through profit or loss HK$ |
|---|---|---|---|
| Carrying amount | *17* | **8,375,466,491** | 7,921,229,951 |
| **Concentration by sector** | | | |
| Banks | | **1,390,996,998** | 934,687,895 |
| Other financial institutions | | **2,033,453,607** | 3,581,140,508 |
| Insurance | | **79,725,195** | 154,178,213 |
| Corporate: | | **4,790,954,100** | 3,221,580,973 |
| Real estate | | **2,374,869,848** | 1,700,722,264 |
| Chemicals | | **127,982,178** | 224,844,654 |
| Customer services | | **319,325,499** | 29,187,000 |
| Food | | **–** | 16,248,964 |
| Entertainment | | **–** | 21,568,379 |
| Industrial and construction | | **871,344,433** | 483,173,530 |
| Transportation | | **69,991,242** | 51,397,840 |
| Telecommunications | | **–** | 44,415,653 |
| Utilities | | **991,903,408** | 208,958,249 |
| Metals and mining | | **35,537,492** | 441,064,440 |
| Retail | | **80,336,591** | 29,642,362 |
| | | **8,375,466,491** | 7,921,229,951 |
| **Concentration by location** | | | |
| China | | **3,901,269,270** | 1,381,235,492 |
| Europe | | **235,548,318** | 406,080,153 |
| Hong Kong | | **3,026,861,238** | 2,174,333,262 |
| Asia | | **154,189,565** | 110,897,673 |
| Australia | | **–** | 104,349,258 |
| America | | **1,057,598,100** | 3,744,334,113 |
| | | **8,375,466,491** | 7,921,229,951 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

Other than concentration of credit risk on bank balances, amounts due from clearing houses and brokers, top ten margin clients' exposure described above, and debt securities investment, the Group had no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties.

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The directors of Company consider that the liquidity risk of the Group is remote because the Group has sufficient assets to repay the liabilities when demanded.

A number of the Group's activities in Hong Kong are subject to various statutory liquidity requirements as prescribed by the Hong Kong Securities and Futures Commission in accordance with the Hong Kong Securities and Futures Ordinance (the "HKSFO").

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements under the HKSFO.

The table below analyses the financial liabilities of the Group into relevant maturity groupings based on the earliest date on which the Group can be required to pay. Bank borrowings with a repayment on demand clause are included in the "on demand and less than one month" time band and bank loans that do not meet covenant conditions are included in the time band according to the loan maturity date. The directors of the company do not believe that it is probable the banks will exercise their discretionary rights to demand immediate repayment. The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. The maturity analysis without taking into account the repayment on demand clause would be similar to the table below and no further analysis is presented. As at 31 December 2019, the aggregate undiscounted principal amounts of these bank borrowings of the Group amounted to HK$6,360,000,000 (2018: HK$5,580,000,000). The maturity dates for other financial liabilities are based on the agreed repayment dates.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Liquidity risk** *(Continued)*

| | Weighted average effective interest rate | Repayable on demand and less than one month HK$ | More than 1 month to 1 year HK$ | Over 1 year to 5 years HK$ | Total contractual undiscounted cash flows HK$ | Carrying amount HK$ |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Accounts payable | N/A | 3,411,501,538 | – | – | 3,411,501,538 | 3,411,501,538 |
| Financial liabilities held for trading | N/A | 39,401,106 | – | – | 39,401,016 | 39,401,016 |
| Financial liabilities designated at fair value through profit or loss (including interest payable) | N/A | – | – | 639,840,032 | 639,840,032 | 639,840,032 |
| Repurchase agreements (including interest payable) | 2.75% | 2,702,587,878 | 401,851,392 | 371,084,267 | 3,475,523,537 | 3,441,864,735 |
| Bank borrowings (including interest payable) | 4.82% | 6,424,711,285 | 134,680,817 | 3,487,878,832 | 10,047,270,934 | 9,719,608,306 |
| Other borrowings (including interest payable) | 4.88% | 59,275,047 | 138,377,694 | – | 197,652,741 | 196,217,064 |
| Notes (including interest payable) | 3% | – | 31,720,103 | – | 31,720,103 | 31,302,195 |
| Bonds | 5% | – | 2,249,015,712 | – | 2,249,015,712 | 2,173,672,130 |
| Lease liabilities | 3.72% | – | 13,548,899 | – | 13,548,899 | 13,404,498 |
| Other payables | N/A | 5,248,657 | – | – | 5,248,657 | 5,248,657 |
| Amount due to a related party | N/A | 5,744,417 | – | – | 5,744,417 | 5,744,417 |
| Other liabilities | N/A | 546,215,309 | – | – | 546,215,309 | 546,215,309 |

*Note:* As mentioned in note 22, the Group has issued structured notes to third parties to transfer the cash flow of margin loans. The issued notes will expire in 2024 and the redemption price will be determined by the fair value of the underlying exposure upon expiry.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Liquidity risk** *(Continued)*

| | Weighted average effective interest rate | Repayable on demand and less than one month HK$ | More than 1 month to 1 year HK$ | Over 1 year to 5 years HK$ | Total contractual undiscounted cash flows HK$ | Carrying amount HK$ |
|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | |
| Accounts payable (excluding secured margin loans payable to broker) | 0.01% | 5,991,194,627 | – | – | 5,991,194,627 | 5,991,194,627 |
| Financial liabilities held for trading | N/A | 104,522,000 | 11,879,526 | – | 116,401,526 | 116,401,526 |
| Financial liabilities designated at fair value through profit or loss (including interest payable) | 12.4% | – | 172,299,574 | – | 172,299,574 | 172,299,574 |
| Repurchase agreements (including interest payable) | 3.41% | 1,109,118,541 | 439,913,417 | – | 1,549,031,958 | 1,542,080,825 |
| Bank borrowings (including interest payable) | 4.55% | 5,586,797,616 | 133,497,604 | 3,588,659,804 | 9,308,955,024 | 8,909,661,292 |
| Other borrowings (including interest payable) | 4.07% | – | 1,508,456,866 | – | 1,508,456,866 | 1,485,297,574 |
| Notes (including interest payable) | 3% | – | 62,850,751 | – | 62,850,751 | 62,850,751 |
| Other payables | N/A | 25,173,677 | – | 785,704 | 25,959,381 | 25,959,381 |
| Amount due to a related party | N/A | 3,174,615 | – | – | 3,174,615 | 3,174,615 |
| Other liabilities | N/A | 399,729,979 | – | – | 399,729,979 | 399,729,979 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value measurement of financial instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs are unobservable inputs for the asset or liability.

### Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 31 December 2019 and 2018.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

The following tables give information about how the fair values of financial assets and financial liabilities measured at fair value are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

| | Fair value as at 31 December 2019 HK$ | Fair value as at 31 December 2018 HK$ | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| **1) Financial assets at fair value through profit or loss** | | | | |
| Equity securities | | | | |
| – Traded on stock exchanges | **333,622,245** | 250,488,074 | Level 1 | Quoted price in active markets |
| – Unlisted | **241,171,753** | 374,529,995 | Level 3 | Market approach based on the Comparable Companies Method with the Price to Earnings and EV/EBITDA multiple of the comparable companies, with significant unobservable input of the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment *(note a)* |
| Debt securities | | | | |
| – Traded on stock exchanges | **–** | 4,642,934,840 | Level 1 | Quoted price in active markets |
| – Traded on stock exchanges and unlisted | **7,560,555,820** | 1,784,955,456 | Level 2 | Quoted from brokers or market makers |
| – Unlisted | **778,710,000** | – | Level 2 | Recent transaction price |
| Credit derivative | **1,183,320** | 2,747,716 | Level 2 | Quoted from market makers |
| Foreign currency forward contracts | **3,936,218** | 2,322,556 | Level 2 | Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

| | Fair value as at 31 December 2019 HK$ | Fair value as at 31 December 2018 HK$ | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| **1) Financial assets at fair value through profit or loss (Continued)** | | | | |
| Convertible bonds | | | | |
| – Traded on stock exchanges | **–** | 213,248,835 | Level 1 | Quoted price in active markets |
| – Traded on stock exchange | **36,200,671** | – | Level 2 | Quoted from brokers or market makers |
| Funds | | | | |
| – Traded on stock exchange | **101,311,650** | 69,441,600 | Level 1 | Quoted price in active market |
| – Unlisted | **–** | 88,528,438 | Level 2 | NAV of funds with reference to underlying investment portfolios which have observable quoted price in active markets |
| – Unlisted | **69,242,666** | 24,820,997 | Level 3 | NAV of fund provided by external counterparty *(note b)* |
| – Unlisted | **–** | 46,987,812 | Level 2 | Recent transaction price |
| Unlisted equity-linked note | **–** | 398,055,808 | Level 2 | Observable quoted price of underlying equity investment in active market |
| Unlisted debt-linked note | **–** | 841,767,642 | Level 2 | Observable quoted price of underlying investment portfolio in active market |
| Unlisted debt-linked note | **–** | 40,267,370 | Level 2 | Quoted from market makers |
| | **9,125,934,343** | 8,781,097,139 | | |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

| | Fair value as at 31 December 2019 HK$ | Fair value as at 31 December 2018 HK$ | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| **2) Financial liabilities held for trading** | | | | |
| Short position in listed equity securities | **30,853,500** | 104,522,000 | Level 1 | Quoted price in active market |
| Credit derivative | **–** | 11,198,759 | Level 2 | Quoted price from market makers |
| Credit derivative | **8,460,016** | 680,767 | Level 3 | Quoted price from market makers *(note c)* |
| Foreign currency forward contracts | **87,500** | – | Level 2 | Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate |
| | **39,401,016** | 116,401,526 | | |
| **3) Financial liabilities designated at fair value through profit or loss** | | | | |
| Unlisted structured products (with the underlying investment related to listed debt securities) | **80,696,680** | 148,930,662 | Level 2 | Observable quoted price of underlying investments in active market |
| Unlisted structured product (with the underlying investment related to unlisted debt security) | **107,648,354** | 23,368,912 | Level 2 | Observable quoted price of underlying investment from market makers |
| Unlisted structured product (with the underlying investment related to unlisted fund) | **451,494,998** | – | Level 2 | Recent transaction price |
| | **639,840,032** | 172,299,574 | | |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

*Notes:*

(a) The unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted.

(b) The directors of the Company determined that the reported net asset value of the unlisted investment fund represents the fair value of the fund. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in positive relationship that the higher the reported net asset value adopted in the valuation assessment, the higher the fair value would be resulted.

(c) The unobservable input is the spread of the credit derivative with reference to the price of the underlying reference obligation and the spread is provided by the external counterparty, when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the spread adopted in the valuation assessment, the lower the fair value would be resulted.

During the year ended 31 December 2019, debt securities and convertible bonds amounting to HK$192,042,267 and HK$36,200,671 respectively were transferred from level 1 to level 2 due to disappearance of an active market. There was no transfer between level 1 and level 2 during the year ended 31 December 2018. The Group assumes all transfers took place at the end of the financial year.

### Reconciliation of level 3 fair value measurements

31 December 2019

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **Financial liabilities at fair value through profit or loss HK$** | Financial assets at fair value through profit or loss HK$ | **Financial liabilities at fair value through profit or loss HK$** | Financial assets at fair value through profit or loss HK$ |
| Opening balance | **(680,767)** | 399,350,992 | **–** | – |
| Additions | **(8,460,016)** | – | **–** | 313,177,638 |
| Transfer into Level 3 *(note a)* | **–** | 48,004,707 | **–** | 23,502,000 |
| Settled during the year | **680,767** | – | **–** | – |
| Total unrealised gains/(loss) in profit or loss | **–** | (136,941,280) | **(680,767)** | 62,671,354 |
| Closing balance | **(8,460,016)** | 310,414,419 | **(680,767)** | 399,350,992 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Reconciliation of level 3 fair value measurements *(Continued)*

*Notes:*

(a) The fair value of the unlisted funds were determined with reference to the recent transaction price and therefore classified as Level 2 investment in the previous year. During the year, the fair value of the unlisted funds were determined based on NAV reported by external counterparty which involved significant unobservable inputs. Thus, the instrument was transferred from Level 2 to Level 3 category.

### Derivative financial instruments settled daily

| | As at 31 December 2019 | | |
|---|---|---|---|
| | Notional | Fair value | |
| | amount | Assets | Liabilities |
| | HK$ | HK$ | HK$ |
| Foreign currency exchange futures | **233,576,910** | **–** | **2,191,932** |
| Interest rate futures | **1,031,790,750** | **903,912** | **–** |
| Total | **1,265,367,660** | **903,912** | **2,191,932** |
| Less: Settlement | | **(903,912)** | **(2,191,932)** |
| Net Position | | **–** | **–** |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Derivative financial instruments settled daily *(Continued)*

| | As at 31 December 2018 | | |
|---|---|---|---|
| | Notional | Fair value | |
| | amount | Assets | Liabilities |
| | HK$ | HK$ | HK$ |
| Hang Seng Index futures | 96,952,500 | 844,750 | – |
| Interest rate futures | 3,693,376,000 | – | 25,236,230 |
| Total | 3,790,328,500 | 844,750 | 25,236,230 |
| Less: Settlement | | (844,750) | (25,236,230) |
| Net Position | | – | – |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures traded through CISI Futures, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 31 December 2019 and 2018.

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

The disclosures set out in the table below include financial assets that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for total return swaps, foreign currency forward and sale and repurchase agreements.

The Group's total return swaps transactions and foreign currency forward that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set-off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

In addition, the Group pledged collateral in the form of cash and/or securities in respect of its total return swaps transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral pledged must be returned on maturity of the transactions.

Under the agreement of continuous net settlement between the Group and HKSCC and respective agreements between the Group and brokers, the Group has a legally enforceable right to set off money obligations receivable and payable with HKSCC and respective brokers on the same settlement date on a net basis. The Group intends to settle these balances on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC and brokers do not meet the criteria for offsetting in the consolidated statements of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

**As at 31 December 2019**

| | Gross amount of recognised financial assets | Gross amount of recognised financial liabilities set off in the consolidated statement of financial position | Net amounts of financial assets presented in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **Financial assets** | | | | | | |
| Accounts receivable arising from the business of dealing in securities | 5,329,507,765 | (155,197,454) | 5,174,310,311 | (131,631,000) | (3,148,633,093) | 1,894,046,218 |
| Debt securities pledged as collaterals for repurchase agreements (as disclosed in note 38) | 3,611,655,724 | – | 3,611,655,724 | (3,441,864,735) | – | 169,790,989 |
| Reverse repurchase agreements | 1,026,029,766 | – | 1,026,029,766 | – | (1,026,029,766) | – |

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2019** *(Continued)*

| | Gross amount of recognised financial liabilities HK$ | Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$ | Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$ | Related amounts not set off in the consolidated statement of financial position: Collateral received HK$ | Net amount HK$ |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Accounts payable arising from the business of dealing in securities | 3,167,796,832 | (155,197,454) | 3,012,599,378 | (131,631,000) | (8,212,188) | 2,872,756,190 |
| Repurchase agreements | 3,441,864,735 | – | 3,441,864,735 | (3,441,864,735) | – | – |

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2018**

| | Gross amount of recognised financial assets HK$ | Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$ | Net amounts of financial assets presented in the consolidated statement of financial position HK$ | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$ | Collateral received HK$ | Net amount HK$ |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Accounts receivable arising from the business of dealing in securities | 6,788,860,332 | (424,670,214) | 6,364,190,118 | (134,716,976) | (5,741,862,803) | 487,610,339 |
| Debt securities pledged as collaterals for other borrowings *(as disclosed in note 38)* | 1,786,257,427 | – | 1,786,257,427 | (1,485,297,574) | – | 300,959,853 |
| Debt securities pledged as collaterals for repurchase agreements *(as disclosed in note 38)* | 2,042,711,942 | – | 2,042,711,942 | (1,542,080,825) | – | 500,631,117 |
| Reverse repurchase agreements | 334,317,392 | – | 334,317,392 | – | (334,317,392) | – |
| Financial assets at fair value through profit or loss *(note a)* | 3,843,311,655 | (3,843,311,655) | – | – | – | – |

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2018** *(Continued)*

| | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the consolidated statement of financial position | Net amounts of financial liabilities presented in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **Financial liabilities** | | | | | | |
| Accounts payable arising from the business of dealing in securities | 6,043,585,277 | (424,670,214) | 5,618,915,063 | (134,716,976) | (7,395,227) | 5,476,802,860 |
| Repurchase agreements | 1,542,080,825 | – | 1,542,080,825 | (1,542,080,825) | – | – |
| Other borrowings | 1,485,297,574 | – | 1,485,297,574 | (1,485,297,574) | – | – |
| Financial liabilities at fair value through profit or loss *(note a)* | 3,843,311,655 | (3,843,311,655) | – | – | – | – |

*Notes:*

(a) During the year ended 31 December 2018, the Group entered into contracts for separate financial assets and financial liabilities which are subject to enforceable netting arrangement, and the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. There were no such arrangement at 31 December 2019.

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bonds HK$ *(Note 32)* | Bank borrowings HK$ *(Note 30)* | Other borrowings HK$ *(Note 31)* | Notes HK$ *(Note 32)* | Financial liabilities at fair value through profit or loss HK$ *(Note 25)* | Repurchase agreements HK$ *(Note 29)* | Accounts payable HK$ *(Note 26)* | Other liabilities HK$ *(Note 47)* | Lease liabilities HK$ *(Note 33)* | Total HK$ |
|---|---|---|---|---|---|---|---|---|---|---|
| At 31 December 2018 | – | 8,909,661,292 | 1,485,297,574 | 62,850,751 | 288,701,100 | 1,542,080,825 | 5,991,194,627 | 399,729,979 | – | 18,679,516,148 |
| Impact on initial application of HKFRS 16 *(note 3)* | – | – | – | – | – | – | – | – | 45,211,007 | 45,211,007 |
| At 1 January 2019 | – | 8,909,661,292 | 1,485,297,574 | 62,850,751 | 288,701,100 | 1,542,080,825 | 5,991,194,627 | 399,729,979 | 45,211,007 | 18,724,727,155 |
| Financing cash flow: | | | | | | | | | | |
| – Borrowings raised | – | 18,298,700,000 | 663,357,145 | – | – | – | – | – | – | 18,962,057,145 |
| – Repayment of borrowings | – | (17,518,700,000) | (1,937,874,069) | – | – | – | – | – | – | (19,456,574,069) |
| – Issuance of notes | – | – | – | 31,148,400 | – | – | – | – | – | 31,148,400 |
| – Redemption of notes | – | – | – | (62,650,400) | – | – | – | – | – | (62,650,400) |
| – Interest paid | – | (387,076,613) | (76,542,795) | (2,770,709) | – | (39,606,529) | (3,063,400) | – | – | (509,060,046) |
| – Net proceeds from issue of bonds | 2,139,012,259 | – | – | – | – | – | – | – | – | 2,139,012,259 |
| – Capital element of lease rentals paid | – | – | – | – | – | – | – | – | (31,806,509) | (31,806,509) |
| – Interest element of lease rentals paid | – | – | – | – | – | – | – | – | (1,142,215) | (1,142,215) |
| – Contribution from third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | 201,718,606 | – | 201,718,606 |
| – Withdrawal from third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | (28,983,717) | – | (28,983,717) |
| Operating cash flow: | | | | | | | | | | |
| – Change in financial liabilities at fair value through profit or loss | – | – | – | – | 389,156,241 | – | – | – | – | 389,156,241 |
| – Change in repurchase agreements | – | – | – | – | – | 1,891,414,430 | – | – | – | 1,891,414,430 |
| – Change in accounts payable | – | – | – | – | – | – | (2,579,693,089) | – | – | (2,579,693,089) |
| Fair value changes of interest held by third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | (29,298,504) | – | (29,298,504) |
| Finance costs | 34,659,871 | 417,023,627 | 61,979,209 | 2,724,153 | 1,383,707 | 47,976,009 | 3,063,400 | – | 1,142,215 | 569,952,191 |
| Investing cash flow: | | | | | | | | | | |
| Net assets acquired at the date of acquisition attributable to third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | 302,964 | – | 302,964 |
| Other non-cash movements | – | – | – | – | – | – | – | 2,745,981 | – | 2,745,981 |
| | 2,173,672,130 | 9,719,608,306 | 196,217,064 | 31,302,195 | 679,241,048 | 3,441,864,735 | 3,411,501,538 | 546,215,309 | 13,404,498 | 20,213,026,823 |

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

| | Bank borrowings HK$ *(Note 30)* | Other borrowings HK$ *(Note 31)* | Notes HK$ *(Note 32)* | Financial liabilities at fair value through profit or loss HK$ | Repurchase agreements HK$ | Accounts payable HK$ | Accrued interest HK$ | Other liabilities HK$ *(Note 47)* | Total HK$ |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 5,404,592,664 | 1,203,876,281 | 62,549,900 | 185,240,790 | 1,094,855,904 | 4,203,671,739 | 14,863,192 | 278,866,324 | 12,448,516,794 |
| Financing cash flow: | | | | | | | | | |
| – Borrowings raised | 40,582,001,825 | 790,022,977 | – | – | – | – | – | – | 41,372,024,802 |
| – Repayment of borrowings | (37,083,730,813) | (524,992,892) | – | – | – | – | – | – | (37,608,723,705) |
| – Issuance of notes | – | – | 62,650,400 | – | – | – | – | – | 62,650,400 |
| – Redemption of notes | – | – | (62,549,900) | – | – | – | – | – | (62,549,900) |
| – Interest paid | (278,494,869) | (32,429,879) | (4,257,196) | – | (32,653,453) | (7,566,276) | (14,863,192) | – | (370,264,865) |
| – Contribution from third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | 177,054,702 | 177,054,702 |
| – Withdrawal from third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | (11,454,513) | (11,454,513) |
| Operating cash flow: | | | | | | | | | |
| – Change in financial liabilities at fair value through profit or loss | – | – | – | 101,978,262 | – | – | – | – | 101,978,262 |
| – Change in repurchase agreements | – | – | – | – | 440,546,639 | – | – | – | 440,546,639 |
| – Change in accounts payable | – | – | – | – | – | 1,787,522,888 | – | – | 1,787,522,888 |
| Net assets disposed of at the date of disposal attributable to third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | (28,800,529) | (28,800,529) |
| Fair value changes of interest held by third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | – | – | – | (15,936,005) | (15,936,005) |
| Finance costs | 285,292,485 | 48,821,087 | 4,457,547 | 1,482,048 | 39,331,735 | 7,566,276 | – | – | 386,951,178 |
| At 31 December 2018 | 8,909,661,292 | 1,485,297,574 | 62,850,751 | 288,701,100 | 1,542,080,825 | 5,991,194,627 | – | 399,729,979 | 18,679,516,148 |

## 43. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the notes to the consolidated financial statements, the Group had the following material transactions with related parties.

### (a) Compensation of key management personnel

Other than the directors' emoluments disclosed in note 11(a), the remuneration of other members of key management during the years ended 31 December 2019 and 2018 was as follows:

| | **2019 HK$** | 2018 HK$ |
|---|---|---|
| Short-term benefits | **33,060,016** | 30,659,000 |
| Post-employment benefits | **145,500** | 144,000 |

### (b) Right of trading of RMB denominated securities in the PRC

During the years ended 31 December 2019 and 2018, the Group invests in RMB denominated securities in the PRC using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program of the intermediate holding company for consideration of HK$1 per annum.

### (c) Consultancy services from a fellow subsidiary

Pursuant to service agreement entered into between the Company and Industrial Securities (Shenzhen), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. On 3 April 2018, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which the Company required broader services from Industrial Securities (Shenzhen) including provision of services and support to the Group's clients in core regions in the PRC, brand establishment and promotion and provision of cross-border information technology support. During the year ended 31 December 2019, the Company paid a consultancy service fee of HK$19,668,087 (2018: HK$21,615,877) under the Service Agreement. Details of the Service Agreement and the Supplemental Service Agreement are set out in section headed "Connected Transactions" in the Prospectus and in the announcement dated 3 April 2018 respectively.

