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恒 投 證 券

HENGTOU SECURITIES

(A joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English))

(the “Company”)
(Stock Code: 01476)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS HIGHLIGHTS

- Revenue and other income amounted to RMB3,680.84million, representing a year-on-year decrease of 4.32%.
- Profit for the year attributable to ordinary shareholders of the Company amounted to RMB 474.09million, representing a year-on-year decrease of 35.98%.
- Basic and diluted earnings per share amounted to RMB0.16, representing a year-on-year decrease of 36.00%.
- Weighted average rate of return on net assets was 4.80%, representing a year-on- year decrease of 2.89 percentage points.
- No profit distribution will be made for the year ended 31 December 2020.

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2020, together with the comparative figures for the corresponding period in 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	Notes	RMB'000	RMB'000
Fees and commission income	3	1,949,926	1,715,193
Interest income	4	725,895	649,882
Net investment income	5	913,325	757,351
Other income and gains	6	91,689	724,678
Total operating income		3,680,835	3,847,104
Fees and commission expenses		(222,807)	(177,679)
Interest expenses		(449,229)	(467,939)
Staff costs		(1,196,399)	(1,090,724)
Depreciation and amortisation		(193,224)	(170,939)
Taxes and surcharges		(18,719)	(16,412)
Other operating expenses		(613,785)	(610,322)
Impairment losses	7	(185,162)	(339,201)
Unrealised fair value losses from financial assets at fair value through profit or loss		(202,975)	(1,606)
Total operating expenses		(3,082,300)	(2,874,822)
Operating profit		598,535	972,282
Share of profits of associates		–	2,668
Profit before tax		598,535	974,950
Income tax expenses	8	(116,181)	(212,104)
Profit for the year		482,354	762,846

	Notes	2020 RMB'000	2019 RMB'000
Other comprehensive expense:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Debt investments at fair value through other comprehensive income			
– Net change in fair value		(21,066)	–
– Income tax impact		5,266	–
		<u> </u>	<u> </u>
Other comprehensive expense for the year, net of tax		<u>(15,800)</u>	<u>–</u>
Total comprehensive income for the year		<u><u>466,554</u></u>	<u><u>762,846</u></u>
Profit for the year attributable to:			
Ordinary shareholders of the Company		474,086	740,538
Non-controlling interests		8,268	22,308
		<u> </u>	<u> </u>
		<u><u>482,354</u></u>	<u><u>762,846</u></u>
Total comprehensive income for the year attributable to:			
Ordinary shareholders of the Company		458,286	740,538
Non-controlling interests		8,268	22,308
		<u> </u>	<u> </u>
		<u><u>466,554</u></u>	<u><u>762,846</u></u>
Earnings per share			
Basic and diluted	9	<u><u>RMB0.16</u></u>	<u><u>RMB0.25</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current assets		
Property and equipment	375,780	536,041
Right-of-use assets	145,765	157,857
Investment properties	38,811	40,784
Goodwill	43,739	43,739
Intangible assets	147,909	129,696
Refundable deposits	648,715	448,059
Debt investments measured at amortised cost	199,063	–
Deferred tax assets	267,371	205,287
Other non-current assets	47,848	46,237
Total non-current assets	1,915,001	1,607,700
Current assets		
Margin account receivables	5,086,791	3,969,330
Other current assets	748,762	716,325
Placements with a financial institution	225,000	–
Financial assets held under resale agreements	1,003,845	760,800
Financial assets at fair value through other comprehensive income	1,523,820	–
Financial assets at fair value through profit or loss	9,771,480	10,726,761
Cash held on behalf of brokerage clients	10,935,722	8,824,504
Clearing settlement funds	671,838	800,821
Cash and bank balances	1,713,772	2,108,972
	31,681,030	27,907,513
Assets classified as held for sale	–	11,768
Total current assets	31,681,030	27,919,281
Total assets	33,596,031	29,526,981

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current liabilities		
Debt instruments	2,060,000	1,609,985
Placements from a financial institution	1,000,000	1,500,000
Account payables to brokerage clients	11,392,900	9,071,688
Employee benefit payables	622,660	466,913
Contract liabilities	12,106	34,322
Lease liabilities	66,710	67,106
Other current liabilities	1,179,071	1,270,105
Current tax liabilities	68,098	19,578
Financial assets sold under repurchase agreements	4,130,449	3,189,085
Total current liabilities	20,531,994	17,228,782
Net current assets	11,149,036	10,690,499
Total assets less current liabilities	13,064,037	12,298,199
Non-current liabilities		
Debt instruments	3,487,697	1,500,000
Lease liabilities	78,931	87,718
Deferred tax liabilities	61,644	132,068
Total non-current liabilities	3,628,272	1,719,786
Net assets	9,435,765	10,578,413
Equity		
Share capital	2,604,567	2,604,567
Share premium	1,665,236	1,665,236
Perpetual capital securities	–	1,500,000
Reserves	4,761,430	4,405,144
Total equity attributable to ordinary shareholders of the Company and holders of perpetual capital securities	9,031,233	10,174,947
Non-controlling interests	404,532	403,466
Total equity	9,435,765	10,578,413

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited.

2. TAXATION

The Group’s main applicable taxes and tax rates are as follows:

Tax type	Tax rate
Corporate income tax	25%
Value-added tax (“ VAT ”)	2%-11%
City maintenance and construction tax	7%
Education surcharge and local education surcharge	2%-3%

3. FEES AND COMMISSION INCOME

	2020 RMB’000	2019 RMB’000
Fees and commission income arising from:		
– Securities brokerage business	1,040,885	802,978
– Assets management business	420,840	441,315
– Underwriting and sponsoring business	223,781	290,737
– Financial advisory business	107,636	45,734
– Futures brokerage business	97,478	47,850
– Investment advisory business	8,288	37,928
– Custody business	51,018	48,651
	<hr/>	<hr/>
Revenue from contracts with customers		
within the scope of IFRS 15	1,949,926	1,715,193
	<hr/> <hr/>	<hr/> <hr/>

(a) *The following table shows revenue disaggregation by timing of revenue recognition:*

	Securities and futures brokerage businesses <i>RMB'000</i>	Assets management, financial and investment advisory businesses <i>RMB'000</i>	Underwriting and sponsoring business <i>RMB'000</i>	Custody business <i>RMB'000</i>	Total <i>RMB'000</i>
For year ended 31 December 2020					
– Over time	–	536,764	–	51,018	587,782
– Point in time	<u>1,138,363</u>	<u>–</u>	<u>223,781</u>	<u>–</u>	<u>1,362,144</u>
For year ended 31 December 2019					
– Over time	–	524,977	–	48,651	573,628
– Point in time	<u>850,828</u>	<u>–</u>	<u>290,737</u>	<u>–</u>	<u>1,141,565</u>

4. INTEREST INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income arising from:		
– Margin financing	345,186	305,967
– Deposits in financial institutions	300,854	286,908
– Financial assets held under resale agreements	35,100	57,007
– Financial assets at fair value through other comprehensive income (“FVTOCI”)	39,926	–
– Debt investments measured at amortised cost	2,517	–
– Placements with a financial institution	<u>2,312</u>	<u>–</u>
	<u>725,895</u>	<u>649,882</u>

5. NET INVESTMENT INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net loss on disposal of financial assets at FVTOCI	–	(85)
Dividend and interest income from financial assets at fair value through profit or loss (“FVTPL”)	263,310	348,932
Net realised gains from disposal of financial assets at FVTPL and derivative financial instruments	637,783	402,238
Loss on disposal of a subsidiary	–	(277)
Gain on disposal of an associate	12,232	6,543
	<u>913,325</u>	<u>757,351</u>

6. OTHER INCOME AND GAINS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
	<i>Note</i>	
Foreign exchange (loss)/gains, net	(1,855)	499
Rental income	3,358	2,657
Government grants	9,364	9,430
(Loss)/Gain on disposal of property and equipment and intangible assets	(155)	671
Compensation income	(a) 56,303	–
Reversal of accruals	17,783	–
Unrealised fair value gain from financial assets at FVTPL and derivative financial instruments	6,616	711,115
Others	275	306
	<u>91,689</u>	<u>724,678</u>

Note:

- (a) During the year ended 31 December 2020, the Group was refunded by the constructor of the Group's construction in progress for termination of the development contract. The carrying amount of the construction in progress and the consideration of the refund were amounted to RMB152,550,000 and RMB208,853,000, respectively. Accordingly, the Group recorded a RMB56,303,000 as compensation income during the year ended 31 December 2020.

7. IMPAIRMENT LOSSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Impairment losses on:		
– margin financing	6,737	10,147
– financial assets at FVTOCI	2,737	–
– financial assets held under resale agreements	116,008	147,179
– debt investments measured at amortised cost	950	–
– other current assets	58,730	181,875
	<u>185,162</u>	<u>339,201</u>

8. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax – PRC corporate income tax		
Current year	252,470	70,566
(Over)/Under-provision in respect of prior years	(9,047)	676
	<u>243,423</u>	<u>71,242</u>
Deferred tax	(127,242)	140,862
	<u>116,181</u>	<u>212,104</u>

The provision for the PRC corporate income tax is calculated based on the statutory income tax rate of 25% (2019: 25%). Reconciliation between income tax expense and accounting profit at applicable tax rate:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before tax	<u>598,535</u>	<u>974,950</u>
Tax at the PRC statutory income tax rate of 25% (2019: 25%)	149,634	243,737
Tax effect of non-deductible expenses	4,219	5,014
Tax effect of non-taxable income	(3,125)	(2,386)
Tax deduction for dividends paid on perpetual capital securities	(25,500)	(25,500)
(Over)/Under-provision in respect of prior years	(9,047)	676
Others	<u>–</u>	<u>(9,437)</u>
Income tax expense	<u><u>116,181</u></u>	<u><u>212,104</u></u>

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings		
Profit for the year attributable to ordinary shareholders of the Company	474,086	740,538
Less: Dividends for cumulative perpetual capital securities	<u>(50,022)</u>	<u>(102,000)</u>
	<u><u>424,064</u></u>	<u><u>638,538</u></u>
Number of shares		
Weighted average number of ordinary shares used in basic earnings per share calculation (in thousands)	<u><u>2,604,567</u></u>	<u><u>2,604,567</u></u>

For the years ended 31 December 2020 and 2019, there were no dilutive potential ordinary shares, hence the diluted earnings per share equals to the basic earnings per share.

10. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividend paid to holders of perpetual capital securities	<u>102,000</u>	<u>102,000</u>

The dividend paid for the year ended 31 December 2020 was approximately RMB102,000,000 (2019: RMB102,000,000) being dividend calculated at 6.8% per annum on the nominal value of perpetual capital securities.

The directors do not recommend the payment of dividend for the year ended 31 December 2020 (2019: Nil).

11. PERPETUAL CAPITAL SECURITIES

The Group issued a perpetual subordinated debt (the “**Debt**”) with nominal value of RMB1,500,000,000 on 29 June 2015. The Debt is undated and bears a 6.80% coupon rate until the first redemption date on 29 June 2020. The coupon rate will be reset every five years if the Debt are not redeemed.

The Group does not have any contractual obligation to deliver cash or other financial assets to redeem the Debt. The redemption of the Debt is solely at the discretion of the Group.

During the year ended 31 December 2020, the Debt of RMB1,500,000,000 (2019: Nil) were fully redeemed by the Group.

12. COMMITMENTS

Capital commitments

At the reporting date, the capital commitments outstanding not provided for in the consolidated financial statements are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Acquisition of property and equipment, intangible assets and other non-current assets	<u>191,925</u>	<u>567,260</u>

Lease commitments

The Group as lessee

At the reporting date, the lease commitments for short-term leases are as follows:

	2020 RMB'000	2019 RMB'000
Properties	6,929	8,076

The Group as lessor

At the reporting date, the total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year (inclusive)	3,893	3,250
Later than 1 year and not later than 2 years	3,892	3,280
Later than 2 year and not later than 3 years	3,912	3,280
Later than 3 year and not later than 4 years	2,970	3,300
Later than 4 year and not later than 5 years	3,836	2,358
After 5 years	8,708	11,324
	27,211	26,792

Underwriting commitments

As at 31 December 2020, according to the relevant underwriting agreements, underwriting commitments taken but not provided for by the Group are amounted to RMB83,030,000,000 (2019: RMB60,580,000,000).

13. CONTINGENT LIABILITIES

As at 31 December 2020, the Group involved in the following legal, arbitration or administrative proceedings:

(a) *Lawsuits with regard to the Qinghui Leasing asset-backed special scheme Phase I (the “Special Scheme”)*

Since June 2018, the Company has successively received the civil indictments brought by Xinyuan Fund Management Limited (鑫元基金管理有限公司), Galaxy Jinhui Securities Assets Management Co., Ltd. (銀河金匯證券資產管理有限公司), Goldstate Capital Fund Management Co., Ltd. (金元順安基金管理有限公司), Bank of Nanjing Co., Ltd. (南京銀行股份有限公司), Chuangjin Hexin Fund Management Limited (創金合信基金管理有限公司) and Tianhong Asset Management Co., Ltd. (天弘基金管理有限公司), the preferential holders (collectively the “**Plaintiffs**”) of the Special Scheme, claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB60 million, RMB130 million, RMB100 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges from the Company. The Plaintiffs claimed that the Company, as the manager of the Special Scheme, had failed to perform its responsibilities in accordance with the laws and regulations as well as the requirements under the agreements and documents in relation to the Special Scheme, and therefore shall be liable for compensation to the Plaintiffs. Since August 2018, the Company has made counterplea against the Plaintiffs at the competent courts according to the time schedule of the competent courts in succession.

The Beijing Second Intermediate People’s Court ruled and rejected the lawsuit filed by Galaxy Jinhui Securities Asset Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. On 29 December 2018, the three companies have filed an appeal to the People’s High Court of Beijing. All three companies above have withdrawn their lawsuits in 2019.

In 2018, the lawsuit against the Company filed by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd. was heard at the Finance Street People’s Court of the People’s Court of the Xicheng District in Beijing. All three companies above have withdrawn their lawsuits in 2019.

In addition, on 1 March 2019, the Company received a lawsuit brought by China Resources SZITIC Trust Co., Ltd. (華潤深國投信託有限公司), another holder of the Special Scheme, claiming for the repayment of the outstanding principals of RMB30.0 million and the interest payable and relevant charges from the Company. The Company has filed a jurisdictional objection to the People's Court of Futian District of Shenzhen. The People's Court of Futian District of Shenzhen has ruled that the case will be transferred to the People's Court of Xicheng District, Beijing for handling. On 31 May 2019, China Resources SZITIC Trust Co., Ltd. has filed an appeal to the Intermediate People's Court of Shenzhen. On 25 July 2019, the Intermediate People's Court of Shenzhen ruled that the case was under the jurisdiction of the People's Court of Futian District of Shenzhen. On 12 October 2019, the People's Court of Futian District of Shenzhen ruled and rejected the lawsuit filed by the plaintiff.

During the year ended 31 December 2020, Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. have respectively filed their appeals to the Beijing Second Intermediate People's Court claiming for the repayment of the outstanding principals (i.e. RMB60 million, RMB130 million and RMB100 million, respectively), and the interest payable and relevant charges from the Company. On 7 May 2020 and 1 December 2020, the above three cases were heard at the Beijing Second Intermediate People's Court, respectively. As at 31 December 2020, no judgement has been made for the cases.

On 7 May 2020, the Company received the civil claims brought by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd., in which the above three companies refiled lawsuits to the People's Court of Xicheng District, Beijing against the Company, claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB40 million and RMB35 million, respectively), and the interest payable and relevant charges by the Company. On 18 December 2020, the above three cases were heard at the People's Court of Xicheng District, Beijing in the first instance. No judgement has been made in these cases.

On 26 February 2021, the Beijing Second Intermediate People's Court ruled the Company to compensate Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. the outstanding principals (i.e. RMB60 million, RMB130 million and RMB100 million, respectively) and the interest payable (i.e. RMB1.32 million, RMB2.87 million and RMB2.2 million, respectively) and rejected the other appeals requested by the above three companies. Subsequently, the Company has filed an appeal to the Beijing High People's Court.

The Company, based on the opinion of the legal advisors, considers it is probable that the above cases will be in its favour and has therefore not recognised a provision in relation to these lawsuits.

(b) Lawsuits with regard to the asset custody business in which the Company was involved as the second respondent

Beijing Han Fu Rongxin Asset Management Partnership (Limited Partnership) (北京漢富融信資產管理合夥企業(有限合夥)), as the manager, set up the fund product Zhaoyang Zengli No. 8 private investment fund (the “**No. 8 Private Investment Fund**”) on 28 June 2017, the fund product Zhaoyang Zengli No. 10 private investment fund (the “**No. 10 Private Investment Fund**”) on 24 October 2017 and the fund product Zhaoyang Zengli No. 11 private investment fund (the “**No. 11 Private Investment Fund**”) on 5 December 2017. The Company was the custodian of the No. 8 Private Investment Fund, No. 10 Private Investment Fund and No. 11 Private Investment Fund. As the investment targets of the abovementioned three funds failed to achieve full realisation, the three funds failed to be fully settled on time upon expiry.

On 27 May 2019, Beijing Arbitration Commission issued a notice to the Company on its acceptance of the application in relation to three arbitration cases filed by Mr. Liu Chaoyang, an investor of the No. 8 Private Investment Fund, No. 10 Private Investment Fund and No. 11 Private Investment Fund, claiming joint repayment investment principal of RMB50 million and relevant income by Beijing Han Fu Rongxin Asset Management Partnership (Limited Partnership), as the first respondent, and the Company, as the second respondent. On 28 August 2019, Beijing Arbitration Commission opened a court session for the three arbitration cases mentioned above on. On 10 November 2020, Beijing Arbitration Commission ruled and rejected the lawsuit filed by Mr. Liu Chaoyang.

MANAGEMENT DISCUSSION AND ANALYSIS

I. ECONOMIC AND MARKET ENVIRONMENT DURING THE REPORTING PERIOD

During the Reporting Period, the COVID-19 pandemic broke out unexpectedly and hit the whole world. COVID-19 pandemic outbreak became an important factor affecting the macroeconomic and asset price performance both in the PRC and around the world. In 2020, despite the impact of the COVID-19 pandemic, China has achieved positive growth by integrating the policy of growth stabilization in the short term and the measures to accelerate structural reform and opening up, which attracted worldwide attention. Throughout 2020, in the face of the severe and complex environment both at home and abroad, especially the severe impact of the COVID-19 pandemic, all regions and government departments across the country, under the strong leadership of the Communist Party of China Central Committee with Comrade Xi Jinping as the core, adhered to the general work principle of seeking progress while maintaining stability, and coordinated pandemic prevention and control and economic and social development, which led to the steady recovery of economy and ensured the level of employment and people's livelihood. As a result, the main objectives and tasks for economic and social development have been completed in a better way than expected. China's annual GDP was RMB101,598.6 billion, representing a year-on-year increase of 2.30% calculated at comparable prices. By quarters, the first quarter, the second quarter, the third quarter and the fourth quarter recorded a decrease of 6.80%, an increase of 3.20%, an increase of 4.90% and an increase of 6.50%, respectively. By industries, the added values of the primary industry, the secondary industry and the tertiary industry were RMB7,775.4 billion, RMB38,425.5 billion and RMB55,397.7 billion, respectively, representing increases of 3.00%, 2.60% and 2.10%, respectively. In response to the impact of the pandemic, central banks such as the Federal Reserve System and the European Central Bank have turned to extremely loose monetary policies. Under such circumstances, the People's Bank of China has flexibly grasped the intensity, pace and focus of monetary policy control, and created a stable and suitable monetary and financial environment for key works such as pandemic prevention and control. In 2020, the broad money and the narrow money recorded year-on-year increases of 10.10% and 8.60%, respectively, and the balance of social financing increased by 13.30% year-on-year.

During the Reporting Period, the major indexes in the stock market rose, and the trading volume in the market increased significantly as compared with 2019. In 2020, the Shanghai Stock Exchange Composite Index opened at 3,066.34 points, once fell to the lowest 2,646.80 points, and closed at 3,473.07 points at the end of the year, representing a yearly increase of 13.87%; the Shenzhen Stock Exchange Component Index opened at 10,509.12 points at the beginning of the year, once fell to the lowest 9,578.87 points, and closed at 14,470.68 points at the end of the year, representing a yearly increase of 38.73%; the Growth Enterprise Index

opened at 1,811.22 points at the beginning of the year, once fell to the lowest 1,769.16 points, and closed at 2,966.26 points at the end of the year, representing a yearly increase of 64.96%. During the Reporting Period, the total trading volumes of stocks and funds on the Shanghai Stock Exchange and the Shenzhen Stock Exchange amounted to RMB83.99 trillion and RMB122.84 trillion, respectively, and the trading volume of stocks and funds on both stock exchanges totaled RMB206.83 trillion, representing a year-on-year increase of 62.34%. (Sources: websites of National Bureau of Statistics, The People's Bank of China, the Shanghai Stock Exchange and the Shenzhen Stock Exchange and Wind Info)

II. ANALYSIS OF PRINCIPAL BUSINESS

The impact of the COVID-19 pandemic on the Group's businesses

At the time of the outbreak of the COVID-19 pandemic in early 2020, the Group adopted online office model, and gradually resumed normal on-site office work since April 2020. During the COVID-19 pandemic, benefited from the pre-position of online business of the brokerage business, the new investment accounts and the transaction size of the brokerage business recorded year-on-year increases in the first quarter of 2020. Meanwhile, the Company provided online services such as real-time inquiry and mobile trading services, off-site business guidance, human expert investment advisers and intelligent investment advisers in order to ensure the quality of service to the customers. In the future, the Company will continue to promote the transformation of wealth management. On the basis of enhancing the connectivity between financial technology and businesses, the Company will start from the customers' demand to further enhance the resources allocation capability and the online businesses service ability. In respect of the proprietary businesses, the impact is mainly reflected in the fluctuation of equity investment results. Affected by the uncontrollable factor of the COVID-19 pandemic, the results of operation of enterprises were negatively affective due to the disruption to normal production and operation, the risk appetite in equity markets was diminished and the investors' risk aversion was increased. The fluctuation of market sentiment dragged down the short-term trend of the stock market, and made certain impact on the Company's proprietary businesses income in the first half of 2020. In order to reduce the impact of fluctuation in proprietary businesses positions on investment results, the proprietary businesses took measures to reduce the fluctuation of investment portfolio to a certain extent and reduce the investment risks. As the capital market gradually overcome the bear market sentiment caused by the pandemic, the effect of government adjustment become the main factor that affect the market tendency. In respect of the investment banking businesses, the COVID-19 pandemic affected the normal promotion of the investment banking projects, thus the early-period coordination, on-site due diligence inspection, the investor roadshow inquiry and other aspects were seriously affected. Under the premise of abiding by the pandemic prevention and control policies, the investment banking businesses took various means, and relied on the online office to conduct work to ensure the project quality was not affected.

Due to the impact of the COVID-19 pandemic, offsite trainings and meetings were suspended and the business and administrative expenses of the Company decreased by RMB14 million in 2020 as compared to the previous year. In terms of liquidity, in the context of the COVID-19 pandemic, the liquidity of the Company suffered insignificant affect since a series of policies were implemented in the PRC to sustain the stability of liquidity in financial market and banking system. In 2020, the Company issued corporate bonds, subordinated bonds, beneficiary certificates and made borrowings from China Securities Finance Corporation Limited to raise funds, and ensure the security of its liquidity and maintain sufficient working capital. In the future, the Company will continue to enhance the efficiency of the overall capital allocation, and continue to explore new types and models of financing, broaden financing channels, so as to meet its capital requirements during the business development, arrange the scale and structure of liabilities in a scientific manner, and properly manage liabilities and liquidity.

During the Reporting Period, the Group recorded revenue and other income of RMB3,680.84 million and a net profit of RMB482.35 million, representing a decrease of 4.32% and 36.77% as compared with 2019, respectively.

(I) Brokerage and Wealth Management Business

During the Reporting Period, the revenue and other income from brokerage and wealth management business amounted to RMB1,760.22 million, representing an increase of 23.73% as compared with 2019.