### (d) Right of use of trademark

During the years ended 31 December 2019 and 2018, the Group was granted by the intermediate holding company a non-transferable and non-assignable license to use its registered trademarks for the Group's business and any related businesses for consideration of HK$1 per annum.

## 44. DISPOSAL OF A CONSOLIDATED STRUCTURED ENTITY

In October 2018, the Group disposed of one consolidated structured entity, IS Investment Fund Segregated Portfolio Company – CIS Excellent Select Fund Segregated Portfolio ("CISEF"). The net assets of CISEF at the date of disposal were as follows:

**Consideration received**

| | HK$ |
|---|---|
| Cash | 12,907,712 |

**Analysis of assets and liabilities over which control was lost**

| | HK$ |
|---|---|
| Financial assets at fair value through profit or loss | 25,699,671 |
| Accounts receivable | 16,116,049 |
| Other receivables | 35,332 |
| Other payables | (147,156) |
| Other liabilities – interest held by third party unit holders/shareholders | (28,800,529) |
| Bank balance | 4,345 |
| Net assets disposed of | 12,907,712 |

**Gain on disposal**

| | HK$ |
|---|---|
| Consideration received | 12,907,712 |
| Net assets disposed of at the date of disposal | (12,907,712) |
| Gain on disposal | – |

**Net cash inflow arising on disposal**

| | HK$ |
|---|---|
| Consideration received | 12,907,712 |
| Less: bank balances disposed of | (4,345) |
| | 12,903,367 |

## 45. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

In April 2019, the Group acquired approximately 62.12% of issued units of Alpha-H for a consideration of HK$5,000,000.

**Consideration transferred**

| | HK$ |
|---|---|
| Cash | 5,000,000 |

**Assets acquired and liabilities recognised at the date of acquisition**

| | HK$ |
|---|---|
| Bank balances | 5,302,964 |
| Financial assets at fair value through profit or loss | 2,303,460 |
| Accounts receivable | 794,213 |
| Accounts payable | (351,692) |
| | 8,048,945 |

**Net assets acquired at the date of acquisition attributable to the Group**

| | HK$ |
|---|---|
| Net assets acquired at the date of acquisition (HK$) | 8,048,945 |
| Proportion of the Group's interest | 62.12% |
| **Net assets acquired at the date of acquisition attributable to the Group (HK$)** | 5,000,000 |

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of Alpha-H, which are reflected as other liability in the consolidated statement of financial position.

At the acquisition date, included in the financial assets at fair value through profit or loss represents the listed equity securities with the quoted market price.

**Net cash inflow on acquisition of a consolidated structured entity**

| | HK$ |
|---|---|
| Cash and cash equivalent balances acquired | 5,302,964 |
| Less: consideration paid in cash | (5,000,000) |
| | 302,964 |

## 46. SUBSIDIARIES

The particulars of the Group's subsidiaries and consolidated investment funds are as follows:

| Name of subsidiary | Place of incorporation | Place of operation | Issued and fully paid up share capital | Equity attributable to the Group at 31 December | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | **2019** | 2018 | |
| | | | | **%** | % | |
| *Directly owned* | | | | | | |
| China Industrial Securities International Brokerage Limited | Hong Kong | Hong Kong | HK$3,500,000,000 (2018: HK$2,500,000,000) | **100** | 100 | Securities dealing and broking and securities margin financing |
| China Industrial Securities International Futures Limited | Hong Kong | Hong Kong | HK$50,000,000 | **100** | 100 | Futures and options contracts broking |
| China Industrial Securities International Capital Limited | Hong Kong | Hong Kong | HK$20,000,000 | **100** | 100 | Investment banking services |
| China Industrial Securities International Asset Management Limited | Hong Kong | Hong Kong | HK$20,000,000 | **100** | 100 | Advising on securities and asset management services |
| China Industrial Securities International Finance Limited | Hong Kong | Hong Kong | HK$210,000 | **100** | 100 | Money lending |
| China Industrial Securities International Investment Limited | Hong Kong | Hong Kong | HK$20,000,000 | **100** | 100 | Investment holding |
| China Industrial Securities International Wealth Management Limited | Hong Kong | Hong Kong | HK$1,000,000 | **100** | 100 | Wealth management services |
| *Indirectly owned* | | | | | | |
| CISI Investment Limited | British Virgin Islands | Hong Kong | US$2,500,000 | **100** | 100 | Investment trading |
| CISI Capital Management Limited | British Virgin Islands | Hong Kong | US$1 | **100** | 100 | Investment holding |

## 46. SUBSIDIARIES *(Continued)*

| Name of investment fund | Place of incorporation | Place of operation | Class of share | Effective interest holding at 31 December 2019 % | 2018 % | Principal activities |
|---|---|---|---|---|---|---|
| *Indirectly owned* | | | | | | |
| IS Investment Fund Segregated Portfolio Company – CIS Resources Fund Segregated Portfolio ("CISRF") *(note a)* | Cayman Islands | Hong Kong | Participating | **100** | 100 | Investment trading |
| IS Investment Fund Segregated Portfolio Company – CISI Stable Growth Bond Fund Segregated Portfolio ("CISISF") (Former name: IS Investment Fund Segregated Portfolio Company – CIS USD Fixed Income Fund Segregated Portfolio ("CISFF")) *(note a)* | Cayman Islands | Hong Kong | Participating | **93.16** | 98.75 | Investment trading |
| IS Investment Fund Segregated Portfolio Company – WVCIS Value Growth Fund Segregated Portfolio ("CISWF") *(note a)* | Cayman Islands | Hong Kong | Participating | **47.12** | 48.49 | Investment trading |
| IS Investment Fund Segregated Portfolio Company – CIS The Belt and Road PE Fund I ("CISBF") *(note a)* | Cayman Islands | Hong Kong | Participating | **50** | 50 | Investment trading |
| IS Investment Fund Segregated Portfolio Company – CIS Multi-Tranche Money Market Fund SP ("CISMM") *(note a)* | Cayman Islands | Hong Kong | Participating | **36.55** | 56.97 | Investment trading |
| IS Investment Fund Segregated Portfolio Company – CIS Alpha-H Fund SP ("Alpha-H") | Cayman Islands | Hong Kong | Participating | **73.81** | N/A | Investment trading |

*Notes:*

(a) China Industrial Securities International Asset Management Limited, a wholly owned subsidiary of the Group, holds all management shares of IS Investment Fund Segregated Portfolio Company ("IS IFSPC"). China Industrial Securities International Asset Management Limited has been appointed as an investment manager of CISEF, CISRF, CISISF, CISWF, CISBF, CISMM and Alpha-H under IS IFSPC. The Group holds significant participating shares in the above mentioned funds. The directors of the Company are of the opinion that the funds are regarded as consolidated structured entities of the Group as the Group is able to exercise control over its operation and has significant variable financial interests as at 31 December 2019 and 2018.

(b) During the year ended 31 December 2018, the Group disposed of CISEF. Details of the disposal is disclosed in note 44.

## 47. INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including investment funds. For the investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of funds it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that it indicates that the Group is a principal. During the year ended 31 December 2019, loss contributed by the consolidated investment funds (excluding third party interests as stated below), were HK$12,276,266 (2018: loss of HK$48,651,406). As at 31 December 2019, the total assets and total liabilities (excluding third party interests as stated below) of the consolidated investment funds, were HK$1,859,570,159 and HK$421,092,218 respectively (2018: HK$2,522,969,056 and HK$691,633,483 respectively).

Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

For the year ended 31 December 2019 changes in interests held by third-party unit holders/shareholders of HK$29,298,504 (2018: HK$15,936,005) in consolidated structured entities are included as other gains within other gains or losses in the consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK$546,215,309 (2018: HK$399,729,979) as at 31 December 2019 are included in other liabilities in the consolidated statement of financial position.

## 48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A wholly owned subsidiary of the Company, China Industrial Securities International Asset Management Limited, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 *Disclosure of interests in other entities*. The directors of the Company are of the opinion that certain investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds and is not able to exercise control over their operation, or it has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

China Industrial Securities International Asset Management Limited receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2019 is HK$26,575,000 (2018: HK$5,796,000) (included in accounts receivable) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019 is HK$29,857,000 (2018: HK$10,600,000). The net asset value of total assets under management for these funds amounts to approximately HK$6,641 million as at 31 December 2019 (2018: HK$5,433 million).

## 48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

### Maximum exposure to loss

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

### Financial support

The Group has not provided financial support to any of its unconsolidated structured entities during the years ended 31 December 2019 and 2018, and has no contractual obligations or current intention of providing financial support in the future.

### Other information

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2019 HK$ | 2018 HK$ |
|---|---|---|
| Non-current assets | | |
| Property and equipment | **28,909,038** | 26,024,602 |
| Intangible assets | **819,586** | 879,382 |
| Investment in subsidiaries | **3,370,310,164** | 2,600,134,817 |
| Deposits, other receivables and prepayments | **13,552,560** | 13,458,444 |
| Deferred tax assets | **1,192,355** | – |
| | **3,414,783,703** | 2,640,497,245 |
| Current assets | | |
| Deposits, other receivables and prepayments | **5,510,044** | 3,587,282 |
| Amounts due from subsidiaries/related parties | **9,800,889,846** | 10,166,664,465 |
| Bank balances – general accounts and cash | **2,331,319,114** | 67,377,004 |
| | **12,137,719,004** | 10,237,628,751 |
| Current liabilities | | |
| Accruals and other payables | **113,107,753** | 92,352,601 |
| Amounts due to subsidiaries/related parties | **11,476,437** | 3,174,615 |
| Tax payable | **2,765,328** | 36,210,215 |
| Bank borrowings | **6,121,412,850** | 5,086,488,062 |
| Bonds | **2,173,672,130** | – |
| Lease liabilities | **13,404,498** | – |
| | **8,435,838,996** | 5,218,225,493 |
| Net current assets | **3,701,880,008** | 5,019,403,258 |
| Non-current liabilities | | |
| Accruals and other payables | **–** | 785,704 |
| Deferred tax liabilities | **–** | 914,767 |
| Bank borrowings | **3,348,128,927** | 3,322,863,676 |
| | **3,348,128,927** | 3,324,564,147 |
| Net assets | **3,768,534,784** | 4,335,336,356 |
| Capital and reserves | | |
| Share capital | **400,000,000** | 400,000,000 |
| Share premium | **3,359,547,592** | 3,359,547,592 |
| (Accumulated loss)/retained earnings | **(433,454,629)** | 133,346,943 |
| Capital reserve | **442,441,821** | 442,441,821 |
| Equity attributable to owners of the Company | **3,768,534,784** | 4,335,336,356 |

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

### Movement in the Company's reserves

| | Share premium HK$ | Capital reserve HK$ | Retained earnings/ (accumulated loss) HK$ | Total HK$ |
|---|---|---|---|---|
| At 1 January 2018 | 3,359,547,592 | 442,441,821 | 135,652,082 | 3,937,641,495 |
| Dividends recognised as distribution | – | – | (120,000,000) | (120,000,000) |
| Profit and total comprehensive income for the year | – | – | 117,694,861 | 117,694,861 |
| At 31 December 2018 | 3,359,547,592 | 442,441,821 | 133,346,943 | 3,935,336,356 |
| HKFRS 16 adjustment on retained earnings | – | – | 2,427,791 | 2,427,791 |
| Dividends recognised as distribution | – | – | (92,000,000) | (92,000,000) |
| Loss and total comprehensive income for the year | – | – | (477,229,363) | (477,229,363) |
| At 31 December 2019 | 3,359,547,592 | 442,441,821 | (433,454,629) | 3,368,534,784 |

## 50. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

## 51. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2019, the directors consider the immediate holding company is Industrial Securities (Hong Kong) Financial Holdings Limited which is incorporated in Hong Kong. Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

## 52. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| Amendments to HKFRS 3, *Definition of a business* | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8, *Definition of material* | 1 January 2020 |

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

## 53. NON-ADJUSTING EVENT AFTER REPORTING PERIOD

### Impact of outbreak of novel coronavirus

Since early January 2020, the novel coronavirus pandemic has spread globally, causing disruption to business and economic activity. This may affect the fair value of the financial assets and impairment assessment of the secured margin loans of the Group. The degree of the impact depends on the duration of the pandemic, the implementation of preventive measures and fiscal easing policies posted by the impacted countries.

Global stock markets in early 2020 have been adversely affected by concerns over the outbreak of novel coronavirus, resulting in increasing volatility and substantial decline. As the situation is rapidly evolving, the directors do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group. The Group will continue to monitor the situation and actively react to the impacts to the Group's financial position and operating results. Such impact is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial information for the year ended 31 December 2019.

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**To the shareholders of China Industrial Securities International Financial Group Limited**

*(incorporated in the Cayman Islands with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Industrial Securities International Financial Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 61 to 179, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment assessment under expected credit loss ("ECL") of HKFRS 9 for secured margin loans*** | |
| We identified the impairment assessment under ECL of HKFRS 9 for secured margin loans as a key audit matter due to its significance to the consolidated financial statements and the significant management estimates and judgement required in the measurement.<br><br>As set out in note 4 to the consolidated financial statements, the ECL measurement involves significant management judgement in the following key areas:<br><br>• Determination of the criteria for significant increase in credit risk ("SICR");<br><br>• Selection of models and assumptions used in the ECL models, including Probability of default ("PD") and Loss given default ("LGD");<br><br>• Establishing the relative probability weightings of forward-looking scenarios.<br><br>In addition, the ECL measurement for credit-impaired financial assets involves management estimates and judgement in the consideration of various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Group and subsequent settlement and additional collaterals received.<br><br>The total gross amount of secured margin loans is HK$6,226.0 million with impairment provision of HK$323.9 million as at 31 December 2018 as disclosed in notes 23 to the consolidated financial statements. | Our procedures performed for the impairment assessment under ECL of HKFRS 9 for secured margin loans include:<br><br>• understanding the established policies and procedures on impairment assessment of the Group in relation to the application of ECL model under HKFRS 9, including model set up and approval, and selection and application of assumptions and inputs into the model;<br><br>• assessing the reasonableness and appropriateness of the management's judgement on staging criteria for determining if a SICR has occurred or the financial asset is credit-impaired and the basis for classification of exposures into the 3 stages as required by HKFRS 9;<br><br>• examining supporting documents for a selection of secured margin loans for the classification of loan exposures with a SICR (stages 1 or 2) or which have been credit-impaired (stage 3) as at the end of the reporting period;<br><br>• evaluating, together with our internal valuation specialists, the reasonableness and appropriateness of the key models and the critical assumptions, inputs and parameters used in the model;<br><br>• on a sample basis, examining significant data inputs into the ECL model, including PD and LGD after taking into consideration forward looking information; and<br><br>• for a sample of secured margin loans classified as stage 3, assessing the reasonableness of the estimated future cash flows and the fair value of collateral received from clients or their guarantors, and examining underlying documentation supporting the fair value of the collateral received from clients or their guarantors and any settlement of secured margin loans subsequent to the end of the reporting period. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of Level 3 financial instruments*** | |
| We identified the valuation of Level 3 financial instruments as a key audit matter due to the significance of the judgement and estimates made by the management and the subjectivity in determination of Level 3 fair value given the lack of availability of market-based data and the significant unobservable inputs.<br><br>The total fair value of financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss classified as Level 3 amounting to HK$399,350,992 and HK$680,767 respectively as at 31 December 2018 and the key source of estimation uncertainty are disclosed in notes 40 and 4 to the consolidated financial statements respectively. | Our audit procedures for the valuation of Level 3 financial instruments include:<br><br>• evaluating the appropriateness of the valuation methodologies and assumptions based on the industry knowledge;<br><br>• evaluating the appropriateness and consistency of the valuation techniques used by the management;<br><br>• evaluating the rationale of management's judgement on the significant unobservable inputs;<br><br>• performing sensitivity analysis to evaluate the reasonableness of the valuation, where appropriate; or<br><br>• performing, together with our internal valuation specialist, on a sample basis, independent valuation of Level 3 financial instruments and comparing these valuations with the Group's valuations, where necessary. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is MAN KAI SZE.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*
Hong Kong
21 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | Notes | 2018 HK$ | 2017 HK$ |
|---|---|---|---|
| Commission and fee income from customers | 5 | **443,052,558** | 318,439,402 |
| Interest revenue | 5 | **433,136,939** | 310,521,831 |
| Net investment income and gains or losses | 5 | **134,856,105** | 298,762,993 |
| Total revenue | 5 | **1,011,045,602** | 927,724,226 |
| Other income | 5 | **53,584,083** | 23,630,339 |
| Share of result of a joint venture | 16 | **(498,698)** | – |
| Finance costs | 7 | **(386,951,178)** | (166,817,874) |
| Commission and fee expenses | 8 | **(111,605,723)** | (101,172,102) |
| Staff costs | 9 | **(187,040,901)** | (163,560,791) |
| Other operating expenses | | **(182,361,532)** | (130,199,762) |
| Impairment losses on financial assets | 9 | **(6,105,250)** | (290,394,561) |
| Other gains or losses | 9 | **10,483,808** | 78,875,531 |
| Profit before taxation | 9 | **200,550,211** | 178,085,006 |
| Taxation | 10 | **(56,749,540)** | (25,253,165) |
| Profit for the year | | **143,800,671** | 152,831,841 |
| Other comprehensive income | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Change in fair value of available-for-sale financial assets | | **–** | 16,043,397 |
| Disposal of available-for-sale financial assets | | **–** | 14,065,775 |
| Other comprehensive income for the year | | **–** | 30,109,172 |
| Total comprehensive income for the year attributable to owners of the Company | | **143,800,671** | 182,941,013 |
| Earnings per share | | | |
| Basic (expressed in HKD) | 13 | **0.0360** | 0.0382 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | Notes | 2018 HK$ | 2017 HK$ |
|---|---|---|---|
| Non-current assets | | | |
| Property and equipment | 14 | **26,668,610** | 20,583,936 |
| Intangible assets | 15 | **2,822,898** | 1,616,541 |
| Interest in a joint venture | 16 | **39,534,262** | – |
| Available-for-sale financial assets | 18 | **–** | 11,423,329 |
| Financial assets at fair value through profit or loss | 17 | **46,987,812** | – |
| Loans receivable | 19 | **–** | 3,000,000 |
| Statutory deposits | 21 | **11,132,259** | 13,361,721 |
| Deferred tax assets | 29 | **3,896,066** | – |
| Deposits, other receivables and prepayments | 22 | **13,546,949** | 11,666,181 |
| | | **144,588,856** | 61,651,708 |
| Current assets | | | |
| Accounts receivable | 23 | **6,907,207,392** | 5,007,801,784 |
| Loans receivable | 19 | **71,444,048** | 109,900,000 |
| Reverse repurchase agreements | 20 | **334,317,392** | – |
| Available-for-sale financial assets | 18 | **–** | 1,872,333,774 |
| Financial assets at fair value through profit or loss | 17 | **8,734,109,327** | 5,106,108,484 |
| Statutory deposits | 21 | **11,859,727** | 15,977,608 |
| Deposits, other receivables and prepayments | 22 | **394,214,270** | 302,695,425 |
| Tax receivable | | **43,178** | 5,943,628 |
| Bank balances – trust accounts | 24 | **5,228,829,297** | 3,389,991,675 |
| Bank balances – general accounts and cash | 24 | **1,517,226,830** | 1,181,370,930 |
| | | **23,199,251,461** | 16,992,123,308 |
| Current liabilities | | | |
| Accounts payable | 27 | **5,991,194,627** | 4,203,671,739 |
| Accruals and other payables | 28 | **181,422,911** | 175,425,279 |
| Amount due to a related party | 25 | **3,174,615** | 2,957,147 |
| Contract liabilities | | **126,000** | – |
| Other liabilities | 47 | **399,729,979** | 278,866,324 |
| Tax payable | | **86,791,183** | 40,347,249 |
| Financial liabilities at fair value through profit or loss | 26 | **288,701,100** | 161,958,014 |
| Repurchase agreements | 30 | **1,542,080,825** | 1,094,855,904 |
| Bank borrowings | 31 | **5,586,797,616** | 5,404,592,664 |
| Other borrowings | 32 | **1,485,297,574** | 1,203,876,281 |
| Notes | 33 | **62,850,751** | 62,549,900 |
| | | **15,628,167,181** | 12,629,100,501 |
| Net current assets | | **7,571,084,280** | 4,363,022,807 |

At 31 December 2018

| | Notes | 2018 HK$ | 2017 HK$ |
|---|---|---|---|
| Non-current liabilities | | | |
| Accruals and other payables | 28 | **785,704** | 3,234,406 |
| Financial liabilities at fair value through profit or loss | 26 | **–** | 23,282,776 |
| Bank borrowings | 31 | **3,322,863,676** | – |
| Deferred tax liabilities | 29 | **950,184** | 891,519 |
| | | **3,324,599,564** | 27,408,701 |
| Net assets | | **4,391,073,572** | 4,397,265,814 |
| Capital and reserves | | | |
| Share capital | 34 | **400,000,000** | 400,000,000 |
| Share premium | | **3,379,895,424** | 3,379,895,424 |
| Retained earnings | | **157,158,483** | 171,346,158 |
| Investments revaluation reserve | 35 | **–** | (7,995,433) |
| Other reserve | | **11,577,844** | 11,577,844 |
| Capital reserve | 35 | **442,441,821** | 442,441,821 |
| Equity attributable to owners of the Company | | **4,391,073,572** | 4,397,265,814 |