1. Securities brokerage

During the Reporting Period, the Company adhered to the customer-centric values, continuously improved its ability to serve its customers online, strengthened the construction of trading service platforms, and newly developed the “Fund Master” and “Hengtai 9:30” APPs on the basis of the original service platform. It relied on the advantages of the digital platform and the whole business chain system to deeply explore the customer demands. The Company used third-party platforms and its own platforms to promote online investment and consultation service and provide diversified investment and consultation service, continued to improve the investment and consultation business system with asset allocation as the core, so as to achieve accurate identification and service matching of differentiated customer demands, and effectively promote the joint improvement of the quality of investment and consultation services and the work efficiency.

During the Reporting Period, the number of new accounts opened reached 312,900 and the total number of clients reached 2,663,100, representing an increase of 12.38% as compared with the end of 2019. The total assets under custody for clients reached RMB136,773.13 million, representing an increase of 16.25% as compared with the end of 2019. The turnover of stocks and funds reached RMB2,014,394.15 million, representing an increase of 25.57% as compared with 2019, while the market share of stocks and funds was 0.46%, representing a decrease of 22.03% as compared with that in 2019.

Prospects for 2021

As for the securities brokerage business, the Company will promote business development with an intelligent, digital, precise and professional online and offline collaborative model, and increase investment in customer solicitation. At the same time, the Company will increase investment in innovative businesses such as share option, return swap, repurchase business and brokerage settlement to enrich the types of brokerage business. The Company will also continue to strengthen cooperation with private equity institutions in the market to expand the scale of company institutions and quantified business. The Company will continue to advance the development of information system to strengthen the efforts of technology empowering, build a hierarchical investment and consultation service system, cultivate professional talents and teams, optimize the performance incentive system, and improve the scale and market share of brokerage business.

2. Futures brokerage

During the Reporting Period, guided by the principles of “institution-orientation, production development and professional operation” in business transformation, Hengtai Futures adhered to the development strategy of serving financial institutions and industrial institutions, focused on transformation of institutional business development; continued to strengthen the construction of Internet online service platforms, promote the integration of platform resources, and vigorously transfer retail channel business to online business; strengthened the construction of core server rooms and systems, and achieved 10 Gigabit network capacity; effectively integrated the business resources of multiple parties, and significantly improved the efficiency of business undertaking and management. During the Reporting Period, the number of newly added clients of Hengtai Futures was 6,045.

Prospects for 2021

On the basis of focusing on transformation of financial institution development, the online transformation of retail channel business and actively exploring and trying new service business models for industrial institutions, Hengtai Futures will build a professional market team, accelerate the reserve of institutional customers and the implementation of new projects, and continuously improve operational efficiency, and enhance the key indicators such as equity scale, market share and revenue.

3. Wealth management

During the Reporting Period, the Company focused on the transformation of the wealth management business, adjusted the organizational structure of the brokerage business line, established a long-term development mechanism, and emphasized on deepening the professional functions of the three core service departments which are the new retail business headquarters, the private wealth headquarters and the institutional business headquarters, and the technology function of the empowering department of Fintech Research Institute, striving to provide customers with the most convenient, comprehensive, objective and premium wealth management services based on the needs of customers at different levels. During the Reporting Period, the Company sold 262 financial products in total and recorded sales of RMB11,061 million. As at the end of the Reporting Period, the existing size of its financial products is RMB11,597 million.

Prospects for 2021

The Company will continue to promote the development of wealth management to the buyers' investment and consultation model, with customers as the center and customer interests as the starting point. Through the development of the brand product system that fully reflects the professional research services of the Company such as public offering customized securities clearing business theme products, customized star-selected quality manager products, popular star-selected FOF products, the Company will consistently provide customers with multi-dimensional and one-stop wealth management services and continue to expand its brand influence.

4. Capital-based intermediary

During the Reporting Period, with the improvement of trading volume in the stock market, the size of the margin financing and securities lending business of the Company increased. Meanwhile, in order to control margin financing and securities lending business risks, the Company adjusted the credit lines and set more rigorous concentration management indicators to enhance the routine management of customers with larger financing size. As at the end of the Reporting Period, the balance of the margin financing and securities lending business amounted to RMB5,114.43 million, representing an increase of 28.17% as compared with the end of 2019; the balance of stock-pledged repurchase amounted to RMB559.01 million, remaining flat as compared with the end of 2019.

Prospects for 2021

The Company will be committed to providing customers with professional investment and financing services by means of financial technology, offering comprehensive solutions for financing and securities lending to customers through a sound and intensive credit business operation system, so as to bring wealth appreciation for them. The Company will introduce high-end talents in the market, improve the collateral screening and valuation system, strengthen credit business risk management and control while steadily advancing business development, and adopt practical risk control measures to ensure the sound, rapid and healthy development of the business.

5. Asset custody

During the Reporting Period, the Company effectively performed relevant duties, increased investment in system construction, and actively developed securities fund custody, resulting in a steady increase in the scale of securities fund custody. Due to the transformation of business direction, the overall scale of asset custody business declined slightly. As at the end of the Reporting Period, the Company provided custody services for 1,118 funds, fund services for 301 funds and fund raising supervision services for 441 funds. The total size of asset custody, fund services and fund raising supervision amounted to RMB169,537 million, representing a decrease of RMB3,180 million as compared with that by the end of 2019.

Prospects for 2021

Although the growth rate of asset custody business has slowed down, the overall structure grows healthier. The Company will continuously adhere to the efficient and professional service concept, continue to strengthen cooperation with various financial institutions and the private securities fund managers and to expand business cooperation channels, proactively select high-quality fund managers, strengthen compliance and risk management, further perfect business processes, and improve the quality of client services, so as to maintain healthy business development.

(II) Investment Banking Business

During the Reporting Period, the revenue and other income from investment banking business amounted to RMB345.74 million, representing a decrease of 1.50% as compared with 2019.

1. Equity financing

During the Reporting Period, the deepening reform of the capital markets in China continued to move forward for the purposes of fully implementing the registration system, strengthening information disclosure and the responsibilities of intermediary agencies. Against this backdrop, Hengtai Changcai proactively seized policy opportunities, implemented project quality control and risk management, steadily promoted the development of equity financing business, strengthened project reserves to ensure strong business development in future.

2. Debt financing

During the Reporting Period, the bond market showed a deep V trend due to the impact of COVID-19 pandemic overlapping with the changes of the fiscal and monetary policies. Hengtai Changcai clearly defined its development direction, seized the market opportunities, managed to eliminate the adverse effects caused by COVID-19 pandemic, and fully promoted the expansion of bond business. It completed 4 enterprise bond projects and 28 corporate bond projects, with a financing scale of RMB19,379 million. Meanwhile, Hengtai Changcai actively expanded its business by making use of selected experience. The scale of corporate bond project reserves grew steadily, laying a good foundation for future development.

Prospects for 2021

Hengtai Changcai will continue to deepen the reform of investment banking business, and its equity financing business will closely follow the market opportunities such as the development of the SSE STAR Market and the reform of the Shenzhen Stock Exchange ChiNext Market and the NEEQ, accelerate its business transformation and development to better serve the real economy. The scale of the debt financing business will be further expanded, continuing to build the bond business brand, and optimizing the regional layout, so as to establish effective presence in the Yangtze River Delta, Beijing-Tianjin-Hebei Urban Agglomeration and other regions on the basis of deepening the business development in the core areas. It will proactively expand more business models in the investment banking business, broaden business channels, reserve professional talents, and deepen project management. While expanding the business, it will also continue to strengthen compliance and risk control and management, and impose stricter requirements on subsequent project undertaking to ensure that the projects undertaken are more standardized to further enhance the brand image.

3. NEEQ recommendation business

During the Reporting Period, the business environment for small and medium-sized enterprises was relatively tough due to the ongoing impact of COVID-19 pandemic, and the development and promotion of various businesses on the NEEQ were affected to some extent. Under the unfavorable market environment, as for the NEEQ business, relying on its stable support policy and sound management system, the Company concentrated its manpower to focus on the development of high-quality listing and targeted capital increase and restructuring projects, optimized continuous steering projects, and put more emphasis on the quality improvement of business and personnel, the improvement of internal control mechanism and the screening of risk projects, and maintained a good competitive position in the market for each business. During the Reporting Period, the Company completed 8 listing projects, 15 targeted capital increase projects, and 3 merger and reorganization projects. It provided continuous steering services for 132 listed companies.

Prospects for 2021

At the end of 2020, the Company's NEEQ business department was entirely transferred to its subsidiary, Hengtai Changcai. The NEEQ business and Hengtai Changcai's original investment banking business will be more interconnected in terms of resources and business linkages to achieve complementary advantages. Meanwhile, the business collaboration between the NEEQ business and other departments will continue to advance and deepen, with a view to have a positive impact on the market development and expansion of the NEEQ business. In terms of the NEEQ business, it will continue to increase efforts on the incubation and public offering of selective layer enterprises, continuously improve the quality of personnel, promote the development of various businesses, and continue to provide more comprehensive and high-quality services to small and medium-sized enterprises in a sound manner.

(III) Investment Management Business

During the Reporting Period, the revenue and other income from investment management business amounted to RMB724.31 million, representing decrease of 23.60% as compared with 2019.

1. Assets management

During the Reporting Period, the investment management business continued to implement the requirement of the Guideline on Regulating Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (the “**New Regulation on Asset Management**”), decreased the scale of non-active management products, and strictly control the other existing businesses in accordance with the New Regulation on Asset Management. The overall business scale decreased as compared with the end of 2019. During the Reporting Period, the Company focused on the development of active management business, pursued the integration of investment and research to strengthen the ability on active management, refined the equity research, the positioning of fixed income of different products and targeted customers and combined with the market condition. The Company precisely created 10 new style products, including “Wenjian Hui Fu No.11 (穩健滙富11號)”, “Taize Youxuan No.1 (泰澤優選1號)”, “Wenjian Tian Fu No.5 (穩健添富5號)”, “Kechuang Fuxing No.2 (科創復興2號)” and “Ruixin No.6 FOF (睿鑫6號FOF)”. Currently, the six series of products (Wenjian Hui Fu Series (穩健滙富系列), Wenjian Tian Fu Series (穩健添富系列), Wenjian Zengyi Series (穩健增益系列), Kechuang Fuxing Series (科創復興系

列), Zhixuan Series (智選系列), Ruixuan Series (睿選系列)) under assets management business all have good performance, and enjoy a high reputation in the market. In particular, products with fixed income maintained their leading position in the market in term of performance, and the FOF products and equity investment products had modest performance in the market.

As at the end of the Reporting Period, the total size of asset management business was RMB27,779.79 million, of which the size of collective asset management schemes amounted to RMB3,228.10 million; the size of targeted asset management schemes amounted to RMB3,127.76 million; the size of the asset-backed securities special schemes amounted to RMB21,423.93 million.

As at the end of the Reporting Period, the numbers of subsisting products of the collective, targeted asset management schemes and the asset-backed securities special schemes were 43, 15 and 13, respectively.

Prospects for 2021

In respect of the assets management business, the Company will prioritize the fixed income investment business, spare no efforts to expand its FOF business, forge unique equity investment business, so as to provide customers with diversified products and provide major support for the Company's wealth management business. It will promote the construction of investment research system, deepen the integration of investment and research, speed up the application of investment research, and establish its brand image. Meanwhile, the Company will proactively expand third-party channels such as banks, the Internet and so on to increase business coverage with the expansion of channels; and re-establish institutional sales team to secure institutional clients with professional and comprehensive services, thus achieving the continuous increase of business scale. In addition to expanding the development of its business, the Company will further meliorate the business systems, enhance the compliance awareness of all staff and optimize the internal control system, so as to guarantee the healthy and orderly development of its businesses.

2. Fund management

During the Reporting Period, New China Fund kept enhancing its investment research capacity, strengthening its compliance management, leveling up risk control standard and strengthening the management of its middle and back offices, to promote business development. The performance of its equity funds and fixed income funds both achieved relatively outstanding results. The overall yield of equity funds ranked among the top 1/3 in the industry, and that of fixed income funds ranked in the top 1/10 in the industry. During the Reporting Period, benefiting from the structural trends in the A share market and good investment performance, the management size of publicly-raised funds of New China Fund increased significantly; risk treatment for special accounts proceeded orderly, with the management size decreasing.

As at the end of the Reporting Period, New China Fund had 50 publicly-raised funds with management size of RMB54,205 million, representing a year-on-year increase of RMB30,749 million or 131.09%. The size of asset management with special accounts reached RMB17,721 million, representing a year-on-year decrease of RMB22,834 million or 56.30%.

Prospects for 2021

New China Fund will continue to enhance its corporate brand, revitalise its corporate culture; deepen the reform for integration of equity funds investment and research; improve the investment research system for fixed-income products, reinforce the support for the research of the fix-income products, prevent credit risks; regarding to its institutional business, it will strengthen the expansion of customer base to cover wealth management subsidiaries of banks and financial companies; regarding to its retail business, it will further expand bank channels through further issuance of new funds and continuous marketing activities; regarding to its non-banking business, it will try to realize breakthrough through securities clearing mode; regarding to its internet-based finance business, it will strengthen brand marketing through the Internet; regarding to its special accounts management business, it will strive to properly handle the risks for subsisting assets and the transformation of active management business; it will improve and enhance the service and support capability and level of middle and back offices in an all-round way.

3. Private equity investment

During the Reporting Period, as required by the relevant regulatory authorities, Hengtai Capital continued to implement and promote the rectification. The rectification of its subsidiaries was carried out in an orderly manner. In respect of business rectification, it gradually scaled down the directly invested business, and rectified the existing private equity products under the new requirements of assets management standards. As at the end of the Reporting Period, there were 10 existing directly invested projects with an investment size of RMB740.08 million; there were 8 existing private equity funds with a fund size of RMB9,666 million, 3 of which were rectified. In respect of new business expansion, Hengtai Capital and its partners established a cooperation model of “advisor + tripartite manager”.

Prospects for 2021

Hengtai Capital will strictly manage the existing business and continue to push forward the outstanding matters related to rectification in accordance with the rectification plan previously reviewed and approved by the regulatory authorities. In compliance with the new regulatory requirements, Hengtai Capital will continue to strengthen risk control and capital constraints, focus on the development of merge and acquisition funds, emerging industry funds and synergistic businesses; reasonably adjust its personnel structure, strengthen talent training, expand business scale, and improve operational efficiency to create more income for investors.

4. Alternative investment

During the Reporting Period, Hengtai Pioneer continued to focus on the post-investment management of the projects, completed its related valuation models and conducted dynamic post-investment management of the projects, and completed the exit of one equity investment project. Meanwhile, Hengtai Pioneer continued to take advantage of the equity investment positioning function and completed one equity investment project in 2020. As at the end of the Reporting Period, Hengtai Pioneer invested in 9 direct investment projects with its own funds for an investment size of RMB97 million.

Prospects for 2021

Hengtai Pioneer will put further efforts into the management of investment projects financed by self-owned capital, intensify internal control and improve team building. In respect of business investment, it will focus on the co-investment in IPOs on the SSE STAR Market innovation board and the investment in Internet financial quotient education ecosystem. Meanwhile, it will pay consistent attention to the investment in film funds, strengthen researches and analyses in the film industry and funds, and identify film funds projects in lower risk for further investment.

(IV) Proprietary Trading Business

During the Reporting Period, the revenue and other income from the proprietary trading business amounted to RMB725.02 million, representing a decrease of 30.81% as compared with 2019.

During the Reporting Period, liquidity and risk appetite were the key drivers of market sentiment. The sectors with sound performance in the first half of 2020 were concentrated in those benefitting from the pandemic environment or with higher certainties on profitability under the pandemic, as well as the growth stocks in the booming industries and benefitting from the sufficient liquidity environment in the first half of 2020, and switched to the industries with pro-cyclical and strong policy expectations in the second half of 2020. The Company strengthened the effective transformation of its research to investment returns in terms of proprietary trading business, identified the leading players in sub-industries, and fully dug into the excess profits.

In terms of stock investment business, in adherence to the principle of stable operation, with strict abidance by the red line of compliance and risk control and insistence on the philosophy of value investment, the Company selected the core products with valuation advantages and definite earnings growth as the focus of portfolio position, generated upward premium from the turnaround points in the beneficial industries, and ensured the safety of the entire portfolio assets.

In terms of fixed income business, against the backdrop of the global pandemic impact and the rapid control of the domestic pandemic, the organic growth driver of the economy was recovered and the fluctuations in the bond market increased significantly. The Company strengthened the forward-looking research and asset category allocation, made timely adjustments to its position structure, actively allocated convertible exchangeable bonds, participated in interest rate bond swing trading in a flexible manner, and meanwhile carried out arbitrage operation based on interest rate swaps and treasury bond futures.

In terms of the share transfer market-making business, the NEEQ market tended to be improving as the implementation of “smooth opening the selective layer”, “introducing the public funds” and other reform policies, however, the structural differentiation was quite apparent. The Company, temporizing with the changes in the NEEQ market, adopted certain adjustments for the position structure.

Prospects for 2021

In terms of stock investment business, on the basis of closely tracking the changes in the macro situation, the Company will flexibly adjust the investment ideas, comprehensively consider from multiple perspectives such as position control, sector allocation and hedging instruments, manage in a dynamic manner and pay more attention to the certainty of returns; centralize the key investments, expand investment categories, strengthen investment research capabilities, continuously optimize strategies and improve returns. As for fixed income business, the Company will reinforce its forward-looking research on macro-economy and policy, increase the flexibility of asset allocation for bonds, use interest rate swaps and other instruments to hedge interest on credit bonds, and meanwhile hedge duration risks by employing treasury bond futures, securities lending and other instruments in a flexible manner. In terms of the share transfer market-making business, with the deepening reform of the NEEQ, the smooth opening of the selective layer has brought more new enterprises and new opportunities to the market. The market liquidity and financing function will continue to improve, and the Company will increase input appropriately and seize the investment opportunities.

(V) International Business

During the Reporting Period, with the original intention of serving customers and the orientation of satisfying customer needs, under the key working direction of overseas alternative investment projects, introducing overseas projects and other international capital intermediary business, the Company continued to expand its global resource network, negotiated and cooperated with international assets management companies, and maintained good communication with regulatory authorities, laying a solid foundation for future business development.

Prospects for 2021

The Company will continue to advance its international business, continuously promote the implementation of existing projects, make efforts to seek for cross-border merger and acquisition advisory business, assist other business departments of the Company in the overseas work and related matters, and actively establish contacts with well-known international exchanges to gradually enhance its market influence.

III. FINANCIAL STATEMENTS ANALYSIS

(I) Analysis on the Profitability during the Reporting Period

During the Reporting Period, the Group recorded revenue and other income of RMB3,680.84 million in aggregate, representing a year-on-year decrease of 4.32%. Net profit attributable to shareholders of the Company amounted to RMB474.09 million, representing a year-on-year decrease of 35.98%. Earnings per share amounted to RMB0.16, representing a year-on-year decrease of 36.00%. Weighted average return on net assets was 4.80%, representing a year-on-year decrease of 2.89 percentage points.

(II) Asset Structure and Asset Quality

As at the end of the Reporting Period, total assets of the Group amounted to RMB33,596.03 million, up by 13.78% as compared to RMB29,526.98 million as at the end of 2019. Total liabilities amounted to RMB24,160.27 million, up by 27.50% as compared to RMB18,948.57 million as at the end of 2019. Equity attributable to shareholders of the Company amounted to RMB9,031.23 million, increased by 11.24% as compared to RMB10,174.95 million as at the end of 2019.

The Group's asset structure remained stable with sound asset quality and liquidity. As at the end of the Reporting Period, the total assets of the Group comprised of: cash assets, which primarily included cash and bank balances (including cash held on behalf of brokerage clients), clearing settlement funds and refundable deposits, amounted to RMB13,970.05 million, representing 41.58% of the Group's total assets; margin assets, which primarily included margin accounts receivable, financial asset held under resale agreements and placements with a financial institution, amounted to RMB6,315.64 million, representing 18.80% of the Group's total assets; financial investment assets, which primarily included investment in financial assets, amounted to RMB11,494.36 million, representing 34.21% of the Group's total assets; save for the above items, assets of other categories amounted to RMB1,815.98 million, representing 5.41% of the Group's total assets.

The Group's gearing ratio and operating leverage ratio remained relatively stable. As at the end of the Reporting Period, liabilities after deducting accounts payable to brokerage clients amounted to RMB12,767.37 million, representing a year-on-year increase of RMB2,890.49 million or 29.27%. The gearing ratio of the Group was 57.50%, up by 9.21 percentage points from 48.29% as at the end of 2019 (Note: gearing ratio = (total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)). Operating leverage ratio was 2.46 folds, up by 22.39% from 2.01 folds as at the end of 2019 (Note: operating leverage ratio = (total assets – accounts payable to brokerage clients)/equity attributable to shareholders of the Company).

(III) Financing Channels and Financing Ability

During the Reporting Period, the Company met its operating capital requirement through debt financing. Debt financing of the Company included margin and securities refinancing, beneficiary certificates, corporate bonds, subordinated bonds, etc. During the Reporting Period, accumulated placements from China Securities Finance Corporation Limited amounted to RMB4,100 million, and accumulated capital inflow from beneficiary certificates, the issuance of corporate bonds and the issuance of subordinated bonds amounted to RMB2,060 million, RMB1,950 million and RMB1,500 million, respectively. Meanwhile, the Company received comprehensive credit line with greater limit granted by several banks.

(IV) Liquidity Management

The Company focuses on its liquidity management. It has established a specific department responsible for liquidity management. The Company's liquidity management focused on the organic combination of the security, liquidity and profitability of capital. As requested by the CSRC, the Company established sound management system and contingency measure for liquidity risk. The Company has prepared monthly liquidity monitor statement. The liquidity monitor index of the Company in each month throughout the Reporting Period complied with the regulatory requirements.

(V) Cash Flow

Net cash flow arising from operating activities for 2020 amounted to RMB1,220.13 million, down by RMB1,088.64 million from RMB2,308.77 million in the corresponding period in 2019. Net cash flow arising from investing activities for 2020 amounted to RMB-2,076.54 million, down by RMB2,022.79 million from RMB-53.75 million in the corresponding period in 2019. Net cash flow arising from financing activities for 2020 amounted to RMB617.22 million, up by RMB4,091.13 million from RMB-3,473.91 million in the corresponding period in 2019. Net decrease in cash and cash equivalents for 2020 amounted to RMB239.19 million, up by RMB979.70 million from RMB-1,218.89 million in the corresponding period in 2019.

(VI) Changes in Significant Accounting Policies and Estimates

During the Reporting Period, there is neither material change in the significant accounting policies and estimates of the Company, nor the correction of material accounting errors.

(VII) Analysis on Operating Revenue and Profit

1. Items under statement of profit or loss

During the Reporting Period, the Group's profit before tax amounted to RMB598.54 million, representing a year-on-year decrease of 38.61%. The key financial results are as follows:

Unit: in RMB million

Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Revenue				
Fees and commission income	1,949.93	1,715.19	234.74	13.69%
Interest income	725.90	649.88	76.02	11.70%
Net investment income	913.33	757.35	155.98	20.60%
Other Income and Gains	91.68	724.68	(633.00)	(87.35%)
Total revenue and other income	3,680.84	3,847.10	(166.26)	(4.32%)
Total operating expenses	(3,082.30)	(2,874.82)	207.48	7.22%
Profit before taxation	598.54	974.95	(376.41)	(38.61%)
Income tax expense	(116.19)	(212.10)	(95.91)	(45.22%)
Profit/(loss) for the year	482.35	762.85	(280.50)	(36.77%)
Net profit attributable to shareholders of the Company	474.09	740.54	(266.45)	(35.98%)

Revenue structure

During the Reporting Period, total revenue and other income of the Group amounted to RMB3,680.84 million, representing a year-on-year decrease of 4.32%. Among which, the proportion of fees and commission income was 52.98%, representing a year-on-year increase of 8.40 percentage points. The proportion of interest income was 19.72%, representing a year-on-year increase of 2.83 percentage points. The proportion of net investment gains was 24.81%, representing a year-on-year increase of 5.12 percentage points. The revenue structures of the Group in the past five years are as follow:

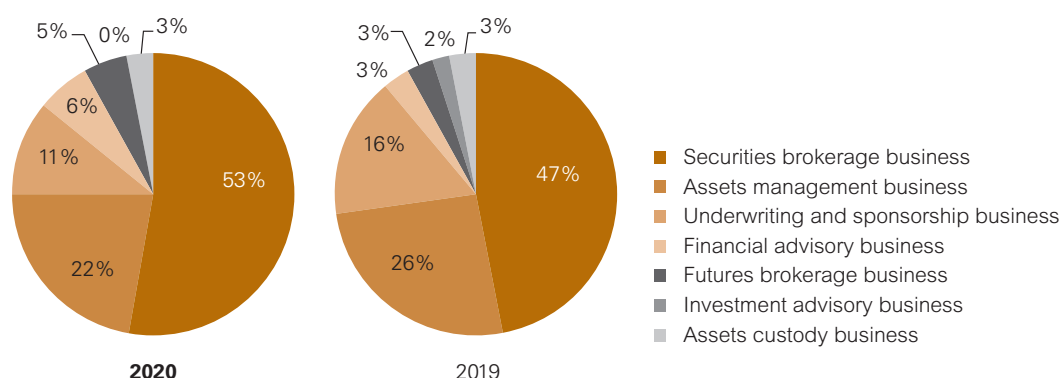
Unit: in RMB million

Items	2020	2019	2018	2017	2016
Fees and commission income	52.98%	44.58%	70.28%	45.94%	64.42%
Interest income	19.72%	16.89%	37.63%	20.37%	23.14%
Net investment income/(loss)	24.81%	19.69%	(8.59%)	31.02%	11.88%
Other income and gains	2.49%	18.84%	0.68%	2.67%	0.56%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Fees and commission income

During the Reporting Period, the Group's fees and commission income consists of the following:

<i>Unit: in RMB million</i>				
Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Fees and commission income				
Securities brokerage business	1,040.89	802.98	237.91	29.63%
Assets management business	420.84	441.31	(20.47)	(4.64%)
Underwriting and sponsorship business	223.78	290.74	(66.96)	(23.03%)
Financial advisory business	107.64	45.73	61.91	135.38%
Futures brokerage business	97.48	47.85	49.63	103.72%
Investment advisory business	8.29	37.93	(29.64)	(78.14%)
Asset custody business	51.01	48.65	2.36	4.85%
Total fees and commission income	1,949.93	1,715.19	234.74	13.69%
Fees and commission expenses	222.81	177.68	45.13	25.40%
Net fees and commission income	1,727.12	1,537.51	189.61	12.33%



The Group's fees and commission income consists of:

During the Reporting Period, net fees and commission income of the Group amounted to RMB1,727.12 million, representing a year-on-year increase of 12.33%, primarily attributable to the increase in fees and commission generated from securities brokerage business, financial advisory business and futures brokerage business.

Fees and commission income generated from securities brokerage business increased by RMB237.91 million or 29.63% year-on-year, primarily attributable to the increase in customer reserves as a result of the improvement in its customer service capabilities, resulting in the increase in fees and commission income generated from securities brokerage business during 2020.

Fees income generated from assets management business decreased by RMB20.47 million, or 4.64% year-on-year, primarily due to decrease in income generated from assets management business and fund management business.

Income generated from financial advisory business increased by RMB61.91 million or 135.38% year-on-year, primarily attributable to a substantial increase in income as Hengtai Changcai seized market opportunities to fully expand business.

Income generated from futures brokerage business increased by RMB49.63 million or 103.72% year-on-year, mainly due to Hengtai Futures' improvement in business undertaking capacities and its active development of institutional business, recording an increase in the income generated from such business as compared with last year.

Interest income

During the Reporting Period, net interest income of the Group amounted to RMB276.67 million, representing a year-on-year increase of 52.07%. The Group's net interest income for 2020 consists of the following:

<i>Unit: in RMB million</i>				
Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Interest income				
Deposits in financial institutions	300.85	286.91	13.94	4.86%
Margin financing and securities lending	345.19	305.97	39.22	12.82%
Financial assets held under resale agreements	35.10	57.00	(21.90)	(38.42%)
Financial assets at fair value through other comprehensive income	39.93	0.00	39.93	N/A
Debt investments measured at amortised cost	2.52	0.00	2.52	N/A
Placements with a financial institution	2.31	0.00	2.31	N/A
Total interest income	725.90	649.88	76.02	11.70%
Interest expense	449.23	467.94	(18.71)	(4.00%)
Net interest income	276.67	181.94	94.73	52.07%

Interest income from deposits in financial institutions increased by RMB13.94 million or 4.86% year-on-year, primarily due to the daily average increase in client deposits as compared with that of last year.

Interest income from financial assets held under resale agreements decreased by RMB21.90 million or 38.42% year-on-year, primarily due to the decrease in interest income from equity-pledged repurchase business of the Company.

Interest income from margin financing and securities lending increased by RMB39.22 million or 12.82% year-on-year, primarily due to the monthly average increase in size of margin financing business.

Interest expenses decreased by RMB18.71 million or 4.00% year-on-year, primarily due to the decrease in the interest expenses from debt instruments.

Net investment income

During the Reporting Period, net investment income of the Group amounted to RMB913.33 million, representing a year-on-year increase of 20.60%. The Group's net investment income for 2020 consists of the following:

<i>Unit: in RMB million</i>				
Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Net investment income				
Net losses on disposal of financial assets at fair value through other comprehensive income	0.00	(0.09)	0.09	100.00%
Dividends and interests income from financial instruments and derivative financial instruments at fair value through profit or loss	263.31	348.93	(85.62)	(24.54%)

Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Net realised gains from disposal of financial instruments at FVTPL and derivative financial instruments	637.79	402.24	235.55	58.56%
Gain on disposal of an associate	12.23	6.54	5.69	87.00%
Loss on disposal of a subsidiary	0.00	(0.27)	0.27	100.00%
Total	<u>913.33</u>	<u>757.35</u>	<u>155.98</u>	<u>20.60%</u>

Operating expenses

During the Reporting Period, operating expenses of the Group (excluding fees and commission expenses and interest expenses) amounted to RMB2,207.28 million, representing a year-on-year decrease of 0.91%. The Group's operating expenses primarily consist of the following:

Unit: in RMB million

Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Staff costs	1,196.40	1,090.72	105.68	9.69%
Depreciation and amortisations expenses	193.22	170.94	22.28	13.03%
Other operating expenses and tax and surcharges	632.50	626.73	5.77	0.92%
Impairment losses	185.16	339.20	(154.04)	(45.41%)
Total	<u>2,207.28</u>	<u>2,227.59</u>	<u>(20.31)</u>	<u>(0.91%)</u>

Staff costs increased by RMB105.68 million or 9.69% year-on-year, primarily attributable to the recovery of the market, the business development of the Company and the increase in business performance.

Depreciation and amortisation increased by RMB22.28 million or 13.03% year-on-year, primarily attributable to the increase in the depreciation or amortisation for the properties and equipment, right-of-use assets and intangible assets.

Other operating expenses and tax and surcharges increased by RMB5.77 million or 0.92% year-on-year, primarily attributable to the increase of certain expenses.

Impairment losses

Impairment losses on assets amounted to RMB185.16 million, representing a year-on-year decrease of RMB154.04 million. Details are as follows:

<i>Unit: in RMB million</i>				
Items	2020	2019	Increase/ (decrease) from last period	Increase/ (decrease) from last period (%)
Impairment losses				
Margin financing and securities lending	6.74	10.15	(3.41)	(33.60%)
Financial assets at fair value through other comprehensive income	2.74	0.00	2.74	N/A
Financial assets held under resale agreements	116.00	147.18	(31.18)	(21.18%)
Debt investments measured at amortised cost	0.95	0.00	0.95	N/A
Other current assets	58.73	181.87	(123.14)	(67.71%)
Total	185.16	339.20	(154.04)	(45.41%)

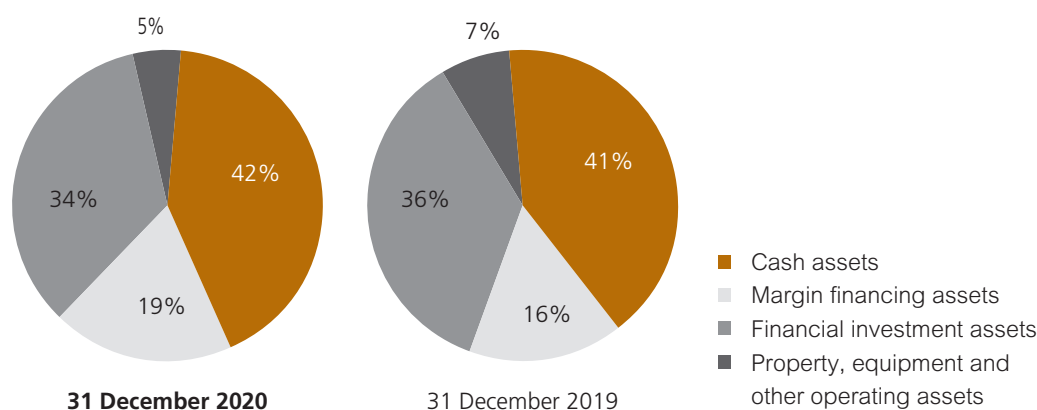
Impairment losses on assets primarily included provision for impairment losses on margin financing and securities lending, financial assets held under resale agreements, financial assets of fair value through other comprehensive income, debt investments measured at amortised cost and other current assets. Among which, impairment losses on margin financing and securities lending during the Reporting Period were RMB6.74 million; impairment losses on financial assets held under resale agreements during the Reporting Period were RMB116.00 million and impairment losses on other current assets during the Reporting Period were RMB58.73 million.

2. Assets

As at the end of the Reporting Period, total assets of the Group amounted to RMB33,596.03 million, representing a year-on-year increase of 13.78%, of which, cash assets amounted to RMB13,970.05 million, representing a year-on-year increase of 14.67%; margin financing assets amounted to RMB6,315.64 million, representing a year-on-year increase of 33.52%; financial investment assets amounted to RMB11,494.36 million, representing a year-on-year increase of 7.04%; and property, equipment and other operating assets amounted to RMB1,815.98 million, representing a year-on-year decrease of 3.20%. Changes in the total major assets of the Group are as follows:

<i>Unit: in RMB million</i>				
Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Total assets				
Cash assets	13,970.05	12,182.36	1,787.69	14.67%
Margin financing assets	6,315.64	4,730.13	1,585.51	33.52%
Financial investment assets	11,494.36	10,738.53	755.83	7.04%
Property, equipment and other operating assets	1,815.98	1,875.96	(59.98)	(3.20%)
Total	33,596.03	29,526.98	4,069.05	13.78%

Total assets of the Group consist of:



Cash assets

As at the end of the Reporting Period, cash assets of the Group increased by RMB1,787.69 million or 14.67% year-on-year, representing 41.58% of the Group's total assets. The Group's cash assets consist of the following:

Unit: in RMB million

Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Cash assets				
Cash and bank balances (including cash held on behalf of brokerage clients)	12,649.49	10,933.48	1,716.01	15.70%
Clearing settlement funds	671.84	800.82	(128.98)	(16.11%)
Refundable deposits	648.72	448.06	200.66	44.78%
Total	13,970.05	12,182.36	1,787.69	14.67%

Changes in cash assets primarily reflected in cash and bank balances (including cash held on behalf of brokerage clients), which increased by RMB1,716.01 million or 15.70%, mainly due to the increase in client deposits as a result of the active exchanging activities of the customers this year.

Margin financing assets

As at the end of the Reporting Period, margin financing assets of the Group increased by RMB1,585.51 million or 33.52% year-on-year, representing 18.80% of the Group's total assets. The Group's margin financing assets consist of the followings:

Unit: in RMB million

Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Margin financing assets				
Margin account receivables	5,086.79	3,969.33	1,117.46	28.15%
Financial assets held under resale agreements:	1,003.85	760.80	243.05	31.95%
Placements with a financial institution	225.00	0.00	225.00	N/A
Total	6,315.64	4,730.13	1,585.51	33.52%

Margin account receivables amounted to RMB5,086.79 million, representing a year-on-year increase of 28.15%, primarily attributable to the increase in the size of the Company's margin financing business.