The consolidated financial statements on page 61 to 179 were approved and authorised for issue by the Board of Directors on 21 March 2019 and are signed on its behalf by:

| | |
|---|---|
| **Huang Jinguang** | **Zeng Yanxia** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Equity attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital HK$ | Share premium HK$ | Capital reserve HK$ (Note 35) | Investments revaluation reserve HK$ (Note 35) | Other reserve HK$ | Retained earnings HK$ | Total equity HK$ |
| At 1 January 2017 | 400,000,000 | 3,379,895,424 | 442,441,821 | (38,104,605) | 11,577,844 | 98,514,317 | 4,294,324,801 |
| Dividends recognised as distribution *(note 12)* | – | – | – | – | – | (80,000,000) | (80,000,000) |
| Profit for the year | – | – | – | – | – | 152,831,841 | 152,831,841 |
| Other comprehensive income for the year | – | – | – | 30,109,172 | – | – | 30,109,172 |
| Total comprehensive income for the year | – | – | – | 30,109,172 | – | 152,831,841 | 182,941,013 |
| At 31 December 2017 | 400,000,000 | 3,379,895,424 | 442,441,821 | (7,995,433) | 11,577,844 | 171,346,158 | 4,397,265,814 |
| HKFRS 9 adjustment on retained earnings *(note 2)* | – | – | – | 7,995,433 | – | (37,988,346) | (29,992,913) |
| At 1 January 2018 (after adjustment) | 400,000,000 | 3,379,895,424 | 442,441,821 | – | 11,577,844 | 133,357,812 | 4,367,272,901 |
| Dividends recognised as distribution *(note 12)* | – | – | – | – | – | (120,000,000) | (120,000,000) |
| Profit and total comprehensive income for the year | – | – | – | – | – | 143,800,671 | 143,800,671 |
| At 31 December 2018 | 400,000,000 | 3,379,895,424 | 442,441,821 | – | 11,577,844 | 157,158,483 | 4,391,073,572 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | 2018 HK$ | 2017 HK$ |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Profit before taxation | | **200,550,211** | 178,085,006 |
| Adjustments for: | | | |
| Finance costs | | **386,951,178** | 166,817,874 |
| Depreciation of property and equipment | | **9,799,999** | 8,354,881 |
| Losses on written off/disposal of property and equipment, net | | **30,795** | 22,300 |
| Amortisation of intangible assets | | **551,226** | 1,052,293 |
| Net realised loss from available-for-sale financial assets | | **–** | 14,065,775 |
| Impairment losses on financial assets | | **6,105,250** | 290,394,561 |
| Fair value changes of interest held by third-party unitholders/ shareholders of consolidated investment funds | | **(15,936,005)** | (102,018) |
| Share of result of a joint venture | | **498,698** | – |
| Operating cash flows before movements in working capital | | **588,551,352** | 658,690,672 |
| Decrease (increase) in statutory deposits | | **6,347,343** | (16,849,516) |
| Increase in deposits, other receivables and prepayments | | **(93,434,945)** | (233,499,176) |
| Increase in financial assets at fair value through profit or loss | | **(1,816,931,223)** | (3,245,173,730) |
| Increase in accounts receivable | | **(1,950,209,820)** | (1,207,604,885) |
| Decrease (increase) in loans receivable | | **41,285,952** | (37,500,000) |
| Increase in reverse repurchase agreements | | **(335,307,392)** | – |
| Increase in bank balances — trust accounts | | **(1,839,087,622)** | (218,885,288) |
| Increase (decrease) in accounts payable | | **1,787,522,888** | (486,188,400) |
| Increase in accruals and other payables | | **18,559,278** | 68,778,736 |
| Increase in financial liabilities at fair value through profit or loss | | **101,978,262** | 185,240,790 |
| Increase in repurchase agreements | | **440,546,639** | 1,094,855,904 |
| Increase in contract liabilities | | **126,000** | – |
| Increase (decrease) in amount due to a related party | | **217,468** | (971,367) |
| Cash used in operations | | **(3,049,835,820)** | (3,439,106,260) |
| Tax paid | | **(8,242,557)** | (23,974,185) |
| NET CASH USED IN OPERATING ACTIVITIES | | **(3,058,078,377)** | (3,463,080,445) |
| INVESTING ACTIVITIES | | | |
| Purchase of property and equipment | | **(16,728,101)** | (22,019,032) |
| Proceeds from disposal of property and equipment | | **812,633** | – |
| Purchase of intangible assets | | **(1,757,583)** | (56,794) |
| Acquisition of a consolidated structured entity | *45* | **–** | 50,481,196 |
| Proceeds from disposal of available-for-sale financial assets | | **–** | 7,821,693,773 |
| Purchase of available-for-sale financial assets | | **–** | (6,508,056,708) |
| Acquisition of interest in a joint venture | *16* | **(40,032,960)** | – |
| Disposal of a consolidated structured entity | *44* | **12,903,367** | – |
| NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES | | **(44,802,644)** | 1,342,042,435 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | Notes | 2018 HK$ | 2017 HK$ |
|---|---|---|---|
| FINANCING ACTIVITIES | | | |
| Interest paid | 42 | **(370,264,865)** | (156,531,894) |
| Bank borrowings raised | 42 | **40,582,001,825** | 41,754,216,261 |
| Repayments of bank borrowings | 42 | **(37,083,730,813)** | (40,492,142,426) |
| Other borrowings raised | 42 | **790,022,977** | 1,203,876,281 |
| Repayments of other borrowings | 42 | **(524,992,892)** | (177,577,860) |
| Proceeds from issue of notes | 42 | **62,650,400** | 93,813,600 |
| Redemption of notes | 42 | **(62,549,900)** | (31,263,700) |
| Dividends paid | | **(120,000,000)** | (80,000,000) |
| Contributions from third-party unitholders/shareholders of consolidated investment funds | 42 | **177,054,702** | 223,780,377 |
| Withdrawals from third-party unitholders/shareholders of consolidated investment funds | 42 | **(11,454,513)** | (8,651,451) |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | | **3,438,736,921** | 2,329,519,188 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **335,855,900** | 208,481,178 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | **1,181,370,930** | 972,889,752 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | **1,517,226,830** | 1,181,370,930 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances — general accounts and cash | 24 | **1,517,226,830** | 1,181,370,930 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE | | | |
| Interest received | | **825,769,200** | 560,346,113 |
| Dividend received | | **17,019,408** | 3,164,138 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 21 July 2015. Its immediate holding company is China Industrial Securities International Holdings Limited ("CISI Holdings") and CISI Holdings is 100% owned by Industrial Securities (Hong Kong) Financial Holdings Limited ("Industrial Securities (Hong Kong)"), the intermediate holding company of the Company. Industrial Securities Company Limited ("Industrial Securities"), a company incorporated in the People's Republic of China (the "PRC"), is the ultimate holding company of the Company. The shares of Industrial Securities are listed on the Shanghai Stock Exchange in the PRC.

The shares of the Company have been listed in GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 October 2016. On 3 January 2019, the Company has successfully transferred the shares listed on GEM of the Stock Exchange to the Main Board of the Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### 2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### 2.1.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### 2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

#### 2.1.1 HKFRS 15 Revenue from Contracts with Customers *(Continued)*

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major source which arise from contracts with customers:

- commission income arising from broking business of securities, futures and option contracts dealing and insurance brokerage business;
- commission income arising from placing, underwriting and sub-underwriting;
- corporate advisory fee income;
- sponsor fee income;
- asset management fee income;
- investment advisory fee income;
- arrangement fee income; and
- custodian and handling fee income.

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in notes 3 and 5 respectively.

There was no material impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

#### 2.1.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and loan commitment and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### 2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

#### 2.1.2 HKFRS 9 Financial Instruments *(Continued)*

*Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018. Line items that were not affected by the changes have not been included.

| | *Notes* | **Available-for-sale — debt instruments and unlisted investment funds** HK$ | **Accounts receivable** HK$ | **Financial assets at fair value through profit or loss** HK$ | **Investments revaluation reserve** HK$ | **Retained earnings** HK$ |
|---|---|---|---|---|---|---|
| Closing balance at 31 December 2017 — HKAS 39 | | 1,883,757,103 | 5,007,801,784 | 5,106,108,484 | (7,995,433) | 171,346,158 |
| Reclassification from available-for-sale | *(a)* | (1,883,757,103) | – | 1,883,757,103 | 7,995,433 | (7,995,433) |
| Remeasurement of impairment under ECL model | *(d)* | – | (29,992,913) | – | – | (29,992,913) |
| Opening balance at 1 January 2018 | | – | 4,977,808,871 | 6,989,865,587 | – | 133,357,812 |

*Notes:*

(a) Debt instruments and unlisted investment funds with a fair value of HK$1,883,757,103 were classified as available-for-sale ("AFS") under HKAS 39. These debt instruments and unlisted investment funds were reclassified to financial assets at fair value through profit or loss ("FVTPL") since the directors of the Group considered that these financial assets were held within a business model whose objective is achieved by selling these assets. Related net fair value loss of HK$7,995,433 has been transferred from the investments revaluation reserve to retained earnings on 1 January 2018.

(b) Unlisted structured products issued by the Group qualified for designation as measured at FVTPL under HKFRS 9, however, the amount of change in the fair value of these financial liabilities that was attributable to changes in the credit risk of those liabilities were recognised in other comprehensive income with the remaining fair value change recognised in profit or loss. This was different from the HKAS 39 under which the entire change in fair value of the financial liabilities was recognised in profit or loss. The change in fair value attributed to a change in credit risk of these financial liabilities was not significant and did not have significant impact in other comprehensive income when HKFRS 9 was applied.

(c) All other financial assets and financial liabilities were measured on the same bases that were measured under HKAS 39.

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### 2.1 New and Amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

#### 2.1.2 HKFRS 9 Financial Instruments *(Continued)*

*Summary of effects arising from initial application of HKFRS 9 (Continued)*

*Notes: (Continued)*

(d) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable arising from contracts with customers under HKFRS 15. Except for those which had been determined as credit impaired, accounts receivable (except for secured margin loans) are grouped based on past due analysis.

Except for those which had been determined as credit impaired, ECL for other financial assets at amortised cost and loan commitment, including secured margin loans, bank balances, loans receivable, deposits and other receivables, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition, except for certain secured margin loans which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition.

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

(e) For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

As at 1 January 2018, the additional credit loss allowance of HK$29,992,913 has been recognised against retained earnings. The additional loss allowance is mainly charged against secured margin loans (included in accounts receivable) while impact to other financial assets and loan commitment is not significant. All loss allowances for financial assets as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 are as follows:

| | **Accounts receivable — Loss allowance** HK$ |
|---|---|
| Loss allowance at 31 December 2017 under HKAS 39 | 290,394,561 |
| Amounts remeasured through opening retained earnings | 29,992,913 |
| Loss allowance at 1 January 2018 under HKFRS 9 | 320,387,474 |

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### 2.2 New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[2] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| Amendments to HKFRS 3 | *Definition of a Business*[4] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[5] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2015–2017 Cycle*[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

#### 2.2.1 HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

### 2.2 New and amendments to HKFRSs in issue but not yet effective *(Continued)*

#### 2.2.1 HKFRS 16 Leases *(Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$47,067,005 as disclosed in note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$13,244,252 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for measurements that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 *Impairment of assets* .

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When the Group, which is acting as a fund manager, manages and has an investment in a fund, it may determine that its decision-making powers over the relevant activities of the fund are exercised in the capacity of an agent of the investors as a group and, therefore, that it does not control the fund.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation *(Continued)*

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether it is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreement(s); and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Different weightings shall be applied by the Group to each of the factors on the basis of particular facts and circumstances unless a single party holds substantive rights to remove the decision maker (removal rights) and can remove the decision maker without cause.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group serves as the investment manager of investment funds. These investment funds invest mainly in equities, debt securities and cash and cash equivalents. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such investment funds, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated financial statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units/shares in such investment funds for cash. These are presented as "Third-party interests in consolidated investment funds" within other liabilities in the consolidated statement of financial position, if any.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds managed by the Group are considered as "structured entities".

### Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of the joint venture are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment in a joint venture *(Continued)*

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the joint venture and the fair value of any retained interest and any proceeds from disposing the relevant interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Details of the Group's performance obligations for revenue for contracts with customers resulting from application of HKFRS 15 are set out in note 5.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) *(Continued)*

**Contracts with multiple performance obligations (including allocation of transaction price)**

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

**Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

*Output method*

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

**Variable consideration**

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the course of the ordinary activities.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(i) Commission income arising from broking business of securities, and futures and option contracts dealings is recorded as income on a trade-date basis;

(ii) Commission income arising from insurance brokerage business is recognised as income in accordance with the terms of underlying agreements when the relevant significant acts have been completed, generally at the effective date of the applicable insurance policies;

(iii) Corporate advisory fee and sponsor fee, asset management fee, investment advisory fee, custodian and handling fee income and arrangement fee income are recognised when services are rendered;

(iv) Commission income arising from placing, underwriting and sub-underwriting is recognised as income in accordance with the terms of the agreements when the relevant significant acts have been completed;

(v) Realised profits or losses from AFS financial assets, financial assets/financial liabilities at FVTPL and derivatives are recognised on the transaction dates when the relevant contract notes are executed whilst the unrealised profits or losses of financial assets/financial liabilities at FVTPL and derivatives are recognised from valuation at the end of the reporting period in accordance with the accounting policies for financial instruments (see the accounting policies below);

(vi) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably from a financial asset. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition; and

(vii) Dividend income from investments is recognised when the Group's right to receive payment has been established.

### Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property and equipment *(Continued)*

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gain or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

### Impairment losses on tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment losses on tangible and intangible assets *(Continued)*

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash- generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which the arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that including a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to owners of the Company are reclassified to profit or loss.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

**Financial assets**

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net investment income and gains or losses" line item.

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts receivable, loans receivable, reverse repurchase agreements, deposits and other receivables, bank balances and loan commitment). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable that result from transactions within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

(i) Significant increase in credit risk *(Continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due (except for secured margin loans where a shorter period of 30 days past due has been applied by the directors in view of the nature of business operation and practice in managing the credit risk), unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivable, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable, loans receivable, deposits and other receivables and bank balances are each assessed as a separate group);
- Past-due status; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (Continued)*

(v) Measurement and recognition of ECL *(Continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and

(b) the cash flows that the Group expects to receive if the loan is drawn down.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable and loans receivable where the corresponding adjustment is recognised through a loss allowance account.

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

The Group's financial assets are classified as financial assets at FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

(i) Financial assets at FVTPL *(Continued)*

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the net unrealised gain(loss) on financial assets at fair value through profit or loss line item. Fair value is determined in the manner described in note 40.

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equities and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivable, loans receivable, other receivables and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest could be immaterial.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets (before application of HKFRS9 on 1 January 2018)*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and loans receivable, where the carrying amounts are reduced through the use of allowance accounts. Changes in the carrying amounts of the allowance accounts are recognised in profit or loss. When an account receivable or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the year.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

**Financial liabilities and equity**

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities at amortised cost*

Financial liabilities not classified as at FVTPL (including amount due to a related party, accounts payable, bank borrowings, other borrowings, notes, repurchase agreements, contract liabilities, other liabilities and other payables) are subsequently measured at amortised cost using the effective interest method.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial liabilities and equity** *(Continued)*

*Financial liabilities at FVTPL (Continued)*

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liability.

*Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds*

A financial instrument that gives the holder the right to put it back to the issuer for cash or another financial asset (a 'puttable instrument') is a financial liability. The financial instrument is a financial liability even when the amount of cash or other financial assets is determined on the basis that has the potential to increase or decrease. The existence of an option for the holder to put the instrument back to the issuer for cash or another financial asset means that the puttable instrument meets the definition of a financial liability.

Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds are determined based on the attributable shares or units of the residual assets of the consolidated investment fund after deducting the consolidated investment fund's other liabilities.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial liabilities and equity** *(Continued)*

*Net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds (Continued)*

As at year end, such financial liability of net assets attributable to third-party unit holders/shareholders' interests in consolidated investment funds is presented as an "other liabilities" in the consolidated statement of financial position.

In the case of acquisition or disposals of such non-controlling interests in consolidated investment funds, any difference between the acquisition cost or sale price of these non-controlling interests and the carrying value of these non-controlling interests is recognised as an increase or decrease in a liability which would be reflected in the consolidated statement of profit or loss.

*Derecognition/substantial modification of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

*Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

*Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)*

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

#### Repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as "financial assets at FVTPL" and "AFS financial assets". Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "Repurchase agreements" in the consolidated statement of financial position. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

#### Reverse repurchase agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the consolidated statement of financial position. The cost of purchasing such assets is presented under "Reverse repurchase agreements" in the consolidated statement of financial position. Reverse repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

#### Offsetting a financial asset and a financial liability

A financial asset and a financial liability is offset and the net amount presented in the consolidated statement of financial position when, and only when the Group currently has legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Taxation

Income tax expense represents the sum of the income tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expenses that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient tangible profits will be available to allow all or part of the asset to be recovered.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") as defined contribution benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

**Measurement of ECL**

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

— Determining criteria for significant increase in credit risk;

— Selecting appropriate models and assumptions for the measurement of ECL;

— Establishing the relative probability weightings of forward-looking scenarios.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Critical judgements in applying accounting policies *(Continued)*

**Measurement of ECL** *(Continued)*

*Significant increase in credit risk*

ECL of different financial assets is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined in note 40. A financial asset moves to Stage 2 when its credit risk has increased significantly since initial recognition, and it comes to Stage 3 when it is credit-impaired (but it is not purchased original credit impaired). In assessing whether the credit risk of a financial asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information with significant judgements involved.

*Models and assumptions used*

The Group uses various models and assumptions in estimating ECL. Judgement is applied in identifying the appropriate model for each type of financial assets, as well as the assumptions used in these models. Please refer to note 40 for more details on ECL.

### Key sources of estimation uncertainty

The following are key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

**Fair value measurement of financial instruments**

Financial assets at FVTPL and financial liabilities at FVTPL amounting to HK$399,350,992 and HK$680,767 respectively as at 31 December 2018 (2017: Nil) are measured at fair values with fair values being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 40 for further disclosures.

**Measurement of ECL**

*Impairment assessment under ECL for accounts receivable (except for secured margin loans)*

The Group uses a provision matrix to calculate ECL for the accounts receivable (except for secured margin loans) that result from transactions within the scope of HKFRS 15. The provision rates are based on debtor's aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and available without undue costs and effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information is considered. In addition, accounts receivable with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL is disclosed in note 40.

For the year ended 31 December 2018

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Key sources of estimation uncertainty *(Continued)*

**Measurement of ECL** *(Continued)*

*Impairment assessment under ECL for financial assets at amortised cost other than accounts receivable (including secured margin loans, loans receivable, reverse repurchase agreements, deposits, other receivables and bank balances)*

The impairment assessment under ECL for financial assets at amortised cost (including secured margin loans, loans receivable, reverse repurchase agreements, deposits, other receivables and bank balances) is an area that requires the use of models and assumptions about future economic conditions and the credit risk of the respective financial instrument.

(i) Inputs, assumptions and estimation techniques

ECL is the discounted product of expected future cash flows by using the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD"), of which PD and LGD are estimates based on significant management judgement. For credit-impaired financial assets, the management perform individual assessment for each client by considering various factors, including the realisable value of securities or collaterals from clients and their guarantors which are held by the Group and subsequent settlement and additional collaterals received.

(ii) Forward-looking information

In measuring ECL in accordance with HKFRS 9, it should consider forward-looking information. The calculation of ECL incorporates forward-looking information through the use of publicly available economic data and forecasts based on assumptions and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

Details of the impairment assessment of financial assets at amortised cost is disclosed in note 40.

**Income taxes**

Due to the unpredictability of future profit streams, no deferred tax asset has been recognised in the consolidated statement of financial position in relation to the estimated tax losses of approximately HK$122,143,000 as at 31 December 2018 (2017: HK$88,364,000). In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. Details of the tax losses are disclosed in note 29.

## 5. REVENUE AND OTHER INCOME

An analysis of revenue and other income is as follows:

### Revenue

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| **Commission and fee income from customers** | | |
| Brokerage: | | |
| Commission and fee income from securities brokerage | **182,195,344** | 160,360,628 |
| Commission and fee income from futures and options brokerage | **27,042,191** | 18,134,536 |
| Commission income from insurance brokerage | **3,257,129** | 3,739,533 |
| | **212,494,664** | 182,234,697 |
| Corporate finance: | | |
| Commission on placing, underwriting and sub-underwriting | | |
| – Debt securities | **124,986,524** | 31,865,379 |
| – Equity securities | **50,221,728** | 20,673,686 |
| Corporate advisory fee income | **3,141,044** | 1,215,640 |
| Sponsor fee income | **7,990,000** | 7,060,000 |
| Arrangement fee | **24,992,911** | 62,473,593 |
| | **211,332,207** | 123,288,298 |
| Asset management: | | |
| Asset management fee income | **16,412,089** | 9,467,366 |
| Investment advisory fee income | **2,813,598** | 3,449,041 |
| | **19,225,687** | 12,916,407 |
| | **443,052,558** | 318,439,402 |
| **Interest revenue** | | |
| Loans and financing: | | |
| Interest income from margin financing | **422,945,725** | 304,576,242 |
| Interest income from money lending activities | **5,224,634** | 5,945,589 |
| | **428,170,359** | 310,521,831 |
| Financial products and investments: | | |
| Interest income from reverse repurchase agreements | **4,966,580** | – |
| | **433,136,939** | 310,521,831 |

For the year ended 31 December 2018

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Revenue *(Continued)*

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| **Net investment income and gains or losses** | | |
| Financial products and investments: | | |
| Interest income from financial assets at fair value through profit or loss | **461,578,805** | 127,042,093 |
| Dividend income from financial assets at fair value through profit or loss | **12,189,462** | 7,994,084 |
| Net realised (loss) gain on financial assets at fair value through profit or loss | **(258,760,737)** | 26,279,987 |
| Net unrealised (loss) gain on financial assets at fair value through profit or loss | **(215,663,069)** | 20,988,702 |
| Interest income from available-for-sale financial assets | **–** | 137,445,058 |
| Net realised loss on available-for-sale financial assets | **–** | (14,065,775) |
| Net realised gain (loss) on derivatives | **28,323,024** | (13,898,296) |
| Net unrealised gain on derivatives | **6,323,484** | 3,182,197 |
| Net realised loss on financial liabilities at fair value through profit or loss | **(1,774,809)** | – |
| Net unrealised gain on financial liabilities at fair value through profit or loss | **102,639,945** | 3,794,943 |
| | **134,856,105** | 298,762,993 |
| **Total revenue** | **1,011,045,602** | 927,724,226 |

Timing of revenue recognition for commission and fee income from customers

| | 2018<br>HK$ |
|---|---|
| A point in time | **411,702,093** |
| Over time | **31,350,465** |
| Total | **443,052,558** |

### Performance obligations for commission and fee income from customers

**(1) Brokerage**

The Group provides broking and dealing services for securities, futures and options contracts. Commission income is recognised at a point in time on the execution date of the trades at a certain percentage of the transaction value of the trades executed. The Group also provide handling service for securities, futures and options customer accounts. Fee income is recognised when the transaction is executed.

The Group provides custodian services for securities, futures and options customer accounts. The customers simultaneously receives and consumes the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time.

For the year ended 31 December 2018

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Performance obligations for commission and fee income from customers *(Continued)*

**(1) Brokerage** *(Continued)*

The Group also provides placement services for insurance and wealth products to customers. Commission income is recognised at a point in time when the placement is completed and is calculated at a certain percentage of the premium paid for certain period of the insurance and wealth products.

**(2) Corporate finance**

The Group provides placing, underwriting or sub-underwriting services to customers for their fund raising activities in equity and debt capital markets, and also structured products arrangement services. Revenue is recognised when the relevant placing, underwriting, sub-underwriting or structured products arrangement activities are completed. Accordingly, the revenue is recognised at a point in time.

The Group also provides sponsoring services to clients for their fund raising activities and corporate advisory services to corporate clients for their corporate actions. The Group considers that all the services promised in a particular contract of being a sponsor or corporate advisor are interdependent and interrelated and should be therefore accounted for as a single performance obligation. As there is enforceable right to payment for the Group for the performance of services completed up to date based on the contracts with customers regarding sponsor or corporate advisory services, the revenue is recognised over time.

**(3) Asset management**

The Group provides asset management and investment advisory services on diversified and comprehensive investment products to customers. The customers simultaneously receive and consume the benefit provided by the Group, hence the revenue is recognised as a performance obligation satisfied over time. Asset management fee income is charged at a fixed percentage per month of the net asset value of the managed accounts under management of the Group. Investment advisory fee income is charged at a fixed amount per month for managing the investment portfolio of each client.

The Group is also entitled to a performance fee when there is a positive performance for the relevant performance period and it is recognised at the end of the relevant performance period, when it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved.

*Transaction price allocated to the remaining performance obligation for contracts with customers*

The following table shows the aggregate amount of transaction price allocated to performance obligations that are unsatisfied (or partly unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

| | **Corporate finance service** HK$ |
|---|---|
| Within one year | 10,550,000 |

For the year ended 31 December 2018

## 5. REVENUE AND OTHER INCOME *(Continued)*

### Performance obligations for commission and fee income from customers *(Continued)*

*Transaction price allocated to the remaining performance obligation for contracts with customers (Continued)*

Based on the contracts for corporate advisory services, the Group bills a fixed amount monthly for services provided. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

### Other Income

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Interest income from financial institutions | **47,769,201** | 21,968,355 |
| Sundry income | **5,814,882** | 1,661,984 |
| | **53,584,083** | 23,630,339 |

## 6. SEGMENT REPORTING

Information reported to the Board of Directors of the Company, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. The CODM considers the Group's operations are located in Hong Kong.

The Group's reportable and operating segments under HKFRS 8 are as follows:

Brokerage — provision of securities, futures and options and insurance brokerage services;

Loans and financing — provision of margin financing and secured or unsecured loans to customers;

Corporate finance (previously named investment banking) — provision of corporate advisory, sponsor, placing and underwriting services of debt and equity securities and structured products arrangement services;

Asset management — provision of fund management, discretionary account management and investment advisory services;

Financial products and investments – proprietary trading and investment of funds, debt and equity securities, fixed income, derivatives and other financial products.

The accounting policies of the operating segments are the same as the Group's accounting policies. Inter-segment revenues are charged among segments at an agreed rate with reference to the rate normally charged to third party customers, the nature of services or the costs incurred.

For the year ended 31 December 2018

## 6. SEGMENT REPORTING *(Continued)*

### For the year ended 31 December 2018

| | Brokerage HK$ | Loans and financing HK$ | Corporate finance HK$ | Asset management HK$ | Financial products and investments HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| **Segment revenue and result** | | | | | | | |
| Revenue from external customers | 212,494,664 | 428,170,359 | 211,332,207 | 19,225,687 | 4,966,580 | – | 876,189,497 |
| Net gains on financial products and investments | – | – | – | – | 134,856,105 | – | 134,856,105 |
| Inter-segment revenue | 4,287,884 | – | – | 23,037,687 | – | (27,325,571) | – |
| Segment revenue and net gains on financial products and investments | 216,782,548 | 428,170,359 | 211,332,207 | 42,263,374 | 139,822,685 | (27,325,571) | 1,011,045,602 |
| Revenue presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 1,011,045,602 |
| Segment results | 90,987,409 | 226,431,938 | 112,075,789 | 22,605,370 | (223,586,908) | – | 228,513,598 |
| Unallocated expenses | | | | | | | (27,963,387) |
| Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 200,550,211 |
| **Other segmental information included in the measure of segment results** | | | | | | | |
| Impairment losses on financial assets | 898,000 | 3,704,383 | – | 512,867 | 990,000 | – | 6,105,250 |
| Depreciation | 140,265 | – | 513 | – | – | – | 140,778 |
| Unallocated: | | | | | | | 9,659,221 |
| | | | | | | | 9,799,999 |
| Amortisation | 281,835 | – | 333 | – | – | – | 282,168 |
| Unallocated: | | | | | | | 269,058 |
| | | | | | | | 551,226 |
| Interest income | 43,760,755 | 428,171,679 | 440,769 | 4,640 | 467,081,623 | – | 939,459,466 |
| Unallocated: | | | | | | | 3,025,479 |
| | | | | | | | 942,484,945 |
| Interest expenses | 4,895,755 | 114,494,448 | – | – | 294,726,071 | (27,165,096) | 386,951,178 |
| Dividend income | – | – | – | – | 12,189,462 | – | 12,189,462 |

For the year ended 31 December 2018

## 6. SEGMENT REPORTING *(Continued)*

### For the year ended 31 December 2017

| | Brokerage HK$ | Loans and financing HK$ | Corporate finance HK$ | Asset management HK$ | Financial products and investments HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| **Segment revenue and result** | | | | | | | |
| Revenue from external customers | 182,234,697 | 310,521,831 | 123,288,298 | 12,916,407 | – | – | 628,961,233 |
| Net gains on financial products and investments | – | – | – | – | 298,762,993 | – | 298,762,993 |
| Inter-segment revenue | 2,584,158 | – | – | 6,490,004 | – | (9,074,162) | – |
| Segment revenue and net gains on financial products and investments | 184,818,855 | 310,521,831 | 123,288,298 | 19,406,411 | 298,762,993 | (9,074,162) | 927,724,226 |
| Revenue presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 927,724,226 |
| Segment results | 79,528,261 | (100,233,859) | 55,445,133 | 6,789,197 | 161,109,344 | – | 202,638,076 |
| Unallocated expenses | | | | | | | (24,553,070) |
| Profit before taxation presented in the consolidated statement of profit or loss and other comprehensive income | | | | | | | 178,085,006 |
| **Other segmental information included in the measure of segment results** | | | | | | | |
| Impairment losses on financial assets | – | 290,394,561 | – | – | – | – | 290,394,561 |
| Depreciation | 788,953 | – | 1,539 | 11,440 | – | – | 801,932 |
| Unallocated: | | | | | | | 7,552,949 |
| | | | | | | | 8,354,881 |
| Amortisation | 356,963 | – | 500 | – | – | – | 357,463 |
| Unallocated: | | | | | | | 694,830 |
| | | | | | | | 1,052,293 |
| Interest income | 18,084,045 | 310,522,762 | 180,569 | 1,505 | 264,564,819 | – | 593,353,700 |
| Unallocated: | | | | | | | 3,623,637 |
| | | | | | | | 596,977,337 |
| Interest expenses | 792,926 | 59,963,363 | – | – | 158,841,027 | (52,779,442) | 166,817,874 |
| Dividend income | – | – | – | – | 7,994,084 | – | 7,994,084 |

For the year ended 31 December 2018

## 6. SEGMENT REPORTING *(Continued)*

### Geographical information

For the years ended 31 December 2018 and 2017, the Group's revenue from external customers are all derived from activities in Hong Kong based on the location of services delivered and the Group's non-current assets excluding financial instruments are all located in Hong Kong by physical location of assets. As a result, no geographical segment information is presented for both years.

### Information about major customers

No single customer contributes 10% or more to the Group's revenue from external customers for both years.

## 7. FINANCE COSTS

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Interest on bank borrowings | **285,292,485** | 123,374,688 |
| Interest on other borrowings | **48,821,087** | 23,345,467 |
| Interest on repurchase agreements | **39,331,735** | 3,209,774 |
| Interest on secured margin loans from brokers | **2,517,605** | 13,524,026 |
| Interest on notes | **4,457,547** | 1,624,678 |
| Interest on clients' account | **4,517,724** | 693,048 |
| Interest on financial liabilities at fair value through profit or loss | **1,482,048** | 552,847 |
| Others | **530,947** | 493,346 |
| | **386,951,178** | 166,817,874 |

## 8. COMMISSION AND FEE EXPENSES

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Sales commission paid to account executives | **51,977,493** | 51,155,241 |
| Commission and fee paid to brokers | **44,393,284** | 39,023,570 |
| Others *(note)* | **15,234,946** | 10,993,291 |
| | **111,605,723** | 101,172,102 |

*Note:* Amount includes the custodian fees, scrip fee, clearing fee and other handling fee.

For the year ended 31 December 2018

## 9. PROFIT BEFORE TAXATION

| | 2018 HK$ | 2017 HK$ |
|---|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Staff costs (including directors' remuneration and five highest paid employees) *(note a)* | **187,040,901** | 163,560,791 |
| Salaries and bonuses | **183,449,208** | 160,915,558 |
| Contribution to the MPF Scheme | **2,757,924** | 2,217,306 |
| Other staff costs | **833,769** | 427,927 |
| Auditor's remuneration | **2,779,561** | 1,801,856 |
| Legal and professional fee | **21,769,909** | 14,651,171 |
| Expenses on transfer of listing | **5,856,211** | – |
| Minimum operating lease payments | **29,917,847** | 28,743,021 |
| Amortisation of intangible assets | **551,226** | 1,052,293 |
| Depreciation of property and equipment | **9,799,999** | 8,354,881 |
| Telephone and postage | **4,589,329** | 4,152,222 |
| Maintenance fee | **16,768,135** | 12,218,536 |
| Transportation expenses | **4,941,763** | 3,606,932 |
| Entertainment expenses | **7,525,643** | 4,762,608 |
| Impairment losses on financial assets | **6,105,250** | 290,394,561 |
| Impairment losses on secured margin loans | **3,534,383** | 290,394,561 |
| Impairment losses on accounts receivable (except for secured margin loans) | **1,160,867** | – |
| Impairment losses on loans receivable | **170,000** | – |
| Impairment losses on reverse repurchase agreements | **990,000** | – |
| Impairment losses on bank balances — trust accounts | **250,000** | – |
| Other gains or losses | **(10,483,808)** | (78,875,531) |
| Exchange losses (gains), net | **5,421,402** | (78,795,813) |
| Other gains *(note b)* | **(15,936,005)** | (102,018) |
| Losses on written off/disposal of property and equipment, net | **30,795** | 22,300 |

*Notes:*

(a) Staff and directors' bonuses are discretionary and determined with reference to the Group's and the individual's performance. Details of the MPF Scheme is disclosed in note 37.

(b) Included in other gains is the net gain of consolidated investment funds attributable to third-party unit holders/shareholders of HK$15,936,005 (2017: net gain of HK$102,018). Details of the Group's interest in consolidated investment funds are disclosed in note 47.

For the year ended 31 December 2018

## 10. TAXATION

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Hong Kong Profit Tax: | | |
| Current year | **61,784,010** | 24,259,698 |
| (Over) under provision in prior year | **(1,197,069)** | 850,243 |
| | **60,586,941** | 25,109,941 |
| Deferred Tax: | | |
| Current year *(note 29)* | **(3,837,401)** | 143,224 |
| | **56,749,540** | 25,253,165 |

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2017.

The tax charge for the years ended 31 December 2018 and 2017 can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Profit before taxation | **200,550,211** | 178,085,006 |
| Tax at domestic income tax rate (16.5%) | **33,090,785** | 29,384,026 |
| Tax effect of expenses not deductible for tax purpose | **40,337,438** | 5,080,388 |
| Tax effect of income not taxable for tax purpose | **(17,004,969)** | (18,029,465) |
| Tax at concessionary tax rate of 8.25% | **(165,000)** | – |
| Tax effect of deductible temporary difference not previously provided for | **(4,120,000)** | – |
| Tax effect of tax losses not recognised | **9,429,259** | 8,773,273 |
| Utilisation of tax losses previously not recognised | **(3,707,438)** | (1,175,829) |
| (Over) under provision in prior year | **(1,197,069)** | 850,243 |
| Others | **86,534** | 370,529 |
| Tax charge for the year | **56,749,540** | 25,253,165 |

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

During the years ended 31 December 2018 and 2017, the emoluments paid or payable by the Group are as follows:

| | Fees HK$ | Salaries, allowances HK$ | Benefits in kind # HK$ | Discretionary bonus HK$ (note b) | Retirement benefit schemes contributions HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | | |
| Huang Jinguang *(note a and c)* | **–** | **1,787,968** | **576,000** | **2,780,000** | **–** | **5,143,968** |
| Wang Xiang *(note a and c)* | **–** | **1,520,028** | **324,000** | **2,230,000** | **–** | **4,074,028** |
| Zeng Yanxia *(note a and c)* | **–** | **1,331,097** | **311,700** | **1,990,000** | **–** | **3,632,797** |
| Hong Ying *(note d)* | **200,000** | **–** | **–** | **–** | **–** | **200,000** |
| Tian Li *(note d)* | **200,000** | **–** | **–** | **–** | **–** | **200,000** |
| Qin Shuo *(note d)* | **200,000** | **–** | **–** | **–** | **–** | **200,000** |
| | **600,000** | **4,639,093** | **1,211,700** | **7,000,000** | **–** | **13,450,793** |

| | Fees HK$ | Salaries, allowances HK$ | Benefits in kind # HK$ | Discretionary bonus HK$ (note b) | Retirement benefit schemes contributions HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2017** | | | | | | |
| Huang Jinguang *(note a and c)* | – | 1,737,133 | 516,000 | 2,576,000 | – | 4,829,133 |
| Wang Xiang *(note a and c)* | – | 1,477,646 | 324,000 | 2,134,400 | – | 3,936,046 |
| Zeng Yanxia *(note a and c)* | – | 1,294,674 | 300,000 | 1,893,600 | – | 3,488,274 |
| Hong Ying *(note d)* | 200,000 | – | – | – | – | 200,000 |
| Tian Li *(note d)* | 200,000 | – | – | – | – | 200,000 |
| Qin Shuo *(note d)* | 200,000 | – | – | – | – | 200,000 |
| | 600,000 | 4,509,453 | 1,140,000 | 6,604,000 | – | 12,853,453 |

# Amounts represent benefits in kind of accommodation provided by the Group.

For the year ended 31 December 2018

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

*Notes:*

(a) No retirement benefit schemes contributions was paid or payable by the Group to Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia during the years ended 31 December 2018 and 2017 as Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia are also employees of the ultimate holding company and the cost of retirement benefit scheme contribution is borne by the ultimate holding company.

(b) The discretionary bonus of directors or chief executive of the Company was determined by the management of the ultimate and intermediate holding companies and by reference to the Group's financial performance and the directors' and the chief executive's duties, responsibilities and individual performance within the Group.

(c) The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(d) The non-executive directors' emoluments shown above were for their services as directors of the Company or its subsidiaries.

Mr. Lan Rong and Ms. Zhuang Yuanfang were appointed as the directors of the Company on 1 June 2016 and resigned on 30 January 2018 and 12 July 2017 respectively.

Mr. Huang Yilin and Mr. Yang Huahui were appointed as the directors of the Company on 12 July 2017 and 30 January 2018 respectively.

The remuneration of Mr. Lan Rong, Ms. Zhuang Yuanfang, Mr. Huang Yilin and Mr. Yang Huahui for the years was borne by the ultimate holding company and there is no basis of allocation of their remuneration between the ultimate holding company and the Group.

### (b) Highest paid individuals

The five individuals with the highest emoluments in the Group included one director of the Company for the year ended 31 December 2018 (2017: Two) and details of whose emoluments are included in the disclosure above. The emoluments of the remaining four individuals for the year ended 31 December 2018 (2017: Three) are as below:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Employees | | |
| – salaries and allowances | **7,653,000** | 5,829,000 |
| – discretionary bonus | **12,505,000** | 13,804,630 |
| – retirement benefit schemes contributions | **72,000** | 54,000 |
| | **20,230,000** | 19,687,630 |

For the year ended 31 December 2018

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (b) Highest paid individuals *(Continued)*

Their emoluments were within the following bands:

| | Number of employees | |
|---|---|---|
| | **2018** | 2017 |
| HK$4,000,001 to HK$4,500,000 | **1** | 1 |
| HK$4,500,001 to HK$5,000,000 | **2** | – |
| HK$6,500,001 to HK$7,000,000 | **1** | 1 |
| HK$8,500,001 to HK$9,000,000 | **–** | 1 |

During the year ended 31 December 2018, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees), as an inducement to join or upon joining the Group or as compensation for loss of office (2017: Nil). None of the directors waived any emoluments during both years.

## 12. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| 2017 Final — HK$0.03 (2017: 2016 Final — HK$0.02) per share | **120,000,000** | 80,000,000 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of HK$0.023 (2017: final dividend in respect of the year ended 31 December 2017 of HK$0.03) per ordinary share, in an aggregate amount of HK$92,000,000 (2017: HK$120,000,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

## 13. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Earnings (HK$) | | |
| Earnings for the purpose of basic earnings per share: | | |
| Profit for the year attributable to owners of the Company | **143,800,671** | 152,831,841 |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **4,000,000,000** | 4,000,000,000 |

For each of the years ended 31 December 2018 and 2017, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

## 14. PROPERTY AND EQUIPMENT

| | Leasehold improvement HK$ | Motor vehicles HK$ | Furniture and fixtures HK$ | Computer equipment HK$ | Total HK$ |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2017 | 11,626,777 | 769,307 | 375,540 | 18,381,664 | 31,153,288 |
| Additions | 18,279,010 | – | 718,349 | 3,021,673 | 22,019,032 |
| Written off | (5,555,709) | – | (28,100) | (21,680) | (5,605,489) |
| At 31 December 2017 | 24,350,078 | 769,307 | 1,065,789 | 21,381,657 | 47,566,831 |
| Additions | 6,557,034 | 854,934 | 730,451 | 8,585,682 | 16,728,101 |
| Disposals | – | (854,934) | – | – | (854,934) |
| Written off | – | – | – | (615,891) | (615,891) |
| At 31 December 2018 | 30,907,112 | 769,307 | 1,796,240 | 29,351,448 | 62,824,107 |
| DEPRECIATION | | | | | |
| At 1 January 2017 | (8,817,753) | (418,774) | (55,240) | (14,919,436) | (24,211,203) |
| Written off | 5,555,709 | – | 6,885 | 20,595 | 5,583,189 |
| Charge for the year | (5,813,867) | (91,337) | (110,801) | (2,338,876) | (8,354,881) |
| At 31 December 2017 | (9,075,911) | (510,111) | (159,156) | (17,237,717) | (26,982,895) |
| Disposals | – | 42,301 | – | – | 42,301 |
| Written off | – | – | – | 585,096 | 585,096 |
| Charge for the year | (5,897,824) | (133,638) | (198,787) | (3,569,750) | (9,799,999) |
| At 31 December 2018 | (14,973,735) | (601,448) | (357,943) | (20,222,371) | (36,155,497) |
| CARRYING VALUES | | | | | |
| At 31 December 2018 | 15,933,377 | 167,859 | 1,438,297 | 9,129,077 | 26,668,610 |
| At 31 December 2017 | 15,274,167 | 259,196 | 906,633 | 4,143,940 | 20,583,936 |

The above items of property and equipment are depreciated on a straight-line basis at the following rate per annum:

| | |
|---|---|
| Leasehold improvement | Over the lease term |
| Motor vehicles | 12.5% |
| Furniture and fixtures | 20% |
| Computer equipment | 50% |

For the year ended 31 December 2018

## 15. INTANGIBLE ASSETS

| | Software | Trading rights | Total |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| COST | | | |
| At 1 January 2017 | 4,234,865 | 1,000,000 | 5,234,865 |
| Additions | 56,794 | – | 56,794 |
| At 31 December 2017 | 4,291,659 | 1,000,000 | 5,291,659 |
| Additions | 1,757,583 | – | 1,757,583 |
| At 31 December 2018 | 6,049,242 | 1,000,000 | 7,049,242 |
| AMORTISATION | | | |
| At 1 January 2017 | (2,622,825) | – | (2,622,825) |
| Charge for the year | (1,052,293) | – | (1,052,293) |
| At 31 December 2017 | (3,675,118) | – | (3,675,118) |
| Charge for the year | (551,226) | – | (551,226) |
| At 31 December 2018 | (4,226,344) | – | (4,226,344) |
| CARRYING VALUES | | | |
| At 31 December 2018 | 1,822,898 | 1,000,000 | 2,822,898 |
| At 31 December 2017 | 616,541 | 1,000,000 | 1,616,541 |

Intangible assets include trading rights in the Stock Exchange and the Hong Kong Futures Exchange Limited with indefinite useful life and the using rights of software with finite life.

Software are initially recognised at cost. The cost less estimated residual values (if any) of the software is amortised on a straight-line basis over their expected useful lives of 3 years, and charged to the profit or loss.

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired.

No impairment loss on intangible assets is recognised during the years ended 31 December 2018 and 2017.

For the year ended 31 December 2018

## 16. INTEREST IN A JOINT VENTURE

Details of the Group's interest in a joint venture are as follows:

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Cost of investment in a joint venture | **40,032,960** | – |
| Share of post-acquisition loss and other comprehensive expense | **(498,698)** | – |
| | **39,534,262** | – |

Details of the Group's joint venture at the end of the reporting period are as follows:

| Name of entity | Country of incorporation/ registration | Principal place of business | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activity |
|---|---|---|---|---|---|---|---|
| | | | 2018 | 2017 | 2018 | 2017 | |
| IS Investment Fund Segregated Portfolio Company — CIS New China Ever-Growing Fund Segregated Portfolio ("CISNCEF") *(note)* | Cayman Islands | Hong Kong | **28.62%** | N/A | **50%** | N/A | Investment trading |

On 17 August 2018, the Group subscribed approximately 28.62% of issued unit of CISNCEF for a consideration of HK$40,032,960.

*Note:* As at 31 December 2018, the Group held the interest of participating shares of CISNCEF as disclosed above such that the participating shares provide the Group with the share of returns from CISNCEF but not any decision-making power nor any voting right in daily operation of CISNCEF. As at 31 December 2018, the Group and an independent third party act as co-manager of CISNCEF. Both parties jointly established an investment committee which comprises four members, with two from the Group and two from the independent third party. The investment committee is empowered to make all the key financing and operating decisions in CISNCEF and requires unanimous consent of all investment committee members. The arrangement of co-management is contractually agreed by both parties. As such, the interest of the Group in CISNCEF is classified as a joint venture.

The joint venture is an unlisted entity without quoted market price available.

There is no unfulfilled capital commitment to CISNCEF. As at 31 December 2018, the current carrying amount of HK$39.5 million for CISNCEF in the consolidated statement of financial position represents the Group's maximum exposure.

For the year ended 31 December 2018

## 16. INTEREST IN A JOINT VENTURE *(Continued)*

### Summarised financial information of a joint venture

Summarised financial information in respect of the Group's joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

The joint venture is accounted for using the equity method in these consolidated financial statements.

| | 2018<br>HK$ |
|---|---|
| Current assets | **139,693,438** |
| Current liabilities | **(1,571,408)** |

| | For the period from 17 August 2018 (date of incorporation) to 31 December 2018<br>HK$ |
|---|---|
| Other loss | **(304,489)** |
| Loss and total comprehensive expense for the period | **(1,742,314)** |

The above loss for the period includes the following:

| | For the period from 17 August 2018 (date of incorporation) to 31 December 2018<br>HK$ |
|---|---|
| Interest income | **3,020** |

Reconciliation of the above summarised financial information to the carrying amount of the interest in CISNCEF recognised in the consolidated financial statements:

| | 2018<br>HK$ |
|---|---|
| Net assets of CISNCEF | **138,122,030** |
| Proportion of the Group's ownership interest in CISNCEF | **28.62%** |
| | **39,534,262** |

For the year ended 31 December 2018

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018 HK$ | 2017 HK$ |
|---|---|---|
| Equity securities | | |
| – Listed in Hong Kong | **171,742,442** | 194,579,762 |
| – Listed outside Hong Kong | **78,745,632** | 65,132,742 |
| – Unlisted *(note a)* | **374,529,995** | – |
| Debt securities *(note b)* | | |
| – Listed in Hong Kong | **2,984,265,913** | 2,903,831,104 |
| – Listed outside Hong Kong | **1,658,668,927** | 463,239,548 |
| – Unlisted | **1,784,955,456** | 718,618,170 |
| Foreign currency forward contracts *(note c)* | **2,322,556** | – |
| Credit derivative *(note d)* | **2,747,716** | 3,193,943 |
| Funds | | |
| – Listed in Hong Kong | **69,441,600** | – |
| – Unlisted | **160,337,247** | 375,621,692 |
| Convertible bonds | | |
| – Listed in Hong Kong | **148,120,335** | 32,240,418 |
| – Listed outside Hong Kong | **65,128,500** | – |
| Unlisted collateralised loan obligation *(note e)* | **–** | 40,066,225 |
| Unlisted credit-linked notes *(note f)* | **–** | 67,233,080 |
| Unlisted preference share linked note *(note g)* | **–** | 242,351,800 |
| Unlisted equity-linked note *(note g)* | **398,055,808** | – |
| Unlisted debt-linked notes *(note h)* | **882,035,012** | – |
| | **8,781,097,139** | 5,106,108,484 |
| Analysed as | | |
| Current | **8,734,109,327** | 5,106,108,484 |
| Non-current *(note i)* | **46,987,812** | – |
| | **8,781,097,139** | 5,106,108,484 |

For the year ended 31 December 2018

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

*Notes:*

(a) For the year ended 31 December 2018, the Group invested in an unlisted equity investment of which the principal business was in the telecommunication industry.

(b) Included in the portfolio of held for trading debt securities, the Group transferred debt securities, with a fair value of HK$1,743,086,603 (2017: HK$970,278,494) at 31 December 2018, to non bank financial institutions and entered into total return swap contract, whereby the Group received cash flow arising from transferred debt securities and receives the debt securities upon maturity of the contracts, during the year. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2018 as the Group retains significant risks and rewards of the transferred debt securities. Details of the arrangement are set out in note 38.

(c) For the year ended 31 December 2018, the Group entered into foreign currency forward contracts with total notional amount of US$30,000,000 with a non-bank financial institution. The foreign currency forward contracts sell USD and buy RMB at weighted average forward exchange rate USD:RMB at 1:6.79. The maturity date of the foreign currency forward contracts is within one year.

(d) As at 31 December 2018, notional amount of credit derivative contract with a non bank financial institution was US$100,000,000 (2017: US$100,000,000).

(e) During the year ended 31 December 2017, the Group purchased an unlisted collateralised loan obligation with a nominal amount of US$5,000,000, in which the Group would be exposed to the risk of underlying loan obligation (primarily secured), issued by a non bank financial institution.

(f) For the year ended 31 December 2017, the Group invested in unlisted credit-linked notes issued by a non-bank financial institution. The return of the credit-linked notes is linked to the fair value of the underlying assets which are listed preference shares.

(g) For the years ended 31 December 2018 and 2017, the Group invested in unlisted equity-linked note and preference share linked note issued by a special purpose entity. The return of the equity-linked note and preference share linked note are linked to the fair value of the underlying assets which are equity shares and preference shares respectively.