Financial investment assets

As at the end of Reporting Period, financial investment assets of the Group increased by RMB755.83 million or 7.04% year-on-year, representing 34.21% of the Group's total assets. The following table sets forth the composition of the Group's financial investment assets:

Unit: in RMB million

Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Financial investment assets				
Assets classified as held for sale	0.00	11.77	(11.77)	(100.00%)
Debt investment at amortised cost	199.06	0.00	199.06	N/A
Financial assets at fair value through other comprehensive income	1,523.82	0.00	1,523.82	N/A
Financial assets measured at fair value through profit or loss	9,771.48	10,726.76	(955.28)	(8.91%)
Total	<u>11,494.36</u>	<u>10,738.53</u>	<u>755.83</u>	<u>7.04%</u>

Financial assets at fair value through profit or loss

As at the end of the Reporting Period, the financial assets at fair value through profit or loss of the Group decreased by RMB955.28 million or 8.91% year-on-year, representing 29.09% of the Group's total assets. The Group's financial assets at fair value through profit or loss consist of the following:

<i>Unit: in RMB million</i>				
Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Financial assets at fair value through profit or loss				
Debt securities	5,035.76	5,728.93	(693.17)	(12.10%)
Equity securities	2,603.00	3,106.26	(503.26)	(16.20%)
Investment funds	1,795.67	1,530.23	265.44	17.35%
Assets management schemes	144.72	361.34	(216.62)	(59.95%)
Collective trust schemes	192.33	0.00	192.33	N/A
Total	<u>9,771.48</u>	<u>10,726.76</u>	<u>(955.28)</u>	<u>(8.91%)</u>

Property, equipment and other operating assets

As at the end of the Reporting Period, property, equipment and other operating assets of the Group amounted to RMB1,815.98 million, decreasing by RMB59.98 million or 3.20% year-on-year, representing 5.41% of the Group's total assets. The following table sets forth the composition of the Group's property, equipment and other operating assets for the dates indicated:

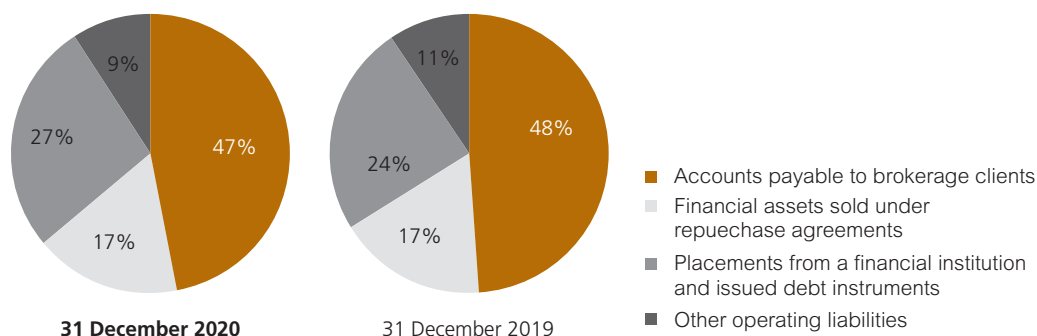
<i>Unit: in RMB million</i>				
Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Property, equipment and other operating assets				
Property and equipment, investment properties and right-of-use assets	560.36	734.68	(174.32)	(23.73%)
Goodwill	43.74	43.74	0.00	0.00%
Intangible assets	147.91	129.70	18.21	14.04%
Deferred tax assets	267.37	205.29	62.08	30.24%
Other current assets and other non- current assets	796.60	762.55	34.05	4.47%
Total	1,815.98	1,875.96	(59.98)	(3.20%)

3. Liabilities

As at the end of the Reporting Period, total liabilities of the Group amounted to RMB24,160.27 million, representing a year-on-year increase of RMB5,211.70 million or 27.50%. As at the end of the Reporting Period, accounts payable to brokerage clients amounted to RMB11,392.90 million, representing a year-on-year increase of 25.59%. Financial assets sold under repurchase agreements amounted to RMB4,130.45 million, up by 29.52% year-on-year. The increase was primarily attributable to the increase in the size of pledged repurchase. Placements from a financial institution and debt instruments issued amounted to RMB6,547.70 million, up by 42.03% year-on-year. Major changes in the Group's total liabilities are as follows:

<i>Unit: in RMB million</i>				
Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Liabilities				
Accounts payable to brokerage clients	11,392.90	9,071.69	2,321.21	25.59%
Financial assets sold under repurchase agreements	4,130.45	3,189.09	941.36	29.52%
Placements from a financial institution and issued debt instruments	6,547.70	4,609.99	1,937.71	42.03%
Other operating liabilities	2,089.22	2,077.80	11.42	0.55%
Total	24,160.27	18,948.57	5,211.70	27.50%

The Group's total liabilities consist of:



Placements from a financial institution and debt instruments

Unit: in RMB million

Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Placements from a financial institution and issued debt instruments				
Placements from a financial institution	1,000.00	1,500.00	(500.00)	(33.33%)
Debt instruments	5,547.70	3,109.99	2,437.71	78.38%
Total	<u>6,547.70</u>	<u>4,609.99</u>	<u>1,937.71</u>	<u>42.03%</u>

Placements from a financial institution amounted to RMB1,000 million, representing a decrease of 33.33% year-on-year, primarily attributable to the decrease in the borrowing from China Securities Finance Corporation Limited.

Debt instruments increased by RMB2,437.71 million year-on-year, primarily attributable to the issuance of bonds and beneficiary certificates for the period.

Other operating liabilities

Unit: in RMB million

Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Other operating liabilities				
Employee benefits payables	622.66	466.91	155.75	33.36%
Contract liabilities	12.11	34.32	(22.21)	(64.71%)
Lease liabilities	145.64	154.82	(9.18)	(5.93%)
Other liabilities	1,247.17	1,289.68	(42.51)	(3.30%)
Deferred tax liabilities	61.64	132.07	(70.43)	(53.33%)
Total	<u>2,089.22</u>	<u>2,077.80</u>	<u>11.42</u>	<u>0.55%</u>

Employee benefits payables increased by RMB155.75 million or 33.36% year-on-year, primarily attributable to the development of the Group's businesses.

Other liabilities decreased by RMB42.51 million, representing a year-on-year decrease of 3.30%, primarily attributable to the decrease in third-party equity interests in consolidated asset management schemes.

4. Equity

As at the end of the Reporting Period, total equity of the Group amounted to RMB9,435.76 million, down by 10.08% year-on-year, primarily attributable to the maturity of the perpetual bond. The following table sets forth the composition of the Group's equity for the dates indicated:

Unit: in RMB million

Items	31 December 2020	31 December 2019	Increase/ (decrease) from the end of last period	Increase/ (decrease) from the end of last period (%)
Share capital	2,604.57	2,604.57	0.00	0.00%
Share premium	1,665.24	1,665.24	0.00	0.00%
Perpetual capital securities	0.00	1,500.00	(1,500.00)	(100.00%)
Reserves	4,761.43	4,405.14	356.29	8.09%
Non-controlling interests	404.52	403.46	1.06	0.26%
Total	9,435.76	10,578.41	(1,142.65)	(10.80%)

5. Segment results

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

The Group has five principal business lines: (i) brokerage and wealth management, (ii) investment banking, (iii) investment management, (iv) proprietary trading, and (v) others. The following discussions of the Group's segment revenue and other income, segment expenses and segment results include the Group's inter-segment revenue and inter-segment expenses.

The following table sets forth the Group's segment revenue and other income (including inter-segment revenue) for the years indicated:

Unit: in RMB million

Items	2020		2019	
	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	1,760.22	47.82%	1,422.64	36.98%
Investment banking	345.74	9.39%	351.01	9.12%
Proprietary trading	725.02	19.70%	1,047.79	27.24%
Investment management	724.31	19.68%	948.02	24.64%
Others	125.55	3.41%	77.64	2.02%
Total	3,680.84	100.00%	3,847.10	100.00%

The following table sets forth the Group's segment expenses (including inter-segment expenses) for the years indicated:

Unit: in RMB million

Items	2020		2019	
	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	1,568.29	50.88%	1,337.37	46.52%
Investment banking	278.72	9.04%	292.92	10.19%
Proprietary trading	247.73	8.04%	362.61	12.61%
Investment management	722.22	23.43%	606.20	21.09%
Others	265.34	8.61%	275.72	9.59%
Total	3,082.30	100.00%	2,874.82	100.00%

The following table sets forth the Group's segment operating profits/ (losses) (including inter-segment profits) for the years indicated:

Unit: in RMB million

Items	2020		2019	
	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	191.94	32.07%	85.27	8.77%
Investment banking	67.02	11.20%	58.09	5.97%
Proprietary trading	477.29	79.74%	685.18	70.47%
Investment management	2.09	0.35%	341.82	35.16%
Others	(139.80)	(23.36%)	(198.08)	(20.37%)
Total	598.54	100.00%	972.28	100.00%

(VIII) Contingent Liability, Capital Commitment and other Commitment

Please refer to Note 13 to the consolidated financial statements in this announcement for particulars of contingent liability.

Please refer to Note 12 to the consolidated financial statement in this announcement for particulars of capital commitment and other commitment.

As at 31 December 2020, the Group did not have any security over its assets.

IV. CHANGES IN BRANCHES AND SUBSIDIARIES AND IMPACT ON RESULTS

(I) Branches of the Company

1. Establishment of securities branches and changes in securities branches

(1) Newly-established securities branches

None in the Reporting Period.

(2) Relocation of securities branches

During the Reporting Period, 18 securities branches of the Company were relocated, details of which are as follows:

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
1	Hengtai Securities Co., Ltd Erdos Xuejiawan Junggar Road Securities Branch (恒泰证券股份有限公司鄂尔多斯薛家湾準格爾路證券營業部)	Hengtai Securities Co., Ltd Erdos Xuejiawan Junggar Road Securities Branch (恒泰证券股份有限公司鄂尔多斯薛家湾準格爾路證券營業部) ¹	2/F, Building 1, Re-employment Center, North Junggar Banner, Junggar Road, Yingze Avenue, Junggar Banner, Erdos, Inner Mongolia (內蒙古自治區鄂爾多斯市準格爾旗迎澤街道準格爾路北準格爾旗再就業中心1號樓2層)
2	Hengtai Securities Co., Ltd Xilinhot Tuanjie Avenue Securities Branch (恒泰证券股份有限公司錫林浩特團結大街證券營業部)	Hengtai Securities Co., Ltd Xilinhot Tuanjie Avenue Securities Branch (恒泰证券股份有限公司錫林浩特團結大街證券營業部) ¹	No. 270, Tuanjie Avenue, Xilinhot, Xilin Gol League, Inner Mongolia (內蒙古自治區錫林郭勒盟錫林浩特市團結大街270號)
3	Hengtai Securities Co., Ltd Chengdu Renmin South Road Securities Branch (恒泰证券股份有限公司成都人民南路證券營業部)	Hengtai Securities Co., Ltd Chengdu Tianfu Avenue Securities Branch (恒泰证券股份有限公司成都天府大道證券營業部)	No. 2707, No. 2708, 27/F, Building 3, No. 1199 North Section of Tianfu Avenue, High-tech Industrial Development Zone, Chengdu, China (Sichuan) Pilot Free Trade Zone (中國(四川)自由貿易試驗區成都市高新區天府大道北段1199號3棟27層2707、2708號)
4	Hengtai Securities Co., Ltd Hangzhou Jiangnan Avenue Securities Branch (恒泰证券股份有限公司杭州江南大道證券營業部)	Hengtai Securities Co., Ltd Hangzhou Jiangnan Avenue Securities Branch (恒泰证券股份有限公司杭州江南大道證券營業部) ¹	Rooms 1203, 1205, 12th Floor, Main Building, No.588 Jiangnan Avenue, Changhe Street, Binjiang District, Hangzhou, Zhejiang Province (浙江省杭州市濱江區長河街道江南大道588號主樓12層1203室、1205室)
5	Hengtai Securities Co., Ltd Hangzhou Wujiang Road Securities Branch (恒泰证券股份有限公司杭州婺江路證券營業部)	Hengtai Securities Co., Ltd Hangzhou Wujiang Road Securities Branch (恒泰证券股份有限公司杭州婺江路證券營業部) ¹	Rooms 1601, 1602 and 1603, Building 1, No. 217 Wujiang Road, Shangcheng District, Hangzhou, Zhejiang Province (浙江省杭州市上城區婺江路217號1號樓1601、1602、1603室)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
6	Hengtai Securities Co., Ltd Shanghai Qihe Road Securities Branch (恒泰证券股份有限公司上海齐河路证券营业部)	Hengtai Securities Co., Ltd Shanghai Xianxia Road Securities Branch (恒泰证券股份有限公司上海仙霞路证券营业部)	Room 19B, No.137 Xianxia Road, Changning District, Shanghai (上海市長寧區仙霞路137號19B室)
7	Hengtai Securities Co., Ltd Beijing Dongsanhuan Central Road Securities Branch (恒泰证券股份有限公司北京東三環中路證券營業部)	Hengtai Securities Co., Ltd Beijing Dongsanhuan Securities Branch (恒泰证券股份有限公司北京東三環證券營業部)	Room 308, 3/F, Building 1 (East Ring 18 International Building), No. 18 Dongsanhuan Central Road, Chaoyang District, Beijing (北京市朝陽區東三環中路18號院1號樓(東環18國際大廈)3層308室)
8	Hengtai Securities Co., Ltd Changchun Jingyang Road Securities Branch (恒泰证券股份有限公司長春景陽大路證券營業部)	Hengtai Securities Co., Ltd Changchun Shengtai Avenue Securities Branch (恒泰证券股份有限公司長春生態大街證券營業部)	Rooms 501, 502, 509, United Creative Centre Office Building, No.7888 Shengtai Avenue, Jingyue Development Zone, Changchun City, Jilin Province (吉林省長春市淨月開發區生態大街7888號聯合創意中心寫字樓501、502、509室)
9	Hengtai Securities Co., Ltd Shanghai Caoxi North Road Securities Branch (恒泰证券股份有限公司上海漕溪北路證券營業部)	Hengtai Securities Co., Ltd Shanghai Jiangning Road Securities Branch (恒泰证券股份有限公司上海江寧路證券營業部)	Units 2003B, 2004A, No. 1158 Jiangning Road, Putuo District, Shanghai (上海市普陀區江寧路1158號2003B、2004A單元)
10	Hengtai Securities Co., Ltd Guangzhou Tiyu West Road Securities Branch (恒泰证券股份有限公司廣州體育西路證券營業部)	Hengtai Securities Co., Ltd Guangzhou Zhujiang East Road Securities Branch (恒泰证券股份有限公司廣州珠江東路證券營業部)	Room 2101, No. 13 Zhujiang East Road, Tianhe District, Guangzhou, Guangdong Province (廣東省廣州市天河區珠江東路13號2101室)
11	Hengtai Securities Co., Ltd Guangzhou Tianhe North Road Securities Branch (恒泰证券股份有限公司廣州天河北路證券營業部)	Hengtai Securities Co., Ltd Guangzhou Tianhe North Road Securities Branch (恒泰证券股份有限公司廣州天河北路證券營業部) ¹	Room 3011, No. 233 Tianhe North Road, Tianhe District, Guangzhou, Guangdong Province (廣東省廣州市天河區天河北路233號3011室)
12	Hengtai Securities Co., Ltd Shanghai Xiaomujiao Road Securities Branch (恒泰证券股份有限公司上海小木橋路證券營業部)	Hengtai Securities Co., Ltd Shanghai Jiujiang Road Securities Branch (恒泰证券股份有限公司上海九江路證券營業部)	Rooms 2502, 2503, 25/F, No. 288 Jiujiang Road, Huangpu District, Shanghai (上海市黃浦區九江路288號25層2502、2503室)