(h) For the year ended 31 December 2018 , the Group invested in unlisted debt-linked notes issued by a special purpose entity and non bank financial institution. The return of the debt-linked notes is linked to the fair value of the underlying assets which are debt securities.

(i) As at 31 December 2018, included in the non-current portion is an unlisted investment fund that the directors of the Company do not expect to realise within twelve months after the reporting period.

Details of disclosure for fair value measurement are set out in note 40.

For the year ended 31 December 2018

## 18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017<br>HK$ |
|---|---|
| Measured at fair value: | |
| Debt securities *(note)* | |
| – Listed in Hong Kong | 813,720,566 |
| – Listed outside Hong Kong | 659,784,232 |
| – Unlisted | 398,828,976 |
| Unlisted investment funds | 11,423,329 |
| | 1,883,757,103 |
| Analysed as: | |
| Current | 1,872,333,774 |
| Non-current | 11,423,329 |
| | 1,883,757,103 |

*Note:* Included in the portfolio of debt securities, the Group transferred debt securities, with a fair value of HK$1,034,914,911 at 31 December 2017, to non-bank financial institutions and entered into total return swap contract, whereby the Group receives cash flow arising from the transferred debt securities and receives the debt securities upon maturity of the contracts, during the year. The transferred debt securities were not derecognised and are continued to be recognised on the consolidated statement of financial position at 31 December 2017 as the Group retains significant risks and rewards of the transferred debt securities. Details of the arrangement are set out in note 38.

Details of disclosure for fair value measurement are set out in note 40.

## 19. LOANS RECEIVABLE

| | **2018<br>HK$** | 2017<br>HK$ |
|---|---|---|
| Fixed-rate loans receivable | **71,614,048** | 112,900,000 |
| Less: impairment allowance | **(170,000)** | – |
| | **71,444,048** | 112,900,000 |
| Analysed as: | | |
| Current | **71,444,048** | 109,900,000 |
| Non-current | **–** | 3,000,000 |
| | **71,444,048** | 112,900,000 |

For the year ended 31 December 2018

## 19. LOANS RECEIVABLE *(Continued)*

The credit quality of loans receivable are summarised as follows:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Neither past due nor credit-impaired | **71,614,048** | 112,900,000 |

The exposure of the Group's fixed-rate loans receivable to interest rate risks and their contractual maturity dates are as follows:

### Fixed-rate loans receivable denominated in HKD

| | **Effective interest rate** | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|---|
| Within one year | (2018: 3.00% to 8.38% per annum;<br>2017: 3.00% to 8.25% per annum) | **71,614,048** | 109,900,000 |
| In more than one year<br>but not more than two years | (2017: 6.00% per annum) | **–** | 3,000,000 |
| | | **71,614,048** | 112,900,000 |

As at 31 December 2018, included in the Group's loans receivable balance are debtors with aggregate gross amount and carrying amount of HK$71,614,048 and HK$71,444,048 respectively which are not past due as at the reporting date. The directors of the Company are of the view that there have been no significant increase in credit risk nor default because no loans receivable has been overdue. Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

As at 31 December 2018, the loans receivable amounting to HK$66,974,995 (2017: HK$111,400,000) were secured by listed securities from the borrowers and cash balance in their cash clients' accounts with aggregate fair value of HK$103,133,000 (2017: HK$258,890,000). At 31 December 2017, the fair value of the collateral was sufficient to cover the balance of loans on an individual basis, and the directors of the Company consider the amounts to be recoverable. At 31 December 2017, there was an unsecured loan receivable of HK$1,500,000, the directors of the Company consider the amount to be recoverable based on the evaluation of the repayment capacity of the borrower.

For the year ended 31 December 2018

## 20. REVERSE REPURCHASE AGREEMENTS

| | 2018<br>HK$ |
|---|---|
| Analysed by collateral type: | |
| Debt securities | **335,307,392** |
| Less: impairment allowance | **(990,000)** |
| | **334,317,392** |
| Analysed by market: | |
| Hong Kong stock exchange | **258,297,619** |
| Singapore stock exchange | **77,009,773** |
| Less: impairment allowance | **(990,000)** |
| | **334,317,392** |
| Analysed as: | |
| Current | **334,317,392** |

The reverse repurchase agreements are those repurchase agreements which the external investors entered into with the Group under which assets were sold to the Group with a concurrent commitment to purchase the specified debt securities from the Group at a future date of an agreed price. The resale prices are fixed and the Group is not exposed to substantially all the credit risks, market risks and rewards of those securities bought. These securities are not recognised in the consolidated financial statements but regarded as "collateral" because the external investors retain substantially all the risks and rewards of these securities. Accordingly, the Group recognises as collateralised lending asset for the price paid to purchase the assets. The maturities of these resale agreements are all within one year.

As at 31 December 2018, the fair value of the collateral was HK$598,573,042 (2017: Nil).

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

For the year ended 31 December 2018

## 21. STATUTORY DEPOSITS

Statutory deposits represent deposits with clearing houses. They are non-interest bearing.

### Non-current portion

In accordance with the rules of Central Clearing and Settlement System ("CCASS"), admission fee, basic contribution and dynamic contribution to the guarantee fund of a defaulting clearing participant will be used to offset its indebtedness arising in the course of dealing in securities as disclosed in note 41 in accordance with the rules of CCASS.

Under the arrangement with HKFE Clearing Corporation Limited ("HKCC"), the statutory deposit could be used to set off against accounts payable to HKCC.

The directors of the Company do not expect to realise the amounts within twelve months after the reporting period.

### Current portion

In accordance with the rules of CCASS, the Group is required to provide to Hong Kong Securities Clearing Company Limited (the "HKSCC") deposits from time to time as determined by HKSCC, as the Group has become a China Connect Clearing Participant under the rules of CCASS since year 2014. Amounts will be used to offset the Group's indebtedness arising in the course of dealing in securities as disclosed in note 41 in accordance with the rules of CCASS.

## 22. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Deposits *(note a)* | **366,354,772** | 64,358,153 |
| Other receivables *(note b)* | **35,823,665** | 163,920,660 |
| Interest and dividend receivables *(note c)* | **–** | 77,546,585 |
| Prepayments | **5,582,782** | 8,536,208 |
| | **407,761,219** | 314,361,606 |
| Analysed as: | | |
| Current | **394,214,270** | 302,695,425 |
| Non-current | **13,546,949** | 11,666,181 |
| | **407,761,219** | 314,361,606 |

Details of impairment assessment for the year ended 31 December 2018 are set out in note 40.

Notes:

(a) As at 31 December 2018 and 2017, the amount mainly comprises of cash deposits in banks and other financial institutions for total return swaps, sales and repurchase agreements and credit derivatives transaction.

(b) As at 31 December 2017, the amount mainly comprises of monies paid for subscription of an investment fund. The subscription has been completed in 2018.

(c) As at 31 December 2018, the interests accrued on financial assets at FVTPL, loans receivable, bank balances — trust accounts and reverse repurchase agreements of the Group are included in the carrying amounts of the corresponding financial assets. As at 31 December 2017, the amount mainly represents the interest and dividend receivables arising from financial assets at FVTPL and AFS financial assets.

For the year ended 31 December 2018

## 23. ACCOUNTS RECEIVABLE

| | 2018 HK$ | 2017 HK$ |
|---|---|---|
| Accounts receivable arising from the business of dealing in securities: | | |
| Secured margin loans | **6,226,035,162** | 4,692,352,438 |
| Less: impairment allowance | **(323,921,857)** | (290,394,561) |
| | **5,902,113,305** | 4,401,957,877 |
| Clearing house | **366,488,173** | 268,876,197 |
| Cash clients | **85,689,554** | 61,117,959 |
| Brokers | **10,361,343** | 11,106,841 |
| Clients for subscription of new shares in IPO | **97,743** | 682,984 |
| Less: impairment allowance | **(560,000)** | - |
| | **462,076,813** | 341,783,981 |
| | **6,364,190,118** | 4,743,741,858 |
| Accounts receivable arising from the business of dealing in futures and options contracts: | | |
| Clearing house | **53,940,464** | 19,255,638 |
| Brokers | **169,970,214** | 178,656,783 |
| Less: impairment allowance | **(88,000)** | – |
| | **223,822,678** | 197,912,421 |
| Accounts receivable arising from the business of corporate finance | **20,526,889** | 58,567,106 |
| Accounts receivable arising from the business of asset management | **12,637,892** | 6,645,151 |
| Less: impairment allowance | **(512,867)** | – |
| | **12,125,025** | 6,645,151 |
| Accounts receivable arising from the business of financial products and investments: | | |
| Brokers | **286,542,682** | 935,248 |
| | **6,907,207,392** | 5,007,801,784 |

## 23. ACCOUNTS RECEIVABLE *(Continued)*

### Secured margin loans

The Group provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The Group seeks to maintain strict control over its outstanding receivables and has a credit risk management department to monitor credit risks. To minimise the Group's exposure to credit risk, the credit risk management department is responsible for the evaluation of the customers' credit rating, financial background and repayment abilities. Management of the Group has set up the credit limits for each individual customer which could be changed at the Group's discretion. Any further extension of credit beyond these approval limits has to be first approved by the credit risk management department and then by the senior management of the Group on individual basis. The maximum credit limit granted for each customer is based on the customer's creditworthiness, financial strength, the past collection statistic and the quality of related collateral. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group.

For secured margin loans, as at 31 December 2018 and 2017, the loans are repayable on demand subsequent to settlement date and carry interest at Hong Kong prime rate plus 3% per annum during the years ended 31 December 2018 and 2017. As at 31 December 2018, the gross amount and the carrying amount of credit-impaired secured margin loans were amounting to HK$1,886,659,474 and HK$1,584,569,858 respectively (31 December 2017: HK$310,394,561 and HK$20,000,000). The total market value of securities pledged as collateral in respect of the margin loans which were not credit-impaired were approximately HK$17,905,274,000 (2017: HK$11,829,208,000) at 31 December 2018. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of accounts receivable outstanding exceeds the value of securities deposited. As at 31 December 2018, 98% (2017: 95%) of the outstanding balances were secured by sufficient collateral on an individual basis.

The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients. The Group had obtained margin clients' consent to pledge their securities collateral to secure banking facilities granted to the Group to finance the margin loan. Details of the Group's pledged assets are disclosed in note 31.

## 23. ACCOUNTS RECEIVABLE *(Continued)*

### Accounts receivable (except for secured margin loans)

Except for secured margin loans, the normal settlement terms of accounts receivable arising from the business of dealing in securities are two days after trade date. The normal settlement terms of accounts receivable arising from the business of dealing in futures and options contracts are one day after trade date.

In respect of accounts receivable arising from the business of dealing in future and options contracts, under the settlement arrangement with HKCC (the clearing house), all open positions held at HKCC are treated as if they were closed out and reopened at the relevant closing quotation as determined by HKCC. Profits or losses arising from this "mark-to-market" settlement arrangement are included in accounts receivable with HKCC. In accordance with the agreement with the brokers, mark-to-market profits or losses are treated as if they were settled and are included in accounts receivable with brokers.

Normal settlement terms of accounts receivable arising from the business corporate finance and asset management are determined in accordance with the agreed terms, usually within one year after the service was provided.

Normal settlement terms of accounts receivable arising from brokers arising from the business of financial products and investments are determined in accordance with the agreed terms which are normally two to five days after the trade date. Included in accounts receivable due from brokers arising from the business of financial products and investments, there is cash collateral of HK$43,170,824 paid under total return swap which is repayable upon expiry of relevant total return swap. Details are set out in note 38.

The aging analysis of the accounts receivable based on past due dates are as follows:

| | 2017<br>HK$ |
|---|---|
| Past due (accounts receivable from cash clients): | |
| 0–30 days | 1,435,627 |
| Over 30 days | 3,368,386 |
| Accounts receivable which were past due but not impaired | 4,804,013 |
| Accounts receivable which were neither past due nor impaired (including secured margin loans) | 4,982,997,771 |
| Impaired accounts receivable | 310,394,561 |
| | 5,298,196,345 |
| Less: impairment allowance | (290,394,561) |
| | 5,007,801,784 |

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## 23. ACCOUNTS RECEIVABLE *(Continued)*

### Accounts receivable (except for secured margin loans) *(Continued)*

In respect of accounts receivable arising from the business of dealing in securities, included in the accounts receivable from cash clients are debtors with a carrying amount of HK$4,804,013 as at 31 December 2017, which were past due at the end of the reporting period but which the directors of the Company consider not to be impaired as there has not been a significant change in credit quality and a substantial portion of the carrying amount is subsequently settled. The directors of the Company considered full amounts to be recoverable.

The accounts receivable from cash clients with a carrying amount of HK$56,313,946 were neither past due nor impaired as at 31 December 2017 and the directors of the Company were of the opinion that the amounts are recoverable.

As at 31 December 2017, the accounts receivable arising from the business of insurance brokerage, investment banking, asset management and financial products and investments were included in "neither past due nor impaired" category. The management of the Group believed that no impairment allowance was necessary in respect of these balances as there has not been a significant change in credit quality.

In view of the nature of business of dealing in securities, futures and options contracts and financial products and investments, no aging analysis on those accounts receivable is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

The following is an aging analysis of gross accounts receivable arising from the business of corporate finance and asset management based on date of invoice/revenue recognition date at the reporting date:

**Corporate finance clients**

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Less than 31 days | **6,855,259** | 40,133,081 |
| 31–60 days | **4,775,135** | 3,127,120 |
| 61–90 days | **1,004,012** | 468,588 |
| 91–180 days | **5,723,815** | 11,183,496 |
| Over 180 days | **2,168,668** | 3,654,821 |
| | **20,526,889** | 58,567,106 |

## 23. ACCOUNTS RECEIVABLE *(Continued)*

### Accounts receivable (except for secured margin loans) *(Continued)*

**Asset management clients**

| | **2018** | 2017 |
|---|---|---|
| | **HK$** | HK$ |
| Less than 31 days | **1,489,528** | 2,087,648 |
| 31–60 days | **1,852,007** | 2,259,816 |
| 61–90 days | **1,683,734** | 551,320 |
| 91–180 days | **3,567,853** | 760,541 |
| Over 180 days | **4,044,770** | 985,826 |
| | **12,637,892** | 6,645,151 |

During the years ended 31 December 2018 and 2017, no margin loans were granted to the directors of the Company and directors of the subsidiaries.

The Group offsets certain accounts receivable and accounts payable when the Group currently has a legally enforceable right to set off the balances; and intends to settle on a net basis or to realise the balances simultaneously. Details are set out in note 41.

Details of the Group's policy on credit risk are set out in note 40.

## 24. BANK BALANCES – TRUST ACCOUNTS/GENERAL ACCOUNTS AND CASH

The Group receives and holds money deposited by customers and other institutions in the course of conducting regulated activities. These customers' monies are maintained in trust bank accounts and bear interest at commercial rate. The Group has recognised the corresponding accounts payable to respective customers and other institutions. However, the Group currently does not have an enforceable right to offset those payables with the deposits placed.

As at 31 December 2018, the Group's bank balances and cash denominated in United States dollar and Renminbi are equivalent to HK$3,111,806,781 and HK$442,746,102 (2017: HK$1,728,190,419 and HK$224,138,231) respectively.

The general accounts held by the Group comprises current and saving deposits held by the Group at prevailing market interest rate and bank deposits bearing interest at commercial rate with original maturity of three months or less.

## 25. AMOUNT DUE TO A RELATED PARTY

The Group had the following balance with a related party at the end of each reporting period:

| | **2018** | 2017 |
|---|---|---|
| | **HK$** | HK$ |
| Amount due to Industrial Securities (Shenzhen) *(note)* | **3,174,615** | 2,957,147 |

Note: Amount due to Industrial Securities Consultancy Service (Shenzhen) Company Limited ("Industrial Securities (Shenzhen)"), a fellow subsidiary, was mainly arising from the consultancy services provided by Industrial Securities (Shenzhen), which is unsecured, non-interest bearing and repayable on demand.

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## 26. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| **Held for trading** | | |
| Short position in listed equity securities | **104,522,000** | 2,718,000 |
| Credit derivatives *(note a)* | **11,879,526** | 596,858 |
| Foreign currency forward contracts *(note b)* | **–** | 5,254,235 |
| | **116,401,526** | 8,569,093 |
| **Designated at fair value through profit or loss** | | |
| Unlisted issued structured products *(note c)* | **172,299,574** | 176,671,697 |
| | **288,701,100** | 185,240,790 |
| Analysed as: | | |
| Current | **288,701,100** | 161,958,014 |
| Non-current | **–** | 23,282,776 |
| | **288,701,100** | 185,240,790 |

*Notes:*

(a) For the year ended 31 December 2017, the Group entered into a credit derivative contract with a notional amount of US$25,000,000, of which reference entity was within the Korea Sovereign sector, with a non bank financial institution. For the year ended 31 December 2018, the Group entered into two credit derivative contracts with a notional amount of HK$100,000,000 and USD130,000,000, of which reference entities were within the real estate sector in Hong Kong and the banking sector in Hong Kong respectively, with a non bank financial institution.

(b) For the year ended 31 December 2017, the Group entered into foreign currency forward contracts with total notional amount of US$220,000,000 with non-bank financial institutions.

One foreign currency forward contract with notional amount of US$200,000,000 sell HKD and buy USD at forward exchange rate USD:HKD at 1:7.79. Another foreign currency forward contract with notional amount of US$20,000,000 sell RMB and buy USD at forward exchange rate USD:RMB at 1:6.76. The foreign currency forward contracts had matured during the year ended 31 December 2018.

(c) As at 31 December 2018 and 2017, included in financial liabilities designated at FVTPL are the issued structured notes which arise from selling structured products generally in the form of notes with the underlying investments related to listed debt security traded in the Stock Exchange and unlisted debt investment traded in over-the-counter markets.

The risk of economic exposure on these structured products is primarily hedged using financial instruments classified as financial assets at FVTPL. These structured products are designated at FVTPL as the risks to which the Group is a contractual party are managed on a fair value basis as part of the Group's trading portfolio and the risk is reported to key management personnel on this basis.

The amount of change in fair values of the financial liabilities designated at FVTPL, during the year and cumulatively, attributable to changes in own credit risk was insignificant.

Details of disclosure for fair value measurement are set out in note 40.

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## 27. ACCOUNTS PAYABLE

| | 2018 HK$ | 2017 HK$ |
|---|---|---|
| Accounts payable arising from the business of dealing in securities: | | |
| Clearing house | **26,949,086** | 5,857,460 |
| Brokers | **9,925,735** | 21,025,415 |
| Clients | **5,582,040,242** | 3,675,453,119 |
| | **5,618,915,063** | 3,702,335,994 |
| Accounts payable arising from the business of dealing in futures and options contracts: | | |
| Clients | **350,780,379** | 310,087,267 |
| Accounts payable arising from the business of financial products and investments: | | |
| Brokers | **21,499,185** | – |
| Secured margin loans from brokers | **–** | 191,248,478 |
| | **21,499,185** | 191,248,478 |
| | **5,991,194,627** | 4,203,671,739 |

In respect of accounts payable arising from the business of dealing in securities, accounts payable to clearing house represent trades pending settlement arising from business of dealing in securities transactions which are normally two trading days after the trade date or at specific terms agreed with clearing house. The majority of the accounts payable to cash clients and margin clients are repayable on demand except where certain balances represent trades pending settlement or margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the amounts in excess of the required margin deposits and cash collateral stipulated are repayable on demand.

Accounts payable to brokerage clients (except certain balances arising from trades pending settlement) mainly include money held on behalf of clients at banks and at clearing houses by the Group, and are interest-bearing at the prevailing market interest rate.

In respect of accounts payable arising from the business of dealing in futures and options contracts, settlement arrangements with clients follow the same settlement mechanism with HKCC or brokers as disclosed in note 21 and profits or losses arising from mark-to-market settlement arrangement are included in accounts payables with clients. Accounts payable to clients arising from the business of dealing in futures and option contract are non-interest bearing.

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## 27. ACCOUNTS PAYABLE *(Continued)*

The normal settlement terms of accounts payable arising from the business of dealing in securities for cash clients are two days after trade date and accounts payable arising from the business of dealing in futures contracts are one day after trade date. No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of the business.

In respect of accounts payable arising from the business of financial products and investments, accounts payable to brokers represent trades pending settlement which are normally determined in accordance with the agreed terms and which are normally two to five days after the trade date.

For secured margin loans from brokers, the loans are repayable on demand (except certain balances arising from trades pending settlement or margin deposits) and are interest-bearing at the prevailing market interest rate. Only the amounts in excess of the required margin deposits are repayable on demand. The total market value of debt securities pledged as collateral in respect of the loans was approximately HK$315,015,000 as at 31 December 2017. The Group has no secured margin loans for brokers as at 31 December 2018.

The Group has accounts payable arising from the business of dealing in securities of HK$53,006,312 due to the immediate holding company as at 31 December 2018 (2017: HK$1,615,942).

## 28. ACCRUALS AND OTHER PAYABLES

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Accrued charges *(note a)* | **156,249,234** | 156,087,977 |
| Interest payable *(note b)* | **–** | 14,863,192 |
| Other payables | **25,959,381** | 7,708,516 |
| | **182,208,615** | 178,659,685 |
| Analysed as: | | |
| Current | **181,422,911** | 175,425,279 |
| Non-current | **785,704** | 3,234,406 |
| | **182,208,615** | 178,659,685 |

*Notes:*

(a) The amount mainly comprises of the accrued operating expenses including staff salary and bonus and also commission to accounts executives.

(b) As at 31 December 2018, the interests accrued on bank and other borrowings, notes and repurchase agreements of the Group are included in the carrying amounts of the corresponding financial liabilities. As at 31 December 2017, the amount represents the interest payable arising from bank and other borrowings, notes and repurchase agreements.

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## 29. DEFERRED TAX ASSETS AND LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Deferred tax assets | **3,896,066** | – |
| Deferred tax liabilities | **(950,184)** | (891,519) |
| | **2,945,882** | (891,519) |

The following are the major deferred tax assets and liabilities recognised and movements thereon during the years ended 31 December 2018 and 2017:

| | **ECL provision**<br>HK$ | **Accelerated tax depreciation**<br>HK$ | **Total**<br>HK$ |
|---|---|---|---|
| At 1 January 2017 | – | (748,295) | (748,295) |
| Charge to profit or loss *(note 10)* | – | (143,224) | (143,224) |
| At 31 December 2017 | – | (891,519) | (891,519) |
| Credit/(charge) to profit or loss *(note 10)* | 4,092,000 | (254,599) | 3,837,401 |
| At 31 December 2018 | 4,092,000 | (1,146,118) | 2,945,882 |

Due to the unpredictability of future profit streams, no deferred tax asset has been recognised in the consolidated statements of financial position in relation to the deductible temporary differences of approximately HK$175 million arising from the unrealised losses of debt securities under financial asset at FVTPL (2017: HK$19 million and HK$9 million arising from the unrealised losses of debt securities under financial asset at FVTPL and AFS financial assets respectively) and the estimated unused tax losses of approximately of HK$122 million (2017: HK$88 million) as at 31 December 2018. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary difference will be available in the future. In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. The tax losses may be carried forward indefinitely.

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## 30. REPURCHASE AGREEMENTS

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Analysed by collateral type: | | |
| Debt securities classified as: | | |
| Available-for-sale financial assets | – | 302,216,997 |
| Financial assets at fair value through profit or loss | **1,542,080,825** | 792,638,907 |
| | **1,542,080,825** | 1,094,855,904 |

As at 31 December 2018, debt securities which are classified as financial assets at FVTPL with carrying amount of HK$2,042,711,942 (2017: AFS financial assets and financial assets at FVTPL with carrying amount of HK$347,702,954 and HK$1,044,241,136 respectively) were sold under repurchase agreements with other financial institutions which the Group simultaneously agreed to repurchase these debt securities at the agreed date and price. All repurchase agreements are due within 12 months from the end of the reporting period. Details of the arrangement are set out in note 38.

## 31. BANK BORROWINGS

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Variable rate borrowings | **8,909,661,292** | 5,404,592,664 |
| Repayable within one year and contain a repayable on demand clause | **5,586,797,616** | 5,104,592,664 |
| Repayable within one year without a repayable on demand clause | – | 300,000,000 |
| Repayable within a period of more than two years but not exceeding five years | **3,322,863,676** | – |
| | **8,909,661,292** | 5,404,592,664 |

The bank borrowings consist of loans borrowed by the Group from banks to facilitate investment and general working capital.

The interest rate of the Group's bank borrowings as at 31 December 2018 ranged from Hong Kong Interbank Offered Rate ("HIBOR") +1.4% to HIBOR+2.3% (2017: HIBOR+1.6% to HIBOR+2.3%).

At 31 December 2018, HK$8,902,863,676 (after bank charge being netted off) (2017: HK$5,404,592,664) had been drawn by the Group under the aggregated banking facilities of HK$15,017,200,000 (2017: HK$9,428,200,000) of the Group. Industrial Securities provided letters of comfort to support the banking facilities of the Group amounting to HK$9,180,000,000 as at 31 December 2018 (2017: HK$1,600,000,000).

No bank borrowings were secured by charges over clients' pledged securities as at 31 December 2018. The Group's bank borrowings amounting to HK$414,592,664 as at 31 December 2017 were secured by charges over clients' pledged securities with fair value of approximately HK$1,504,808,500 upon receiving client's authorisation. Industrial Securities provided letters of comfort to support the bank borrowings of the Group amounting to HK$6,980,000,000 as at 31 December 2018 (2017: HK$1,480,000,000).

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## 32. OTHER BORROWINGS

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Borrowings associated with transferred assets *(as disclosed in note 38)* | **1,485,297,574** | 1,203,876,281 |

The interest rate of the Group's other borrowings as at 31 December 2018 is at fixed interest rate of 3.58% to 4.85% (2017: 2.70% to 3.68% per annum).

## 33. NOTES

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Notes *(note)* | **62,850,751** | 62,549,900 |

*Note:* During the year ended 31 December 2017, the Group's wholly owned subsidiary issued guaranteed note with fixed interest rate of 3% per annum which is guaranteed by the Company. After the note matured in June 2018, the Group's wholly owned subsidiary issued a one year note with the same terms.

## 34. SHARE CAPITAL

Details of the movement of share capital for both years are as follows:

| | Number of ordinary shares of HK$0.10 each | Share capital<br>HK$ |
|---|---|---|
| Authorised: | | |
| As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 20,000,000,000 | 2,000,000,000 |
| Issued and fully paid: | | |
| As at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 4,000,000,000 | 400,000,000 |

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## 35. RESERVES

### Capital reserve

As at 31 December 2018 and 2017, capital reserve represents the difference between 489,990,000 consideration shares at par value of HK$0.1 each issued by the Company and the consideration for the acquisition of the combined businesses pursuant to the group reorganisation (as more fully explained in the section headed "History, Reorganisation and Group Structure — Reorganisation" in the prospectus of the Company dated 30 September 2016 (the "Prospectus")).

### Investments revaluation reserve

The investments revaluation reserve was set up to deal with the fair value changes arising from AFS financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those AFS financial assets are disposed of or are determined to be impaired.

## 36. COMMITMENTS

### Commitments under operating lease

At the end of each reporting period, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Within one year | **33,518,106** | 27,027,784 |
| In the second to fifth year inclusive | **13,548,899** | 36,745,494 |
| | **47,067,005** | 63,773,278 |

Operating lease payments represent rentals payable by the Group for its office premises and director/staff apartments. Leases and rentals are negotiated and fixed for periods of two to three years.

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## 37. EMPLOYEE BENEFITS

### (a) Retirement Benefits Schemes

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates (up to HK$1,500 per employee per month) specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions. Except for voluntary contribution, no forfeited contribution under the MPF Scheme is available to reduce the contribution payable in future years.

The retirement benefits scheme contributions arising from the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

The contributions paid to the schemes by the Group are disclosed in note 9.

### (b) Employee Share Participation Scheme ("ESPS")

On 25 April 2016, Industrial Securities (Hong Kong) adopted an ESPS to incentivise eligible participants for their contributions to the Group and to attract suitable personnel for further development of the Group.

No expenses is recognised in the consolidated financial statements for the years ended 31 December 2018 and 2017 as the fair value of ES shares at grant date was approximate to the Award Price.

## 38. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

The Group transfers financial assets that are not derecognised in their entirety primarily through the sale of debt securities with concurrent total return swaps and sales and repurchase agreements.

The Group sells debt securities as well as places cash collateral together with the debt securities that are subject to concurrent total return swap. The Group retains substantially all the risks and rewards of ownership of the debt securities. Therefore, the Group continues to recognise the transferred securities in its consolidated statement of financial position. The transferred debt securities and the cash collateral serve as "collateral" to secure these liabilities. The proceeds received are recognised as liabilities under "Other borrowings".

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## 38. TRANSFERRED FINANCIAL ASSETS *(Continued)*

Sales and repurchase agreements are transactions in which the Group sells a debt security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those debt securities sold. These debt securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these debt securities. The proceeds received on the transfer are recognised as liabilities under "Repurchase agreements".

The following table sets out the carrying amounts of all financial assets transferred that are not derecognised in their entirety and associated liabilities.

| | **As at 31 December 2018** | | | | |
|---|---|---|---|---|---|
| **Analysed by liabilities type** | **Carrying amount of transferred assets** | | | **Carrying amount of associated liabilities** | **Net position** |
| | **Accounts receivable — collateral paid under total return swap** | **Financial assets at fair value through profit or loss** | **Total** | | |
| | **HK$** | **HK$** | **HK$** | **HK$** | **HK$** |
| Other borrowings *(note 32)* | **43,170,824** | **1,743,086,603** | **1,786,257,427** | **1,485,297,574** | **300,959,853** |
| Repurchase agreements *(note 30)* | **–** | **2,042,711,942** | **2,042,711,942** | **1,542,080,825** | **500,631,117** |

| | As at 31 December 2017 | | | | |
|---|---|---|---|---|---|
| Analysed by liabilities type | Carrying amount of transferred assets | | | Carrying amount of associated liabilities | Net position |
| | Available for-sale debt securities | Financial assets at fair value through profit or loss | Total | | |
| | HK$ | HK$ | HK$ | HK$ | HK$ |
| Other borrowings *(note 32)* | 1,034,914,911 | 970,278,494 | 2,005,193,405 | 1,203,876,281 | 801,317,124 |
| Repurchase agreements *(note 30)* | 347,702,954 | 1,044,241,136 | 1,391,944,090 | 1,094,855,904 | 297,088,186 |

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## 39. CAPITAL MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, other borrowings and notes as disclosed in notes 31, 32 and 33, and equity attributable to owners of the Company (comprising issued share capital, reserves and retained earnings).

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. In view of this, the Group will balance its overall capital structure through new share issues or bank borrowings. The Group's overall strategy remains unchanged throughout the years.

Several subsidiaries of the Group (the "Regulated Subsidiaries") are granted licenses by the Hong Kong Securities and Futures Commission (the "SFC") for the business they operate in. The Regulated Subsidiaries are subject to liquid capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules (the "SF(FR)R"). Management of the Group closely monitors, on a daily basis, the Regulated Subsidiaries' liquid capital level to ensure compliance with the minimum liquid capital requirements under the SF(FR)R. The Regulated Subsidiaries has no non-compliance of capital requirements imposed by the SF(FR)R throughout both years.

## 40. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| **Financial assets** | | |
| Amortised cost | **14,461,203,396** | — |
| Financial assets at fair value through profit or loss | **8,781,097,139** | 5,106,108,484 |
| Available-for-sale financial assets | **–** | 1,883,757,103 |
| Loans and receivables (including cash and cash equivalents) | **–** | 9,986,544,529 |
| **Financial liabilities** | | |
| Financial liabilities at fair value through profit or loss | **288,701,100** | 185,240,790 |
| Amortised cost | **18,420,075,044** | 12,273,941,667 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, AFS financial assets, reverse repurchase agreements, accounts receivable, loans receivable, deposits and other receivables, bank balances and cash, accounts payable, repurchase agreements, bank borrowings, other borrowings, notes, other liabilities, other payables and amount due to a related party. Details of these financial instruments are disclosed in respective notes. The risks associated with those financial instruments and the policies on how to mitigate these risks are set out below.

The Group's risk management objectives are to achieve a proper balance between risks and yield and minimise the adverse impact of risks on the Group's operating performance. Based on these risk management objectives, the Group's risk management strategy is to identify and analyse the various risks the Group is exposed to, and to establish an appropriate tolerance for risk management practice, so as to monitor, notify and respond to the risks regularly and effectively and to control risks at an acceptable level.

The risks that the Group is exposed to in its daily operating activities mainly include market risk (including currency exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group has established policies and procedures accordingly to identify and analyse the risks. The Group has set up appropriate risk indicators, risk limits, risk policies and internal control process.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

**Market risk**

The Group's activities expose it primarily to the market risk of changes in interest rates, foreign currency risk and other price risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk in relation to fixed-rate debt securities classified as AFS financial assets and financial assets at FVTPL. The Group currently does not have fair value hedging policy. The Group is also exposed to cash flow interest rate risk mainly from balances with banks, secured margin loans and bank borrowings carrying interest at prevailing market rates.

Management of the Group monitors the related interest rate exposure closely to ensure the interest rate risks are maintained at an acceptable level. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the Hong Kong Interbank Offered Rate and London Interbank Offered Rate arising from the Group's respective HKD and USD denominated financial instruments.

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Interest rate risk (Continued)*

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. The analysis is prepared assuming interest-bearing assets and liabilities outstanding at the end of respective reporting period were outstanding for the whole year. When reporting to management of the Group on the interest rate risk, a 50 basis points ("bps") increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates. Interest bearing bank deposit is not included in the sensitivity analysis for the decrease of interest rate as the bank deposit rate is at a low level and management of the Group considers such downward adjustment is unlikely. A positive number below indicates an increase in profit after taxation of the Group or vice versa.

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Profit after taxation for the year | | |
| Increase by 50 bps | **(27,584,475)** | (60,370,418) |
| Decrease by 50 bps | **51,552,447** | 73,666,784 |
| Other comprehensive income for the year | | |
| Increase by 50 bps | **–** | (26,824,383) |
| Decrease by 50 bps | **–** | 26,824,383 |

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as at the year end and exposure does not reflect the exposure during the year.

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Foreign currency risk*

The Group undertake certain transactions denominated in currencies other than its functional currencies, hence they are exposed to exchange rate fluctuation.

The major foreign currency exposure of the Group in HKD equivalent is presented below:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2018 HK$** | 2017 HK$ | **2018 HK$** | 2017 HK$ |
| United States dollars ("USD") | **6,255,315,112** | 4,286,319,606 | **12,881,314,812** | 8,790,361,423 |
| Renminbi ("RMB") | **372,500,236** | 31,606,753 | **674,609,443** | 354,717,220 |

*Foreign currency sensitivity*

The directors of the Company do not expect significant foreign exchange risk arising from USD denominated monetary items in view of the HKD pegged system to the USD. The following table details the Group's sensitivity to a 5% strengthening in RMB against HKD, translated at year-end date. 5% sensitivity rate represents management's assessment of a reasonably possible change in foreign exchange rates. For a 5% weakening in RMB against HKD, there would be an equal and opposite impact on the profit after taxation for the year.

| | RMB impact | |
|---|---|---|
| | **2018 HK$** | 2017 HK$ |
| Increase in profit after taxation for the year | **12,613,000** | 13,490,000 |

*Other price risk*

The Group is exposed to price changes arising from investments classified as financial assets at FVTPL and AFS financial assets.

The Group has established a multi-level management system for its proprietary trading business. The Board has set up the Investment Decision Committee for the purposes of formulating investment policies and guidelines, making major investment decisions and setting authorisation limits on investment managers in investment activities. The risk control team is responsible for monitoring the daily operations of its proprietary trading activities and to ensure compliance with its trading policies.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Market risk** *(Continued)*

*Other price risk (Continued)*

In addition, the Group's exposures are closely monitored by other relevant internal control units, including Risk Management Department, the Finance Department, the Compliance Department and the Internal Audit Department. The Group's exposures are closely monitored by the Finance Department and senior management on a daily basis and are measured on a "mark-to-market" basis. The Group's various proprietary trading activities are reported monthly to senior management for review.

For sensitivity analysis purpose of listed equity securities, debt securities, convertible bonds and funds, if the prices of equity and debt securities had been 2% higher/lower, the profit after tax for the year ended 31 December 2018 would increase/decrease by approximately HK$80,163,523 (2017: HK$55,883,000) and investments revaluation reserve would not have any estimated increase/decrease (2017: increase/decrease by HK$29,470,000).

For unlisted debt securities, convertible bonds, collateralised loan obligation, investment funds, fund-linked note, credit-linked notes, equity-linked note and preference share linked note that depend on the valuation of the respective investments or underlying investments, it is assumed that the unit price of debt securities, convertible bonds, collateralised loan obligation and investment funds and underlying assets of fund-linked note, credit-linked notes and preference share linked note increased/decreased by 5%, profit after tax for the year ended 31 December 2018 would have an estimated HK$143,988,939 (2017: HK$64,917,000) increase/decrease and investments revaluation reserve would not have any estimated increase/decrease (2017: increase/decrease by HK$20,513,000).

The fair value of derivative financial instruments depends on the underlying investment linked index and credit spread of reference entities. If the linked index or credit spread increased/decreased by 1 bps, profit after tax for the year ended 31 December 2018 would have an estimated HK$5,224,422 decrease/increase (2017: HK$6,801,000 decrease/increase and HK$9,039,918 increase/decrease respectively).

In management's opinion, the sensitivity analysis is unrepresentative of the price risk as the year end exposure does not reflect the exposure during the year.

**Credit risk and impairment assessment**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Other than the debt securities in the PRC and overseas, the Group's concentration of credit risk by geographical location is mainly in Hong Kong.

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of respective recognised financial assets as stated in the consolidated statement of financial position except for certain credit default swaps which the Group entered into during the year ended 31 December 2018 with a maximum exposure of approximately HK$356,626,000 (2017: HK$83,944,000).

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment***(Continued)*

Among the respective recognised financial assets as stated in the consolidated statement of financial position, the directors consider that financial assets at FVTPL, reverse repurchase agreements, AFS financial assets, accounts receivable, loans receivable, other receivables and bank balances represent the Group's major exposure to the credit risk arising from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets in the consolidated statement of financial position.

In order to minimise the credit risk, the Group has monitoring procedures in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model). In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are with high credit ratings assigned by international credit-rating agencies. Majority of bank balances are deposited in reputable large commercial banks with credit rating of Baa2 or above issued by Moody's or BBB or above issued by Standards & Poor's.

The management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

As described in more detail in note 23, the credit risk on accounts receivable is managed through daily monitoring of the outstanding exposures from individual clients, margin values and realisable values of individual client's securities. The Group has concentration of credit risk to ten largest securities margin clients' exposure representing 24% (2017: 25%) of the total loans to margin clients as at 31 December 2018. The balances due from the ten largest securities margin clients were approximately HK$1,439,986,000 (2017: HK$1,121,170,000) as at 31 December 2018, of which the amount is secured by clients' securities with an aggregate fair value of HK$5,141,808,000 (2017: HK$2,913,263,000) as at 31 December 2018. Apart from the exposures to ten largest margin clients' exposure mentioned above, the directors of the Company consider that the concentration of credit risk is limited due to the customer base being large and unrelated.

The credit risk for accounts receivable from clearing houses and brokers is considered as not material taking into account the good market reputations and high credit ratings of the counterparties.

The credit risk on loans receivable is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Exposure to credit risk is also managed by obtaining collateral. Apart from the exposures to the concentration of credit risk from two (2017: three) independent counterparties amounting to HK$52,729,158 in aggregate as at 31 December 2018 (2017: HK$89,900,000), the Group does not have any other significant concentration of credit risk on loans receivable.

The Group also invested in debt securities and other financial products which exposed to credit risk. The management of the Group reviews on a regular basis the portfolio of the debt securities and other financial products to ensure that the concentration risk is at an acceptable level. Certain debt securities and derivative financial instruments are entered with reputable financial institutions with credit rating of Baa1 or above issued by Moody's or BBB+ or above issued by Standards & Poor's and other debt securities and financial products are issued by credit worthy issuers in the market. In this regard, the directors of the Company consider that the credit risk relating to the debt securities and other financial products is closely monitored.

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

*Impairment assessment policies*

The Group's policy requires the review of individual outstanding amounts at least monthly or more regularly depending on individual circumstances or market condition.

Upon adoption of HKFRS 9, the risk management department is responsible in developing and maintaining the processes for measuring ECL, the impairment requirements under HKFRS 9. The ECL are assessed by the Group on semi-annual basis. The Group applies simplified approach to measure ECL on accounts receivable (except for secured margin loans); and general approach to measure ECL on secured margin loans and other financial assets accounted for at amortised cost. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1: 12-month ECL, Stage 2: Lifetime ECL — not credit-impaired and Stage 3: Lifetime ECL — credit-impaired.

Definition of Stage 1, Stage 2 and Stage 3 are as below:

Stage 1: Exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

For such financial assets classified as Stages 1 and 2, the management assesses loss allowances using the risk parameter modelling approach that incorporates key parameters, including PD, LGD and EAD. For credit-impaired financial assets classified as Stage 3, the management assesses the credit loss allowances by estimating the future cash flows expected to arise from the financial assets.

The measurement of ECL adopted by the management involves judgements, assumptions and estimations as follows:

- Determination of the criteria for significant increase in credit risk;
- Selection of the appropriate models and assumptions;
- Establishment of relative probability weightings for forward-looking scenarios.

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

*Measurement of ECL*

The ECL are measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

PD represents an estimate of the likelihood of default of a borrower on its financial obligation over a given horizon, i.e. over the next 12 months or over the remaining lifetime. For secured margin loans, the Group determines PD by the internal credit ratings and with reference to the appropriate external credit ratings assigned by international credit-rating agencies. For other financial assets at amortised cost, the external credit ratings and related PD are taken into consideration.

LGD represents an estimate of the loss on default. For secured margin loans, LGD is determined based on factors including the realisation value of collateral and the estimated volatility. For other financial assets at amortised cost, LGD is determined based on assessed publicly available information from credit-rating agencies.

EAD represents the amounts expected to be owed at the time of default over the next 12 months or over the remaining lifetime.

*Assessment of significant increase in credit risk*

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment, including forward-looking information. Secured margin loans use the number of days past due and loan-to-collateral value ("LTV") to determine significant increase in credit risk. Other financial assets use number of days past due as determinant of credit risk. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition.

*Forward looking information*

The estimation of credit loss under all stages is taking into consideration of forward looking information. The Group identifies the key economic driver impacting credit risk and ECL to be the growth rate of domestic GDP. The Group applied the probability weighted scenarios for incorporating the forward looking information. The growth rate of domestic GDP has been used in determining the probability-weighting of each of the optimistic scenario, base case scenario and pessimistic scenario. These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Accounts receivable (except for secured margin loans) | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL — not credit-impaired | 12-month ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources or payment has been overdue for more than 30 days (secured margin loans: LTV over 85% and margin call over 15 days) | Lifetime ECL — not credit-impaired | Lifetime ECL — not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired or payment has been overdue for more than 90 days (secured margin loans: LTV over 100% and overdue for more than 30 days) | Lifetime ECL — credit-impaired | Lifetime ECL — credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| 2018 | Note | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount | |
|---|---|---|---|---|---|---|
| | | | | | HK$ | HK$ |
| **Financial assets at amortised costs** | | | | | | |
| Loans receivable | 19 | N/A | Low risk | 12-month ECL | 71,614,048 | 71,614,048 |
| Reverse repurchase agreements | 20 | N/A | Low risk | 12-month ECL | 335,307,392 | 335,307,392 |
| Secured margin loans | 23 | N/A | Low risk | 12-month ECL | 3,626,017,967 | |
| | | | Doubtful | Lifetime ECL (not credit impaired) | 713,357,721 | |
| | | | Loss | Credit impaired | 1,886,659,474 | 6,226,035,162 |
| Accounts receivable (except for secured margin loans) | 23 | N/A | (Note 2) | Lifetime ECL (not credit impaired) | 1,004,575,097 | |
| | | | | Lifetime ECL (credit-impaired) | 1,679,857 | 1,006,254,954 |
| Bank balances — trust accounts | 24 | BBB or above | N/A | 12-month ECL | 5,229,079,297 | 5,229,079,297 |
| Bank balances — general accounts and cash | 24 | BBB or above | N/A | 12-month ECL | 1,517,226,830 | 1,517,226,830 |
| Deposits and other receivables | 22 | N/A | (Note 1) | 12-month ECL | 402,178,437 | 402,178,437 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

| | Past due<br>HK$ | Not past due/ Repayable on demand<br>HK$ | Total<br>HK$ |
|---|---|---|---|
| Deposits and other receivables | – | 402,178,437 | 402,178,437 |

2. For accounts receivable, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by aging status.

The Group's credit risk exposure of financial assets for which an impairment allowance is recognised as follows according to the stage of ECL:

**As at 31 December 2018**

| | Stage 1<br>HK$ | Stage 2<br>HK$ | Stage 3<br>HK$ | Total<br>HK$ |
|---|---|---|---|---|
| **Loans receivable** | | | | |
| Gross carrying amount | 71,614,048 | – | – | 71,614,048 |
| Loss allowance | (170,000) | – | – | (170,000) |
| Net carrying amount | 71,444,048 | – | – | 71,444,048 |
| **Reverse repurchase agreements** | | | | |
| Gross carrying amount | 335,307,392 | – | – | 335,307,392 |
| Loss allowance | (990,000) | – | – | (990,000) |
| Net carrying amount | 334,317,392 | – | – | 334,317,392 |
| **Secured margin loans** | | | | |
| Gross carrying amount | 3,626,017,967 | 713,357,721 | 1,886,659,474 | 6,226,035,162 |
| Loss allowance | (15,516,854) | (6,315,387) | (302,089,616) | (323,921,857) |
| Net carrying amount | 3,610,501,113 | 707,042,334 | 1,584,569,858 | 5,902,113,305 |
| **Bank balances — trust accounts** | | | | |
| Gross carrying amount | 5,229,079,297 | – | – | 5,229,079,297 |
| Loss allowance | (250,000) | – | – | (250,000) |
| Net carrying amount | 5,228,829,297 | – | – | 5,228,829,297 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Movement in the allowances for impairment for loans receivable is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 *(Note 2.1.2)* | – | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| — Transfer to stage 3 | – | – | – | – |
| — Transfer to stage 2 | – | – | – | – |
| — Transfer to stage 1 | – | – | – | – |
| — Impairment losses recognised | – | – | – | – |
| — Impairment losses reversed | – | – | – | – |
| — Written-off | – | – | – | – |
| New financial assets originated or purchased | 170,000 | – | – | 170,000 |
| As at 31 December 2018 | 170,000 | – | – | 170,000 |

As at 31 December 2018, the Group measured the loss allowance for loans receivable of Stage 1 amounting to HK$170,000, which was contributed by the new loans receivable originated during the year with a gross carrying amount of HK$71.6 million.

No impairment was made for loans receivable as at 31 December 2017.

Movement in the allowances for impairment for reverse repurchase agreements is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 *(Note 2.1.2)* | – | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| — Transfer to stage 3 | – | – | – | – |
| — Transfer to stage 2 | – | – | – | – |
| — Transfer to stage 1 | – | – | – | – |
| — Impairment losses recognised | – | – | – | – |
| — Impairment losses reversed | – | – | – | – |
| — Written-off | – | – | – | – |
| New financial assets originated or purchased | 990,000 | – | – | 990,000 |
| As at 31 December 2018 | 990,000 | – | – | 990,000 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

As at 31 December 2018, the Group measured the loss allowance for reverse repurchase agreements of Stage 1 amounting to HK$990,000, which was contributed by the new reverse repurchase agreements originated during the year with a gross carrying amount of HK$335.3 million.