No.	Name of securities branch before relocation	Name of securities branch after relocation	Address of securities branch after relocation (PRC)
13	Hengtai Securities Co., Ltd Zhalantun Buteha North Road Securities Branch (恒泰证券股份有限公司扎蘭屯布特哈北路證券營業部)	Hengtai Securities Co., Ltd Zhalantun Fanrong Road Securities Branch (恒泰证券股份有限公司扎蘭屯繁榮街證券營業部)	Shops 01005, 01007, Building 3, Shengliju Shengda Garden Community, Fanrong Subdistrict Office, Zhalantun, Hulunbeir, Inner Mongolia (內蒙古自治區呼倫貝爾市扎蘭屯市繁榮辦勝利居盛達家園小區3號樓01005、01007號商鋪)
14	Hengtai Securities Co., Ltd Shanghai Boshan Road Securities Branch (恒泰证券股份有限公司上海博山路證券營業部)	Hengtai Securities Co., Ltd Shanghai Yincheng Zhong Road Securities Branch (恒泰证券股份有限公司上海銀城中路證券營業部)	Room 1103B, No. 488 Yincheng Zhong Road, China (Shanghai) Pilot Free Trade Zone (中國(上海)自由貿易試驗區銀城中路488號1103B室)
15	Hengtai Securities Co., Ltd Zibo Jinjing Road Securities Branch (恒泰证券股份有限公司淄博金晶路證券營業部)	Hengtai Securities Co., Ltd Zibo Yanhe East Road Securities Branch (恒泰证券股份有限公司淄博沿河東路證券營業部)	Room 103, 1/F, Fortune Mansion, No. 3 Yanhe East Road, Chengdong Street, Boshan District, Zibo, Shandong (山東省淄博市博山區城東街道沿河東路3號創富大廈1層103號)
16	Hengtai Securities Co., Ltd Hangzhou Fengqi Road Securities Branch (恒泰证券股份有限公司杭州鳳起路證券營業部)	Hengtai Securities Co., Ltd Hangzhou Qianjiang Road Securities Branch (恒泰证券股份有限公司杭州錢江路證券營業部)	Rooms 1301-02, 03, Building 3, Ping An International Finance Centre, Jianggan District, Hangzhou, Zhejiang Province (浙江省杭州市江干區平安金融中心3幢1301室-02、03)
17	Hengtai Securities Co., Ltd Baotou Youyi Street Securities Branch (恒泰证券股份有限公司包頭友誼大街證券營業部)	Hengtai Securities Co., Ltd Baotou Gaoxin District Securities Branch (恒泰证券股份有限公司包頭高新區證券營業部)	Building E02-101-4, Business Garden, Headquarter Economic Park, No. 11 Zhaotan East Road, Rare Earth Development Zone, Baotou, Inner Mongolia (內蒙古自治區包頭市稀土開發區沼潭東路11號總部經濟園區商務花園E02-101-4樓)
18	Hengtai Securities Co., Ltd Hohhot Daxue West Street Securities Branch (恒泰证券股份有限公司呼和浩特大學西街證券營業部)	Hengtai Securities Co., Ltd Hohhot Daxue West Street Securities Branch (恒泰证券股份有限公司呼和浩特大學西街證券營業部) ¹	Rooms 1801, 1802, 1803, 1804, 18/F, Mengxi Culture Square, Daxue West Street, Yuquan District, Hohhot, Inner Mongolia (內蒙古自治區呼和浩特市玉泉區大學西街蒙西文化廣場18層1801,1802,1803,1804號)

Note:

1. Name of the securities branch remained unchanged after relocation.

(3) Deregistration of securities branches

During the Reporting Period, based on the development strategy of the Company and in order to further optimize the network of the branches, 22 securities branches of the Company completed their deregistration, details of which are as follows:

No.	Name of securities branch	Location (PRC)
1	Hengtai Securities Co., Ltd Qingdao Yan'er Island Road Securities Branch (恒泰证券股份有限公司青岛燕儿岛路证券营业部)	Qingdao, Shandong Province
2	Hengtai Securities Co., Ltd Jiaxing Nanhu Avenue Securities Branch (恒泰证券股份有限公司嘉兴南湖大道证券营业部)	Jiaxing, Zhejiang Province
3	Hengtai Securities Co., Ltd Shanghai Xinjinqiao Road Securities Branch (恒泰证券股份有限公司上海新金桥路证券营业部)	Shanghai
4	Hengtai Securities Co., Ltd Shanghai Shangzhong Road Securities Branch (恒泰证券股份有限公司上海上中路证券营业部)	Shanghai
5	Hengtai Securities Co., Ltd Shanghai Huayuan Road Securities Branch (恒泰证券股份有限公司上海花园路证券营业部)	Shanghai
6	Hengtai Securities Co., Ltd Shanghai Haining Road Securities Branch (恒泰证券股份有限公司上海海宁路证券营业部)	Shanghai
7	Hengtai Securities Co., Ltd Shenzhen Jintian Road Golden Central Tower Securities Branch (恒泰证券股份有限公司深圳金田路金中環证券营业部)	Shenzhen, Guangdong Province
8	Hengtai Securities Co., Ltd Shenzhen Longxiang Blvd Securities Branch (恒泰证券股份有限公司深圳龍翔大道证券营业部)	Shenzhen, Guangdong Province

No.	Name of securities branch	Location (PRC)
9	Hengtai Securities Co., Ltd Shenzhen Gaoxinnan No. 1 Road Securities Branch (恒泰证券股份有限公司深圳高新南一道證券營業部)	Shenzhen, Guangdong Province
10	Hengtai Securities Co., Ltd Shenzhen Fuzhong Road North Securities Branch (恒泰证券股份有限公司深圳福中路北證券營業部)	Shenzhen, Guangdong Province
11	Hengtai Securities Co., Ltd Shenzhen Qianhai Securities Branch (恒泰证券股份有限公司深圳前海證券營業部)	Shenzhen, Guangdong Province
12	Hengtai Securities Co., Ltd Guangzhou Zhujiang West Road Securities Branch (恒泰证券股份有限公司廣州珠江西路證券營業部)	Guangzhou, Guangdong Province
13	Hengtai Securities Co., Ltd Yantai Yingchun Avenue Securities Branch (恒泰证券股份有限公司煙台迎春大街證券營業部)	Yantai, Shandong Province
14	Hengtai Securities Co., Ltd Dalian Huizhan Road Securities Branch (恒泰证券股份有限公司大連會展路證券營業部)	Dalian, Liaoning Province
15	Hengtai Securities Co., Ltd Beijing Wanfeng Road Securities Branch (恒泰證券股份有限公司北京萬豐路證券營業部)	Beijing
16	Hengtai Securities Co., Ltd Beijing Guang'an Road Securities Branch (恒泰證券股份有限公司北京廣安路證券營業部)	Beijing
17	Hengtai Securities Co., Ltd Beijing Nanhu South Road Securities Branch (恒泰證券股份有限公司北京南湖南路證券營業部)	Beijing
18	Hengtai Securities Co., Ltd Beijing Shangdi Third Street Securities Branch (恒泰證券股份有限公司北京上地三街證券營業部)	Beijing

No.	Name of securities branch	Location (PRC)
19	Hengtai Securities Co., Ltd Beijing Beixinzhuang Road Securities Branch (恒泰證券股份有限公司北京北辛莊路證券營業部)	Beijing
20	Hengtai Securities Co., Ltd Beijing Agriculture Exhibition Hall South Road Securities Branch (恒泰證券股份有限公司北京農展館南路證券營業部)	Beijing
21	Hengtai Securities Co., Ltd Beijing Guangqu Road Securities Branch (恒泰證券股份有限公司北京廣渠路證券營業部)	Beijing
22	Hengtai Securities Co., Ltd Beijing Beichen West Road Securities Branch (恒泰證券股份有限公司北京北辰西路證券營業部)	Beijing

2. *Establishment of new branch offices and changes in branch offices*

None in the Reporting Period.

(II) Subsidiaries of the Company

During the Reporting Period, no change in the Company's major subsidiaries.

(III) Impact on Results

During the Reporting Period, in order to promote the faster and better development of the securities branches, according to the development strategy of the Company, taking into consideration the network of its branches, its human resources, operation data and the actual development situation of its securities branches, the Company optimized its branches through cancellation and merger of its loss-making securities branches. That movement will enable the Company to save operating costs, consolidate its advantages and enhance the competitiveness of its securities branches, so as to achieve better results.

V. MAJOR INVESTMENT AND FINANCING

(I) Equity Financing

None in the Reporting Period.