Movement in the allowances for impairment for bank balances — trust accounts is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 January 2018 *(Note 2.1.2)* | – | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| — Transfer to stage 3 | – | – | – | – |
| — Transfer to stage 2 | – | – | – | – |
| — Transfer to stage 1 | – | – | – | – |
| — Impairment losses recognised | – | – | – | – |
| — Impairment losses reversed | – | – | – | – |
| — Written-off | – | – | – | – |
| New financial assets originated or purchased | 250,000 | – | – | 250,000 |
| As at 31 December 2018 | 250,000 | – | – | 250,000 |

As at 31 December 2018, the Group measured the loss allowance for bank balances — trust accounts of Stage 1 amounting to HK$250,000, which was contributed by the fixed deposits in the trust accounts with a gross carrying amount of HK$5,052.7 million.

No impairment was made for bank balances — trust accounts as at 31 December 2017.

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Movement in the allowances for impairment for secured margin loans is as follows:

| | Stage 1 12-month ECL HK$ | Stage 2 Lifetime ECL HK$ | Stage 3 Lifetime ECL HK$ | Total HK$ |
|---|---|---|---|---|
| As at 31 December 2017 under HKAS 39 | – | – | 290,394,561 | 290,394,561 |
| Adjustment upon application of HKFRS 9 *(Note 2.1.2)* | 10,185,030 | 19,807,883 | – | 29,992,913 |
| As at 1 January 2018 — as restated | 10,185,030 | 19,807,883 | 290,394,561 | 320,387,474 |
| Changes due to financial instruments recognised as at 1 January 2018: | | | | |
| — Transfer to stage 3 | (575,239) | (996,718) | 1,571,957 | – |
| — Transfer to stage 2 | (813,667) | 892,770 | (79,103) | – |
| — Transfer to stage 1 | 2,246,315 | (2,232,507) | (13,808) | – |
| — Impairment losses recognised | 2,800,817 | 2,781,883 | 11,844,502 | 17,427,202 |
| — Impairment losses reversed | (3,898,686) | (13,937,924) | (1,628,493) | (19,465,103) |
| — Written-off | – | – | – | – |
| New financial assets originated or purchased | 5,572,284 | – | – | 5,572,284 |
| As at 31 December 2018 | 15,516,854 | 6,315,387 | 302,089,616 | 323,921,857 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The overall increase of the ECL allowance was HK$3.5 million for the year ended 31 December 2018.

As at 31 December 2018, the Group measured the loss allowance for secured margin loans of Stage 1 amounting to HK$5.6 million, which was contributed by the new secured margin loans originated during the year with a gross carrying amount of HK$1,204.3 million.

Loss allowance of Stage 2 amounting to HK$14.0 million was reversed as at 31 December 2018 due to the repayment of secured margin loans with a gross carrying amount of HK$660.9 million.

Loss allowance of Stage 1 and Stage 2 amounting to HK$2.8 million and HK$2.8 million respectively was made for additional loan amount to the existing secured margin loans with a gross carrying amount of HK$695.2 million.

Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin accounts. Additional loss allowance of HK$11.8 million was made for secured margin loans with a gross carrying amount of HK$784.7 million at Stage 3.

In determining the impairment allowance on secured margin loans which were credit-impaired, the management of the Group reviews and assesses each margin client individually based on the evaluation of collectability, aging analysis of accounts and on management's judgement, including the current creditworthiness and the past collection statistics of each client, the realisation value of securities or collaterals from clients and their guarantors which are held by the Group, subsequent settlement or additional collaterals received.

| | Total<br>HK$ |
|---|---|
| As at 1 January 2017 | – |
| Impairment charged to profit or loss during the year | 290,394,561 |
| As at 31 December 2017 | 290,394,561 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group's credit risk exposure of accounts receivable (except for secured margin loans) for which an impairment allowance is recognised as follows based on simplified approach:

**As at 31 December 2018**

| | **Lifetime ECL (not credit-impaired)** HK$ | **Lifetime ECL (Credit-impaired)** HK$ | **Total** HK$ |
|---|---|---|---|
| *Accounts receivable arising from the business of dealing in securities (except for secured margin loans)* | | | |
| Gross carrying amount | 461,311,823 | 1,324,990 | 462,636,813 |
| Loss allowance | (75,512) | (484,488) | (560,000) |
| Net carrying amount | 461,236,311 | 840,502 | 462,076,813 |
| *Accounts receivable arising from the business of dealing in futures and options contracts* | | | |
| Gross carrying amount | 223,910,678 | – | 223,910,678 |
| Loss allowance | (88,000) | – | (88,000) |
| Net carrying amount | 223,822,678 | – | 223,822,678 |
| *Accounts receivable arising from the business of corporate finance* | | | |
| Gross carrying amount | 20,526,889 | – | 20,526,889 |
| Loss allowance | – | – | – |
| Net carrying amount | 20,526,889 | – | 20,526,889 |
| *Accounts receivable arising from the business of asset management* | | | |
| Gross carrying amount | 12,283,025 | 354,867 | 12,637,892 |
| Loss allowance | (158,000) | (354,867) | (512,867) |
| Net carrying amount | 12,125,025 | – | 12,125,025 |
| Accounts receivable arising from the business of financial products and investments | | | |
| Gross carrying amount | 286,542,682 | – | 286,542,682 |
| Loss allowance | – | – | – |
| Net carrying amount | 286,542,682 | – | 286,542,682 |
| **Total** | | | |
| Gross carrying amount | 1,004,575,097 | 1,679,857 | 1,006,254,954 |
| Loss allowance | (321,512) | (839,355) | (1,160,867) |
| Net carrying amount | 1,004,253,585 | 840,502 | 1,005,094,087 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Movement in the allowances for impairment for accounts receivable (except for secured margin loans) is as follows:

| | Lifetime ECL (not credit-impaired) HK$ | Lifetime ECL (Credit-impaired) HK$ | Total HK$ |
|---|---|---|---|
| As at 1 January 2018 *(Note 2.1.2)* | – | – | – |
| Changes due to financial instruments recognised as at 1 January 2018: | | | |
| — Transfer to stage 3 | – | – | – |
| — Transfer to stage 2 | – | – | – |
| — Transfer to stage 1 | – | – | – |
| — Impairment losses recognised | – | 839,355 | 839,355 |
| — Impairment losses reversed | – | – | – |
| — Written-off | – | – | – |
| New financial assets originated or purchased | 321,512 | – | 321,512 |
| As at 31 December 2018 | 321,512 | 839,355 | 1,160,867 |

During the year ended 31 December 2018, the Group provided HK$321,512 impairment allowance for accounts receivable (except for secured margin loans) based on simplified approach, which was contributed by the accounts receivable with a gross carrying amount of HK$698.3 million. Impairment allowance of HK$839,355 were made on debtors with credit impaired accounts receivable, with a gross carrying amount of HK$1.7 million.

Accounts receivable arising from the business of dealing in securities which are credit-impaired represent accounts receivable from cash clients when clients fail to settle according to settlement terms after taking into consideration the recoverability of collateral.

Accounts receivable arising from the business of asset management which are credit-impaired represent accounts receivable from asset management clients which have not yet been settled by clients over 1 year and the client encountered financial difficulty on the repayment.

No impairment was made for accounts receivable (except for secured margin loans) as 31 December 2017.

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The following table details the aggregate investment grade of debt securities and other financial products investment portfolio, which includes convertible bonds, unlisted collateralised loan obligation, unlisted debt-linked note, unlisted credit-linked notes, unlisted preference share listed note and unlisted equity-linked note, held by the Group, as rated by well-known rating agencies.

| | **As at 31 December 2018** | As at 31 December 2017 |
|---|---|---|
| Portfolio by issuer rating | | |
| *Available-for-sale financial assets* | | |
| AAA to A- | – | 0.8% |
| BBB+ to BBB- | – | 17.9% |
| BB+ and below | – | 64.6% |
| Non-rated *(note)* | – | 16.7% |
| | – | 100.0% |
| *Financial assets at fair value through profit or loss* | | |
| AAA to A- | **8.0%** | 5.3% |
| BBB+ to BBB- | **13.8%** | 16.2% |
| BB+ and below | **18.2%** | 23.6% |
| Non-rated *(note)* | **60.0%** | 54.9% |
| | **100.0%** | 100.0% |

*Note:* Non-rated financial assets mainly represent debts instruments and other financial products issued by special purpose entities, banks and other financial institutions and large corporations in the industries of industrial and construction, real estate, chemicals, metals and mining, transportation, and trade and retail, which are creditworthy issuers in the market.

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from investment securities, which includes debt securities, convertible bonds, unlisted collateralised loan obligation, unlisted debt-linked notes, unlisted credit-linked notes, unlisted perference share linked note, and unlisted equity-linked note held by the Group, is shown below.

| | Notes | 2018 Financial assets at fair value through profit or loss HK$ | 2017 Available-for-sale financial assets HK$ | 2017 Financial assets at fair value through profit or loss HK$ |
|---|---|---|---|---|
| Carrying amount | *17, 18* | **7,921,229,951** | 1,872,333,774 | 4,467,580,345 |
| **Concentration by sector** | | | | |
| Banks | | **934,687,895** | 86,960,918 | 1,442,081,473 |
| Other financial institutions | | **3,581,140,508** | 660,970,310 | 1,325,570,585 |
| Insurance | | **154,178,213** | 140,687,565 | 118,353,674 |
| Corporate: | | **3,221,580,973** | 968,055,928 | 1,581,574,613 |
| Real estate | | **1,700,722,264** | 524,094,367 | 1,172,510,828 |
| Chemicals | | **224,844,654** | 62,023,298 | – |
| Customer services | | **29,187,000** | – | – |
| Food | | **16,248,964** | – | – |
| Entertainment | | **21,568,379** | – | – |
| Industrial and construction | | **483,173,530** | – | 127,845,091 |
| Transportation | | **51,397,840** | 268,185,939 | 28,614,631 |
| Telecommunications | | **44,415,653** | 30,958,488 | 46,437,732 |
| Utilities | | **208,958,249** | – | 74,190,922 |
| Metals and mining | | **441,064,440** | 82,793,836 | 131,975,409 |
| Retail | | **29,642,362** | 15,659,053 | – |
| | | **7,921,229,951** | 1,872,333,774 | 4,467,580,345 |
| **Concentration by location** | | | | |
| China | | **1,381,235,492** | 1,628,910,154 | 2,144,040,689 |
| Europe | | **406,080,153** | 55,428,202 | 118,353,674 |
| Hong Kong | | **2,174,333,262** | – | 1,950,400,753 |
| Asia | | **110,897,673** | 187,995,418 | 98,751,322 |
| Australia | | **104,349,258** | – | 115,967,682 |
| America | | **3,744,334,113** | – | 40,066,225 |
| | | **7,921,229,951** | 1,872,333,774 | 4,467,580,345 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Credit risk and impairment assessment** *(Continued)*

Concentration by location for investment securities is based on the country of domicile of the issuer of the security.

Other than concentration of credit risk on bank balances, amounts due from clearing houses and brokers, top ten margin clients' exposure described above, loans receivable from three independent counterparties and debt securities investment, the Group had no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties.

**Liquidity risk**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The directors of Company consider that the liquidity risk of the Group is remote because the Group has sufficient assets to repay the liabilities when demanded.

A number of the Group's activities in Hong Kong are subject to various statutory liquidity requirements as prescribed by the Hong Kong Securities and Futures Commission in accordance with the Hong Kong Securities and Futures Ordinance (the "HKSFO").

The Group has also put in place a monitoring system to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with relevant liquid capital requirements under the HKSFO.

The table below analyses the financial liabilities of the Group into relevant maturity groupings based on the earliest date on which the Group can be required to pay. Bank borrowings with a repayment on demand clause are included in the "on demand and less than one month" time band. The directors of the company do not believe that it is probable the banks will exercise their discretionary rights to demand immediate repayment. As the scheduled repayment dates of these borrowings are all less than one month from the end of each reporting period, the maturity analysis without taking into account the repayment on demand clause would be similar to the table below and no further analysis is presented. As at 31 December 2018, the aggregate undiscounted principal amounts of these bank borrowings of the Group amounted to HK$5,580,000,000 (2017: HK$5,104,592,664). The maturity dates for other financial liabilities are based on the agreed repayment dates.

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Liquidity risk** *(Continued)*

| | Weighted average effective interest rate | Repayable on demand and less than one month HK$ | More than 1 month to 1 year HK$ | Over 1 year to 5 years HK$ | Total contractual undiscounted cash flows HK$ | Carrying amount HK$ |
|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | |
| Accounts payable (excluding secured margin loans payable to broker) | 0.01% | 5,991,194,627 | – | – | 5,991,194,627 | 5,991,194,627 |
| Financial liabilities held for trading | N/A | 104,522,000 | 11,879,526 | – | 116,401,526 | 116,401,526 |
| Financial liabilities designated at fair value through profit or loss (including interest payable) | 12.4% | – | 172,299,574 | – | 172,299,574 | 172,299,574 |
| Repurchase agreements (including interest payable) | 3.41% | 1,109,118,541 | 439,913,417 | – | 1,549,031,958 | 1,542,080,825 |
| Bank borrowings (including interest payable) | 4.55% | 5,586,797,616 | 133,497,604 | 3,588,659,804 | 9,308,955,024 | 8,909,661,292 |
| Other borrowings (including interest payable) | 4.07% | – | 1,508,456,866 | – | 1,508,456,866 | 1,485,297,574 |
| Notes (including interest payable) | 3% | – | 62,850,751 | – | 62,850,751 | 62,850,751 |
| Other payables | N/A | 25,173,677 | – | 785,704 | 25,959,381 | 25,959,381 |
| Amount due to a related party | N/A | 3,174,615 | – | – | 3,174,615 | 3,174,615 |
| Other liabilities | N/A | 399,729,979 | – | – | 399,729,979 | 399,729,979 |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Financial risk management objectives and policies *(Continued)*

**Liquidity risk** *(Continued)*

| | Weighted average effective interest rate | Repayable on demand and less than one month HK$ | More than 1 month to 1 year HK$ | Over 1 year to 5 years HK$ | Total contractual undiscounted cash flows HK$ | Carrying amount HK$ |
|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | |
| Accounts payable (excluding secured margin loans payable to broker) | 0.01% | 4,012,456,690 | – | – | 4,012,456,690 | 4,012,423,261 |
| Accounts payable arising from the business of financial products and investments — secured margin loans (including interest payable) | 2.70% | 191,677,567 | – | – | 191,677,567 | 191,677,567 |
| Financial liabilities held for trading | N/A | 2,718,000 | 5,851,093 | – | 8,569,093 | 8,569,093 |
| Financial liabilities designated at fair value through profit or loss (including interest payable) | 6.26% | 166,822,080 | – | 24,223,502 | 191,045,582 | 176,964,865 |
| Repurchase agreements (including interest payable) | 2.38% | 1,096,140,258 | – | – | 1,096,140,258 | 1,096,140,258 |
| Bank borrowings (including interest payable) | 3.30% | 5,107,450,071 | 301,643,883 | – | 5,409,093,954 | 5,407,703,125 |
| Other borrowings (including interest payable) | 3.51% | 27,149,534 | 1,229,435,067 | – | 1,256,584,601 | 1,213,654,737 |
| Notes (including interest payable) | 3.00% | – | 63,814,747 | – | 63,814,747 | 62,946,653 |
| Other payables | N/A | 4,474,110 | – | 3,234,406 | 7,708,516 | 7,708,516 |
| Amount due to a related party | N/A | 2,957,147 | – | – | 2,957,147 | 2,957,147 |
| Other liabilities | N/A | 278,866,324 | – | – | 278,866,324 | 278,866,324 |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value measurement of financial instruments

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs are unobservable inputs for the asset or liability.

### Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 31 December 2018 and 2017.

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following tables give information about how the fair values of these financial assets and financial liabilities are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

| | Fair value as at | | | |
|---|---|---|---|---|
| | **31 December 2018 HK$** | 31 December 2017 HK$ | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
| **1) Financial assets at fair value through profit or loss** | | | | |
| Equity securities | | | | |
| — Traded on stock exchanges | **250,488,074** | 259,712,504 | Level 1 | Quoted price in active markets |
| — Unlisted | **374,529,995** | – | Level 3 | Market approach based on the Guideline Companies Method with the Price to Earnings multiple of the comparable companies, with significant unobservable input of the discount rate for lack of marketability to the estimated equity value of the unlisted equity investment *(note a)* |
| Debt securities | | | | |
| — Traded on stock exchanges | **4,642,934,840** | 3,367,070,652 | Level 1 | Quoted price in active markets |
| — Unlisted | **1,784,955,456** | 718,618,170 | Level 2 | Quoted from market makers |
| Credit derivative | **2,747,716** | 3,193,943 | Level 2 | Quoted from market makers |
| Foreign currency forward contracts | **2,322,556** | – | Level 2 | Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate |

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

| | Fair value as at | | | |
|---|---|---|---|---|
| | **31 December 2018 HK$** | 31 December 2017 HK$ | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
| **1) Financial assets at fair value through profit or loss (Continued)** | | | | |
| Convertible bonds<br>— Traded on stock exchanges | **213,248,835** | 32,240,418 | Level 1 | Quoted price in active markets |
| Unlisted collateralised loan obligation | **–** | 40,066,225 | Level 2 | Quoted from market makers |
| Funds<br>— Traded on stock exchange | **69,441,600** | – | Level 1 | Quoted price in active market |
| — Unlisted | **88,528,438** | 375,621,692 | Level 2 | NAV of funds with reference to underlying investment portfolios which have observable quoted price in active markets |
| — Unlisted | **24,820,997** | – | Level 3 | NAV of fund provided by external counterparty which is the deemed redemption price *(note b)* |
| — Unlisted | **46,987,812** | – | Level 2 | Recent transaction price |
| Unlisted credit-linked notes | **–** | 67,233,080 | Level 2 | Observable quoted price of underlying debt securities in active market |
| Unlisted equity-linked note | **398,055,808** | – | Level 2 | Observable quoted price of underlying equity investment in active market |
| Unlisted preference share linked note | **–** | 242,351,800 | Level 2 | Recent transaction price |
| Unlisted debt-linked note | **841,767,642** | – | Level 2 | Observable quoted price of underlying investment portfolio in active market |
| Unlisted debt-linked note | **40,267,370** | – | Level 2 | Quoted from market makers |
| | **8,781,097,139** | 5,106,108,484 | | |

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## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

| | Fair value as at | | | |
|---|---|---|---|---|
| | **31 December 2018 HK$** | 31 December 2017 HK$ | **Fair value hierarchy** | **Valuation technique(s) and key input(s)** |
| **2) Available-for-sale financial assets** | | | | |
| Debt securities | | | | |
| — Traded on stock exchanges | **–** | 1,473,504,798 | Level 1 | Quoted price in active markets |
| — Unlisted | **–** | 398,828,976 | Level 2 | Quoted from market makers |
| Unlisted investment funds | **–** | 11,423,329 | Level 2 | NAV of funds with reference to underlying investment portfolios which have observable quoted price in active market |
| | **–** | 1,883,757,103 | | |
| **3) Financial liabilities held for trading** | | | | |
| Short position in listed equity securities | **104,522,000** | 2,718,000 | Level 1 | Quoted price in active market |
| Credit derivative | **11,198,759** | 596,858 | Level 2 | Quoted price from market makers |
| Credit derivative | **680,767** | – | Level 3 | Quoted price from market makers *(note c)* |
| Foreign currency forward contracts | **–** | 5,254,235 | Level 2 | Discounted cash flow model applying market observable financial parameter, i.e. forward exchange rate |
| | **116,401,526** | 8,569,093 | | |

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

| | Fair value as at 31 December 2018 HK$ | Fair value as at 31 December 2017 HK$ | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| **4) Financial liabilities designated at fair value through profit or loss** | | | | |
| Unlisted structured products (with the underlying investment related to listed debt securities) | **148,930,662** | 153,388,921 | Level 2 | Observable quoted price of underlying investments in active market |
| Unlisted structured product (with the underlying investment related to unlisted debt security) | **23,368,912** | 23,282,776 | Level 2 | Observable quoted price of underlying investment from market makers |
| | **172,299,574** | 176,671,697 | | |

*Notes:*

(a) The unobservable input is the discount rate for lack of marketability with reference to the prices of listed securities when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted.

(b) The directors of the Company determined that the reported net asset value of the unlisted investment fund represents the fair value of the fund. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in positive relationship that the higher the reported net asset value adopted in the valuation assessment, the higher the fair value would be resulted.

(c) The unobservable input is the spread of the credit derivative with reference to the price of the underlying reference obligation and the spread is provided by the external counterparty, when determining its fair value. The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investment is in negative relationship that the higher the spread adopted in the valuation assessment, the lower the fair value would be resulted.

There were no transfers between Level 1 and 2 during the years ended 31 December 2018 and 2017.

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Reconciliation of Level 3 fair value measurements

31 December 2018

| | Financial liabilities at fair value through profit or loss HK$ | Financial assets at fair value through profit or loss HK$ |
|---|---|---|
| Opening balance | – | – |
| Additions *(note a)* | – | 313,177,638 |
| Transfer into Level 3 *(note c)* | – | 23,502,000 |
| Total gains in profit or loss *(note b)* | (680,767) | 62,671,354 |
| Closing balance | (680,767) | 399,350,992 |

As at 31 December 2017, no financial instruments were classified as Level 3.

*Notes:*

(a) During the year ended 31 December 2018, the Group entered into a credit derivative with a notional amount of HK$200,000,000 of which reference entity was within the real estate sector in Hong Kong with a non-bank financial institution, which was classified as financial liability at fair value through profit or loss.

During the year ended 31 December 2018, the Group acquired an unlisted equity investment with a consideration of US$39,990,504 which was classified as financial asset at fair value through profit or loss.

(b) For the year ended 31 December 2018, of the total gains or losses for the year included in profit or loss, gain of HK$62.7 million and loss of HK$680,767 relate to unrealised gains/losses for the year included in profit or loss for financial assets at FVTPL and financial liabilities at FVTPL held at year end respectively. Fair value gains or losses on financial assets/liabilities at FVTPL are included in "Net unrealised gain (loss) on financial assets/liabilities at FVTPL" as set out in note 5.

(c) The fair value of the unlisted fund was determined with reference to the recent transaction price and therefore classified as Level 2 investment for the year ended 31 December 2017. During the year ended 31 December 2018, the fair value of the unlisted fund was determined based on significant unobservable inputs and involved significant judgement made by the management. Thus, the instrument was transferred from Level 2 to Level 3 category.

For the year ended 31 December 2018

## 40. FINANCIAL INSTRUMENTS *(Continued)*

### Derivative financial instruments settled daily

| | As at 31 December 2018 | | |
|---|---|---|---|
| | Notional | Fair value | |
| | amount | Assets | Liabilities |
| | HK$ | HK$ | HK$ |
| Hang Seng Index futures | **96,952,500** | **844,750** | **–** |
| Interest rate futures | **3,693,376,000** | **–** | **25,236,230** |
| Total | **3,790,328,500** | **844,750** | **25,236,230** |
| Less: Settlement | | **(844,750)** | **(25,236,230)** |
| Net Position | | **–** | **–** |

| | As at 31 December 2017 | | |
|---|---|---|---|
| | Notional | Fair value | |
| | amount | Assets | Liabilities |
| | HK$ | HK$ | HK$ |
| Hang Seng Index futures | 179,626,050 | – | 1,559,350 |
| Interest rate futures | 683,215,914 | 3,241,029 | – |
| Total | 862,841,964 | 3,241,029 | 1,559,350 |
| Less: Settlement | | (3,241,029) | (1,559,350) |
| Net Position | | – | – |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures traded through CISI Futures, were settled daily with the broker. Accordingly, the net position of the above derivative contracts was nil as at 31 December 2018 and 2017.

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements

The disclosures set out in the table below include financial assets that:

- are offset in the Group's consolidated statement of financial position; or
- are subject to enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The Group entered into International Swaps and Derivatives Association ("ISDA") Master Agreements and Global Master Repurchase Agreements ("GMRA") for total return swaps and sale and repurchase agreements.

The Group's total return swaps transactions that are not transacted on an exchange are entered into under ISDA Master Agreements. The Group's sale and repurchase transactions are covered by GMRA with netting terms similar to those of ISDA Master Agreements. The ISDA Master Agreements and GMRA do not meet the criteria for offsetting in the statements of financial position. However, they create a right of set-off of different contracts that is enforceable only following an event of default, insolvency and bankruptcy of the Group or the counterparties. In such circumstances, all outstanding contracts under the agreements are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all contracts.

In addition, the Group pledged collateral in the form of cash in respect of its total return swaps transactions and sale and repurchase agreements. Such collateral is subject to the standard industry terms of ISDA Credit Support Annex or GMRA. Collateral pledged must be returned on maturity of the transactions.

Under the agreement of continuous net settlement between the Group and HKSCC and respective agreements between the Group and brokers, the Group has a legally enforceable right to set off money obligations receivable and payable with HKSCC and respective brokers on the same settlement date on a net basis. The Group intends to settle these balances on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with brokerage clients that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, brokers and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group, deposits placed with HKSCC and brokers do not meet the criteria for offsetting in the consolidated statements of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2018**

| | Gross amount of recognised financial assets HK$ | Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$ | Net amounts of financial assets presented in the consolidated statement of financial position HK$ | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$ | Related amounts not set off in the consolidated statement of financial position: Collateral received HK$ | Net amount HK$ |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Accounts receivable arising from the business of dealing in securities | 6,788,860,332 | (424,670,214) | 6,364,190,118 | (134,716,976) | (5,741,862,803) | 487,610,339 |
| Debt securities pledged as collaterals for other borrowings (as disclosed in note 38) | 1,786,257,427 | – | 1,786,257,427 | (1,485,297,574) | – | 300,959,853 |
| Debt securities pledged as collaterals for repurchase agreements (as disclosed in note 38) | 2,042,711,942 | – | 2,042,711,942 | (1,542,080,825) | – | 500,631,117 |
| Reverse repurchase agreements | 334,317,392 | – | 334,317,392 | – | (334,317,392) | – |
| Financial assets at fair value through profit or loss (note a) | 3,843,311,655 | (3,843,311,655) | – | – | – | – |

For the year ended 31 December 2018

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2018** *(Continued)*

| | Gross amount of recognised financial liabilities HK$ | Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$ | Net amounts of financial liabilities presented in the consolidated statement of financial position HK$ | Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$ | Related amounts not set off in the consolidated statement of financial position: Collateral pledged HK$ | Net amount HK$ |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Accounts payable arising from the business of dealing in securities | **6,043,585,277** | **(424,670,214)** | **5,618,915,063** | **(134,716,976)** | **(7,395,227)** | **5,476,802,860** |
| Repurchase agreements | **1,542,080,825** | **–** | **1,542,080,825** | **(1,542,080,825)** | **–** | **–** |
| Other borrowings | **1,485,297,574** | **–** | **1,485,297,574** | **(1,485,297,574)** | **–** | **–** |
| Financial liabilities at fair value through profit or loss (note a) | **3,843,311,655** | **(3,843,311,655)** | **–** | **–** | **–** | **–** |

For the year ended 31 December 2018

## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2017**

| | Gross amount of recognised financial assets | Gross amount of recognised financial liabilities set off in the consolidated statement of financial position | Net amounts of financial assets presented in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral received | |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **Financial assets** | | | | | | |
| Accounts receivable arising from the business of dealing in securities | 5,250,275,695 | (506,533,837) | 4,743,741,858 | (126,539,202) | (4,110,243,308) | 506,959,348 |
| Debt securities pledged as collaterals for other borrowings (as disclosed in note 38) | 2,005,193,405 | – | 2,005,193,405 | (1,203,876,281) | – | 801,317,124 |
| Debt securities pledged as collaterals for repurchase agreements (as disclosed in note 38) | 1,391,944,090 | – | 1,391,944,090 | (1,094,855,904) | – | 297,088,186 |
| Debt securities pledged as collaterals for margin loans from brokers (notes b and 27) | 315,014,701 | – | 315,014,701 | (191,248,478) | – | 123,766,223 |
| Financial assets at fair value through profit or loss (note a) | 474,272,850 | (474,272,850) | – | – | – | – |

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## 41. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

### Financial assets and liabilities subject to offsetting, enforceable master netting arrangement and similar agreements *(Continued)*

**As at 31 December 2017** *(Continued)*

| | Gross amount of recognised financial liabilities | Gross amount of recognised financial assets set off in the consolidated statement of financial position | Net amounts of financial liabilities presented in the consolidated statement of financial position | Related amounts not set off in the consolidated statement of financial position | | Net amount |
|---|---|---|---|---|---|---|
| | | | | Financial instruments | Collateral pledged | |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **Financial liabilities** | | | | | | |
| Accounts payable arising from the business of dealing in securities | 4,208,869,831 | (506,533,837) | 3,702,335,994 | (126,539,202) | (5,857,460) | 3,569,939,332 |
| Accounts payable arising from the business of financial products and investments – secured margin loans from brokers | 191,248,478 | – | 191,248,478 | (191,248,478) | – | – |
| Repurchase agreements | 1,094,855,904 | – | 1,094,855,904 | (1,094,855,904) | – | – |
| Other borrowings | 1,203,876,281 | – | 1,203,876,281 | (1,203,876,281) | – | – |
| Financial liabilities at fair value through profit or loss *(note a)* | 474,272,850 | (474,272,850) | – | – | – | – |

*Notes:*

(a) During the year ended 31 December 2018 and 2017, the Group entered into contracts for separate financial assets and financial liabilities which are subject to enforceable netting arrangement, and the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

(b) As at 31 December 2017, for the debt securities pledged as collaterals by the Group which is eligible to set off the Group's secured margin loans from brokers, debt securities with carrying value amounting to HK$147,439,040 and HK$167,575,661 are classified as financial assets at FVTPL and AFS financial assets in the Group's consolidated statement of financial position respectively.

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## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non- cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Bank borrowings HK$ (Note 31) | Other borrowings HK$ (Note 32) | Notes HK$ (Note 33) | Financial liabilities at fair value through profit or loss HK$ (Note 26) | Repurchase agreements HK$ (Note 30) | Accounts payable HK$ (Note 27) | Accrued interest HK$ (Note 28) | Other liabilities HK$ (Note 47) | Total HK$ |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2018 | 5,404,592,664 | 1,203,876,281 | 62,549,900 | 185,240,790 | 1,094,855,904 | 4,203,671,739 | 14,863,192 | 278,866,324 | 12,448,516,794 |
| Financing cash flow: | | | | | | | | | |
| — Borrowings raised | 40,582,001,825 | 790,022,977 | - | - | - | - | - | - | 41,372,024,802 |
| — Repayment of borrowings | (37,083,730,813) | (524,992,892) | - | - | - | - | - | - | (37,608,723,705) |
| — Issuance of notes | - | - | 62,650,400 | - | - | - | - | - | 62,650,400 |
| — Redemption of notes | - | - | (62,549,900) | - | - | - | - | - | (62,549,900) |
| — Interest paid | (278,494,869) | (32,429,879) | (4,257,196) | - | (32,653,453) | (7,566,276) | (14,863,192) | - | (370,264,865) |
| — Contribution from third-party unitholders/shareholders of consolidated investment funds | - | - | - | - | - | - | - | 177,054,702 | 177,054,702 |
| — Withdrawal from third-party unitholders/shareholders of consolidated investment funds | - | - | - | - | - | - | - | (11,454,513) | (11,454,513) |
| Operating cash flow: | | | | | | | | | |
| — Change in financial liabilities at fair value through profit or loss | - | - | - | 101,978,262 | - | - | - | - | 101,978,262 |
| — Change in repurchase agreements | - | - | - | - | 440,546,639 | - | - | - | 440,546,639 |
| — Change in accounts payable | - | - | - | - | - | 1,787,522,888 | - | - | 1,787,522,888 |
| Net assets disposed of at the date of disposal attributable to third-party unitholders/ shareholders of consolidated investment funds | - | - | - | - | - | - | - | (28,800,529) | (28,800,529) |
| Fair value changes of interest held by third-party unitholders/ shareholders of consolidated investment funds | - | - | - | - | - | - | - | (15,936,005) | (15,936,005) |
| Finance costs | 285,292,485 | 48,821,087 | 4,457,547 | 1,482,048 | 39,331,735 | 7,566,276 | - | - | 386,951,178 |
| At 31 December 2018 | 8,909,661,292 | 1,485,297,574 | 62,850,751 | 288,701,100 | 1,542,080,825 | 5,991,194,627 | - | 399,729,979 | 18,679,516,148 |

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## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Continued)*

| | Bank borrowings HK$ (Note 31) | Other borrowings HK$ (Note 32) | Notes HK$ (Note 33) | Interest payable HK$ (Note 28) | Other liabilities HK$ (Note 47) | Total HK$ |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 4,142,518,829 | 177,577,860 | – | 4,577,212 | – | 4,324,673,901 |
| Financing cash flows: | | | | | | |
| — Borrowings raised | 41,754,216,261 | 1,203,876,281 | – | – | – | 42,958,092,542 |
| — Repayments of borrowings | (40,492,142,426) | (177,577,860) | – | – | – | (40,669,720,286) |
| — Issuance of notes | – | – | 93,813,600 | – | – | 93,813,600 |
| — Redemption of notes | – | – | (31,263,700) | – | – | (31,263,700) |
| — Interest paid | – | – | – | (156,531,894) | – | (156,531,894) |
| — Contributions from third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | 223,780,377 | 223,780,377 |
| — Withdrawals from third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | (8,651,451) | (8,651,451) |
| Net assets acquired at the date of acquisition attributable to third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | 63,839,416 | 63,839,416 |
| Fair value changes of interest held by third-party unitholders/shareholders of consolidated investment funds | – | – | – | – | (102,018) | (102,018) |
| Interest expense | – | – | – | 166,817,874 | – | 166,817,874 |
| At 31 December 2017 | 5,404,592,664 | 1,203,876,281 | 62,549,900 | 14,863,192 | 278,866,324 | 6,964,748,361 |

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## 43. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the notes to the consolidated financial statements, the Group had the following material transactions with related parties.

### (a) Compensation of key management personnel

Other than the directors' emoluments disclosed in note 11(a), the remuneration of other members of key management during the years ended 31 December 2018 and 2017 was as follows:

| | **2018**<br>**HK$** | 2017<br>HK$ |
|---|---|---|
| Short-term benefits | **30,659,000** | 32,129,482 |
| Post-employment benefits | **144,000** | 135,000 |

### (b) Right of trading of RMB denominated securities in the PRC

During the years ended 31 December 2018 and 2017, the Group invests in RMB denominated securities in the PRC using the approved quota under the PRC RMB Qualified Foreign Institutional Investor program of the intermediate holding company for consideration of HK$1 per annum.

### (c) Consultancy services from a fellow subsidiary

Pursuant to service agreement entered into between the Company and Industrial Securities (Shenzhen), dated 27 September 2016 (the "Service Agreement"), Industrial Securities (Shenzhen) agreed to provide consultancy services to the Company, including the provision of consultancy service on economic information, and assisting the Company in collecting and analysing information on macroeconomics, industry news and market information in the PRC, at cost, plus a mark up of 6%. On 3 April 2018, the Company and Industrial Securities (Shenzhen) entered into a supplemental service agreement (the "Supplemental Service Agreement"), pursuant to which the Company required broader services from Industrial Securities (Shenzhen) including provision of services and support to the Group's clients in core regions in the PRC, brand establishment and promotion and provision of cross-border information technology support. During the year ended 31 December 2018, the Company paid a consultancy service fee of HK$21,615,877 (2017: HK$10,198,538) under the Service Agreement. Details of the Service Agreement and the Supplemental Service Agreement are set out in section headed "Connected Transactions" in the Prospectus and in the announcement dated 3 April 2018 respectively.

### (d) Right of use of trademark

During the years ended 31 December 2018 and 2017, the Group was granted by the intermediate holding company a non-transferable and non-assignable license to use its registered trademarks for the Group's business and any related businesses for consideration of HK$1 per annum.

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## 44. DISPOSAL OF A CONSOLIDATED STRUCTURED ENTITY

In October 2018, the Group disposed of one consolidated structured entity, IS Investment Fund Segregated Portfolio Company — CIS Excellent Select Fund Segregated Portfolio ("CISEF"). The net assets of CISEF at the date of disposal were as follows:

**Consideration received**

| | HK$ |
|---|---|
| Cash | 12,907,712 |

**Analysis of assets and liabilities over which control was lost**

| | HK$ |
|---|---|
| Financial assets at fair value through profit or loss | 25,699,671 |
| Accounts receivable | 16,116,049 |
| Other receivables | 35,332 |
| Other payables | (147,156) |
| Other liabilities — interest held by third party unit holders/shareholders | (28,800,529) |
| Bank balance | 4,345 |
| Net assets disposed of | 12,907,712 |

**Gain on disposal**

| | HK$ |
|---|---|
| Consideration received | 12,907,712 |
| Net assets disposed of at the date of disposal | (12,907,712) |
| Gain on disposal | – |

**Net cash inflow arising on disposal**

| | HK$ |
|---|---|
| Consideration received | 12,907,712 |
| Less: bank balances disposed of | (4,345) |
| | 12,903,367 |

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## 45. ACQUISITION OF A CONSOLIDATED STRUCTURED ENTITY

In May 2017, the Group acquired approximately 38.45% of issued units of CISEF for a consideration of HK$39,880,000.

**Consideration transferred**

| | HK$ |
|---|---|
| Cash | 39,880,000 |

**Assets acquired and liabilities recognised at the date of acquisition**

| | HK$ |
|---|---|
| Bank balances | 90,361,196 |
| Financial assets at fair value through profit or loss | 57,032,087 |
| Accounts payable | (43,673,867) |
| | 103,719,416 |

**Net assets acquired at the date of acquisition attributable to the Group**

| | |
|---|---|
| Net assets acquired at the date of acquisition (HK$) | 103,719,416 |
| Proportion of the Group's interest | 38.45% |
| **Net assets acquired at the date of acquisition attributable to the Group (HK$)** | 39,880,000 |

Third-party interests at the acquisition date were measured at the proportionate share of the fair value of identifiable net assets of CISEF, which are reflected as other liability in the consolidated statement of financial position.

At the acquisition date, included in the financial assets at fair value through profit or loss represents the listed equity securities with the quoted market price.

| | HK$ |
|---|---|
| **Net cash inflow on acquisition of a consolidated structured entity** | |
| Cash and cash equivalent balances acquired | 90,361,196 |
| Less: consideration paid in cash | (39,880,000) |
| | 50,481,196 |

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## 46. SUBSIDIARIES

The particulars of the Group's subsidiaries and consolidated investment funds are as follows:

| Name of subsidiary | Place of incorporation | Place of operation | Issued and fully paid up share capital | Equity attributable to the Group at 31 December | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | 2018 % | 2017 % | |
| *Directly owned* | | | | | | |
| China Industrial Securities International Brokerage Limited | Hong Kong | Hong Kong | HK$2,500,000,000 | **100** | 100 | Securities dealing and broking and securities margin financing |
| China Industrial Securities International Futures Limited | Hong Kong | Hong Kong | HK$50,000,000 | **100** | 100 | Futures and options contracts broking |
| China Industrial Securities International Capital Limited | Hong Kong | Hong Kong | HK$20,000,000 | **100** | 100 | Investment banking services |
| China Industrial Securities International Asset Management Limited | Hong Kong | Hong Kong | HK$20,000,000 | **100** | 100 | Advising on securities and asset management services |
| China Industrial Securities International Finance Limited | Hong Kong | Hong Kong | HK$210,000 | **100** | 100 | Money lending |
| China Industrial Securities International Investment Limited | Hong Kong | Hong Kong | HK$20,000,000 | **100** | 100 | Investment holding |
| China Industrial Securities International Wealth Management Limited | Hong Kong | Hong Kong | HK$1,000,000 | **100** | 100 | Wealth management services |
| *Indirectly owned* | | | | | | |
| CISI Investment Limited | British Virgin Islands | Hong Kong | US$2,500,000 | **100** | 100 | Investment trading |
| CISI Capital Management Limited | British Virgin Islands | Hong Kong | US$1 | **100** | 100 | Investment holding |

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## 46. SUBSIDIARIES *(Continued)*

| Name of investment fund | Place of incorporation | Place of operation | Class of share | Effective interest holding at 31 December 2018 % | Effective interest holding at 31 December 2017 % | Principal activities |
|---|---|---|---|---|---|---|
| *Indirectly owned* | | | | | | |
| IS Investment Fund Segregated Portfolio Company — CIS Excellent Select Fund Segregated Portfolio ("CISEF") (notes a and b) | Cayman Islands | Hong Kong | Participating | **N/A** | 42.08 | Investment trading |
| IS Investment Fund Segregated Portfolio Company — CIS Resources Fund Segregated Portfolio ("CISRF") (note a) | Cayman Islands | Hong Kong | Participating | **100** | 100 | Investment trading |
| IS Investment Fund Segregated Portfolio Company — CIS USD Fixed Income Fund Segregated Portfolio ("CISFF") (note a) | Cayman Islands | Hong Kong | Participating | **98.75** | 97.46 | Investment trading |
| IS Investment Fund Segregated Portfolio Company — WVCIS Value Growth Fund Segregated Portfolio ("CISWF") (note a) | Cayman Islands | Hong Kong | Participating | **48.49** | 49.58 | Investment trading |
| IS Investment Fund Segregated Portfolio Company — CIS The Belt and Road PE Fund I ("CISBF") (notes a and c) | Cayman Islands | Hong Kong | Participating | **50** | N/A | Investment trading |
| IS Investment Funds Segregated Portfolio Company — CIS Multi-Tranche Money Market Fund SP ("CISMM") (notes a and c) | Cayman Islands | Hong Kong | Participating | **56.97** | N/A | Investment trading |

*Notes:*

(a) CISI Asset Management, a wholly owned subsidiary of the Group, holds all management shares of IS Investment Fund Segregated Portfolio Company ("IS IFSPC"). CISI Asset Management has been appointed as an investment manager of CISEF, CISRF, CISFF, CISWF, CISBF and CISMM under IS IFSPC. The Group holds significant participating shares in the above mentioned funds. The directors of the Company are of the opinion that the funds are regarded as consolidated structured entities of the Group as the Group is able to exercise control over its operation and has significant variable financial interests as at 31 December 2018 and 2017.

(b) During the year, the Group disposed of CISEF. Details of the disposal is disclosed in note 44.

(c) Incorporated during the year.

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## 47. INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including investment funds. For the investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of funds it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that it indicates that the Group is a principal. During the year ended 31 December 2018, loss contributed by the consolidated investment funds (excluding third party interests as stated below), were HK$48,651,406 (2017: profit of HK$49,029,295). As at 31 December 2018, the total assets and total liabilities (excluding third party interests as stated below) of the consolidated investment funds, were HK$2,522,969,056 and HK$691,633,483 respectively (2017: HK$1,732,636,912 and HK$32,979,274 respectively).

Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

For the year ended 31 December 2018, interests held by third-party unit holders/shareholders of HK$15,936,005 (2017: HK$102,018) in consolidated structured entities are included as other gains within other gains or losses in the consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK$399,729,979 (2017: HK$278,866,324) as at 31 December 2018 are included in other liabilities in the consolidated statement of financial position.

## 48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

A wholly owned subsidiary of the Company, CISI Asset Management, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 *Disclosure of interests in other entities*. The directors of the Company are of the opinion that the investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds which is not able to exercise control over their operation and has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

CISI Asset Management receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2018 is HK$5,796,000 (2017: HK$3,075,000) (included in accounts receivable) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 is HK$10,600,000 (2017: HK$6,972,000). The net asset value of total assets under management for these funds amounts to approximately HK$5,433 million as at 31 December 2018 (2017: HK$5,359 million).

## 48. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

### Maximum exposure to loss

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

### Financial support

The Group has not provided financial support to any of its unconsolidated structured entities during the years ended 31 December 2018 and 2017, and has no contractual obligations or current intention of providing financial support in the future.

### Other information

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

For the year ended 31 December 2018

## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2018<br>HK$ | 2017<br>HK$ |
|---|---|---|
| Non-current assets | | |
| Property and equipment | **26,024,602** | 19,775,614 |
| Intangible assets | **879,382** | 211,021 |
| Investment in subsidiaries | **2,600,134,817** | 2,611,761,045 |
| Deposits, other receivables and prepayments | **13,458,444** | 11,544,450 |
| | **2,640,497,245** | 2,643,292,130 |
| Current assets | | |
| Deposits, other receivables and prepayments | **3,587,282** | 10,193,603 |
| Amounts due from subsidiaries/related parties | **10,166,664,465** | 5,885,032,842 |
| Bank balances – general accounts and cash | **67,377,004** | 270,739,675 |
| | **10,237,628,751** | 6,165,966,120 |
| Current liabilities | | |
| Accruals and other payables | **92,352,601** | 101,878,338 |
| Amounts due to related parties | **3,174,615** | 2,957,147 |
| Tax payable | **36,210,215** | 32,852,390 |
| Bank borrowings | **5,086,488,062** | 4,330,000,000 |
| | **5,218,225,493** | 4,467,687,875 |
| Net current assets | **5,019,403,258** | 1,698,278,245 |
| Non-current liabilities | | |
| Accruals and other payables | **785,704** | 3,234,408 |
| Deferred tax liabilities | **914,767** | 694,472 |
| Bank borrowings | **3,322,863,676** | – |
| | **3,324,564,147** | 3,928,880 |
| Net assets | **4,335,336,356** | 4,337,641,495 |
| Capital and reserves | | |
| Share capital | **400,000,000** | 400,000,000 |
| Share premium | **3,359,547,592** | 3,359,547,592 |
| Retained earnings | **133,346,943** | 135,652,082 |
| Capital reserve | **442,441,821** | 442,441,821 |
| Equity attributable to owners of the Company | **4,335,336,356** | 4,337,641,495 |

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## 49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

### Movement in the Company's reserves

| | Share premium HK$ | Capital reserve HK$ | Retained earnings HK$ | Total HK$ |
|---|---|---|---|---|
| At 1 January 2017 | 3,359,547,592 | 442,441,821 | 97,196,320 | 3,899,185,733 |
| Dividends recognised as distribution | – | – | (80,000,000) | (80,000,000) |
| Profit and total comprehensive income for the year | – | – | 118,455,762 | 118,455,762 |
| At 31 December 2017 | 3,359,547,592 | 442,441,821 | 135,652,082 | 3,937,641,495 |
| Dividends recognised as distribution | – | – | (120,000,000) | (120,000,000) |
| Profit and total comprehensive income for the year | – | – | 117,694,861 | 117,694,861 |
| At 31 December 2018 | 3,359,547,592 | 442,441,821 | 133,346,943 | 3,935,336,356 |

**ISSUER**

**China Industrial Securities International Financial Group Limited**
**兴证国际金融集团有限公司**
PO Box 1350, Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

**GUARANTOR**

**China Industrial Securities Co., Ltd.**
**兴业证券股份有限公司**
268 Hudong Road
Fuzhou, Fujian Province 350003
PRC

**TRUSTEE**

**Citicorp International Limited**
One Bay East
83 Hoi Bun Road
Kwun Tong, Kowloon
Hong Kong

**PRINCIPAL PAYING AGENT, TRANSFER AGENT AND REGISTRAR**

**Citibank, N.A., London Branch**
c/o Citibank, N.A., Dublin Branch
One North Wall Quay
Dublin 1
Ireland

**LEGAL ADVISORS TO THE JOINT LEAD MANAGERS**

*As to English law*

**Allen & Overy**
9th Floor
Three Exchange Square
Central
Hong Kong

*As to PRC law*

**Jingtian & Gongcheng**
34/F, Tower 3, China Central Place
77 Jianguo Road
Beijing, China

**LEGAL ADVISERS TO THE ISSUER AND THE GUARANTOR**

*As to English law*

**King & Wood Mallesons**
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

*As to Cayman Islands law*

**Ogier**
11th Floor, Central Tower
28 Queen's Road Central
Central
Hong Kong

**LEGAL ADVISORS TO TRUSTEE**

*As to English law*

**Allen & Overy**
50 Collyer Quay
09-01 OUE Bayfront
Singapore 049321