(II) Major Debt Financing

1. Issue of corporate bonds

The Company raised an aggregate of RMB1.950 billion through issue of corporate bonds in 2020. As at 31 December 2020, the outstanding balance of the corporate bonds amounted to RMB1.950 billion. The particulars of the issuance of corporate bonds of the Company in 2020 are set out below:

Name	Size of the Issuance (RMB'00 million)	Interest rate	Term (years)	Issue date	Maturity date
20 Hengtai G1	9.50	4.39%	3	18 September 2020	18 September 2023
20 Hengtai F1	10.00	5.40%	3	27 October 2020	27 October 2023

2. Issue of beneficiary certificates

The Company raised an aggregate of RMB2.06 billion through issue of beneficiary certificates in 2020. As at 31 December 2020, the outstanding balance of the beneficiary certificates amounted to RMB2.06 billion. The particulars of the issuance of beneficiary certificates of the Company in 2020 are set out below:

Name	Size of the Issuance (RMB'00 million)	Interest rate	Term (days)	Issue date	Maturity date
Hengfu No. 28	1.00	4.50%	363	6 February 2020	3 February 2021
Hengchuangtaifu No. 23	10.00	4.25%	365	28 April 2020	28 April 2021
Hengfu No. 29	1.00	4.00%	362	24 June 2020	21 June 2021
Hengfu No. 30	1.60	4.00%	361	14 August 2020	10 August 2021
Hengchuangtaifu No. 24	5.00	5.30%	364	25 December 2020	24 December 2021
Hengchuangtaifu No. 25	2.00	4.60%	364	25 December 2020	24 December 2021

3. *Issue of subordinated bonds by the Company*

The Company raised an aggregate of RMB1.5 billion through issue of subordinated bonds in 2020. As at 31 December 2020, the outstanding balance of subordinated bonds amounted to RMB1.6 billion. The particulars of the issuance of subordinated bonds of the Company in 2020 are set out below:

Name	Size of the Issuance (RMB'00 million)	Interest rate	Term (years)	Issue date	Maturity date
20 Hengtai C1	15.00	5.80%	3	28 September 2020	28 September 2023

(III) Equity Investment

None in the Reporting Period.

VI. MATERIAL ASSETS DISPOSAL, ACQUISITION, MERGER, DIVISION, EXTERNAL GUARANTEE, MORTGAGE, PLEDGE AND MATERIAL CONTINGENT LIABILITIES

Save for the matters stated above in IV and V under this “Management Discussion and Analysis”, the Company had no other material assets disposal, acquisition, merger, division or reorganization of other companies.

During the Reporting Period, there was no external guarantee, mortgage, pledge and material contingent liability that may affect the Company’s financial position and operating results.

VII. BUSINESS INNOVATION AND ITS IMPACT AND RISK CONTROL

(I) Business Innovation and its Impact

In 2020, the Company built a distinctive wealth management system with all its efforts. In respect of the brokerage business, the Company made a substantial breakthrough in its wealth management transformation strategy from the exploration stage to the implementation stage by restructuring its organizational structure, improving its technological capabilities, enriching its business channels and integrating its business models to provide asset allocation and personalized financial services to its customers. The Company further strengthened its sales capabilities of financial products, developed its institutional and quantitative business, expanded the scale of margin

financing and securities lending businesses, enhanced the active management capabilities of the asset management business, improved the profitability of its proprietary business and continuously built a new business and profitability mode.

(II) Risk Control of Business Innovation

The Company formulated the New Business (Product) Management Measures of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司新業務(產品)管理辦法》), the New Business Risk Management Rules of Hengtai Securities Co., Ltd (《恒泰证券股份有限公司新業務風險管理細則》) and other internal control systems to integrate innovative businesses into the comprehensive risk management system. Under the premise of compliance, the Company followed the principle of “system first, prudent evaluation and steady development” to promote the carrying out of innovative businesses. The business department of the Company is the primary responsible person for the risk management of innovative businesses. Through intervening in major business processes, the risk management department controlled key risk points, achieving the overall management and control of the risks relating to innovative businesses at the Company level.

The Company strengthened pre-management of risks relating to new businesses by adhering to its risk preference and risk quota management, improving the construction of risk monitoring system, deepening stress test mechanism, promoting project review quality and evaluation and ensuring the independence of review opinions. The Company continued to promote the development of a comprehensive risk management system, and improved the risk management relating to the innovative businesses by establishing and perfecting the mechanism for risk identification, evaluation, monitoring and control from the perspectives of credit risk, market risk, liquidity risk, operational risk and reputational risk.

(III) Prospects of Business Innovation

With increasingly intensified homogeneous competition in the securities industry, traditional businesses entered the era of stock competition, and urgent requirements were placed on the Company’s business transformation and development. The Company still has a certain space for improvement in business diversification, and it will promote the improvement in aspects such as business and revenue structure, operating mode, marketing strategy and institutional guarantee, and explore a differentiated and characteristic development path. The Company will provide quality products with different features and strengths to change the homogeneous condition of the business and build differentiated core competitiveness of the Company. In 2021, the Company will continue to promote innovation and transformation of its various lines of business while enhancing compliance operation and risk management, which is mainly reflected in the followings:

1. In terms of the brokerage business, the Company will improve the efficiency of the implementation of strategic goals, strengthen business promotion, and expand business influence; deepen the construction and optimization of channels and outlets; build a clear institutional business structure and model, and strengthen cooperation with banking institutions, trusts, and public offering funds. In terms of the wealth management business, the Company will focus on promoting the sales and increasing the scale of the Company's FOF products; improve the construction of the financial product system, introduce highly rated funds to create a high-quality public offering product line, and focus on promoting the acquisition of the business qualifications for public offering fund investment advisory as well as system development. In terms of the capital-based intermediary business, the Company will continue to expand the scale of the margin financing and securities lending, broaden the supply of securities lending sources, strengthen its research on collateral valuation, improve its capabilities of asset pricing, and strictly control credit risks to reduce customer default rates.
2. In terms of the investment banking business, the Company needs to strengthen the overall interconnected development, and promote the development of investment banking, investment, research, brokerage and other business lines as a whole to facilitate the establishment of a "great wealth management" system. Benchmarking the internal control and governance system of outstanding securities firms in the industry to improve its capabilities of compliance risk prevention and control. In terms of the bond business, the Company will deepen the core regional market, expand the business scope and business varieties, stabilize the corporate bond market share, and promote the continuous growth of corporate bonds; the equity business will cultivate IPO customers and provide in-depth services to existing customers.
3. In terms of the public offering fund business, the Company will promote the improvement of the large grouping and comprehensive upgrade of fixed income, equity and other investment systems, strengthen active management, deepen the integrated reform of equity investment, improve the fixed income investment research system, and strengthen fixed income research support. The Company will further strengthen the market sale of the four business lines of institutional, retail, non-banking, and internet finance, and strengthen internet brand marketing, and do a good job in the risk disposal of the stock assets of the special account business and the transformation of the active management business.

4. In terms of private equity investment funds business, the Company will continue to deepen business rectification, strictly control the risk of existing projects, and properly perform post-investment management, stock withdrawal and rectification of the current existing projects. The Company will prudently carry out investment business according to market changes, conducting business by various ways such as industry funds, merger and acquisition funds, Pre-IPO funds and financial advisory, and focusing on the consumption industry, real estate, bulk commodity and emerging industries with relatively reasonable valuation.

VIII. RISK FACTORS AND COUNTERMEASURES

(I) Credit Risk

Credit risk is the possibility of loss caused by our counterparty's failure to perform a contract or a change in its credit rating or ability to perform. Credit risk of the Company is mainly generated from two aspects: (i) financing business such as margin financing and securities lending and securities backed lending; and (ii) proprietary credit bond investment business.

Credit risk from financing activities can be controlled by (i) determination of reasonable credit line which is managed through client suitability management, margin translation, daily mark to market, risk reminders and forced liquidation of client's positions upon credit investigation via the internal credit rating system; and (ii) conducting sufficient due diligence on the financier and analysis on the fundamentals of pledge target prior to the implementation of securities pledged projects to reasonably determine key risk factors including pledge rate and performance guarantee proportion, and maintaining constant risk monitoring over projects in performance to address problems once detected. Credit risks for investment business can be managed by establishing internal rating, blacklist and whitelist, risk monitoring indicator limit and other measures.

(II) Market Risk

Market risk refers to risk of unexpected potential value losses of the financial assets held by the Company resulting from adverse changes in securities price, interest rate and exchange rate. In particular, risk of adverse price fluctuations refers to the risk that the stock market may fluctuate and cause the prices of stocks and other securities products to change, which may incur losses for the Company. Interest rate risk refers to the risk arising from changes in market interest rates and credit spread that could result in

changes in the prices of bonds and other fixed-income securities. Exchange rate risk refers to possibility that the Company may incur losses due to changes in exchange rates during operating activities involving possession or use of foreign exchanges. Market risk of the Company mainly derives from proprietary businesses including equity securities investment, fixed income securities investment, financial derivatives investment and NEEQ market making business.

Market risk is mainly managed by the Company through implementation of limit management, securities pool system, daily mark to market, stress test, monitoring and warning, stop-loss and stop-profit, risk hedge, risk report and other systems and measures. Based on risk tolerance preferences, the Company sets the annual overall limits of market risk for proprietary businesses which are decomposed and assigned to the respective business departments level by level. The Company has established a market risk indicator system including Value at Risk (VaR), Basis Point Value (DV01) and Max Drawdown. The risk management department conducts a daily monitoring over the proprietary position risk and regularly carries out stress test to estimate the losses under extreme circumstances and timely make risk warning and urge relevant business department to handle it when the risk control indicator exceeds the warning threshold.

(III) Liquidity Risk

Liquidity risk refers to risk where the Company fails to obtain sufficient funds in time at reasonable costs in order to repay mature debts, fulfill other payment obligations and satisfy the funding needs for carrying on normal business. The planning and financing department of the Company takes the lead in liquidity risk management. The Company constantly monitors Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and other liquidity risk control indicators and conducts semi-annual liquidity risk stress tests through which its liquidity risk level under the extreme circumstance is evaluated and the risk emergency plans are established. The Company has set threshold values for liquidity risk control indicators, and a risk warning will be sent to the relevant department of the Company once such threshold values are exceeded. The Company monitors and analyzes the matching of the Company's assets and liabilities from various time periods under both normal and stressed situations, the diversification and stability of the Company's capital resources, the capability of high-quality liquid assets and market liquidity and at the same time strengthens the management of the Company's liquidity during operating hours and makes reasonable arrangements for financing activities to maintain adequate intraday liquidity position.

(IV) Compliance Risk

Compliance risk refers to the risk that securities fund management companies may be investigated for legal liabilities, subjected to regulatory measures, disciplinary actions, or suffers property loss or reputation loss due to violation of laws, regulation and rules arising from the management or practices of the securities fund management company or its staff. The Company has established an effective and sound compliance management system and compliance management framework. In accordance with regulatory requirements, the compliance management department of the Company manages compliance risk through compliance review, compliance monitoring, compliance examination, compliance supervision and compliance training.

(V) Operational Risk

Operational risk is possibility of losses caused by the failures of internal systems and procedures, improper employee behaviors, information system defect and the influence of external events. The Company has formulated operational risk management system and internal management system of various businesses and regulated its business activities. It has established an identification, assessment and control system for operational risk that fully covers the Company's business activities. The Company mainly managed operational risks through self-appraisal of risks and control (RCSA), loss data collection (LDC), key risk indicator (KRI) monitoring, and other measures.

(VI) Reputational Risk

Reputational risk is the risk of negative assessment or comments on the Company from stakeholders as a result of its operation, management and other companies or external events. The Board Office of the Company takes the lead in reputational risk management. The Company has established a sound reputation risk management system and workflow, to provide guarantee for the improvement of the all-round risk management system, the enhancement of the reputation risk management capability and the maintenance and promotion of the reputation and image of the Company. Through real-time monitoring of the evolution and development of various reputational risk events, the Company organized the information about the overall situation of the reputational risk events and the corresponding measures to be taken and reported the same to the senior management of the Company in a timely manner, so as to negotiate and determine the final solution.

IX. CONSTRUCTION OF RISK MANAGEMENT SYSTEM AND COMPREHENSIVE RISK MANAGEMENT IMPLEMENTATION

During the Reporting Period, the Company actively implemented various requirements of the Norms for the All-round Risk Management of Securities Companies (《證券公司全面風險管理規範》), conducted routine risk management and various key projects based on the requirements of full coverage, detectability, measurability, analysis and risk-response ability on risk management and continuously improved the comprehensive risk management system.

(I) Management System

The Company established the Measures for All-round Risk Management of Hengtai Securities Co., Ltd (《恒泰證券股份有限公司全面風險管理辦法》), which set overall requirements on the comprehensive risk management. It has established special risk management systems on liquidity risks, market risks, credit risks, operation risks, reputation risks and other risks. In 2020, in order to further improve its risk management system, the Company newly formulated 14 systems including the Risk Limit Management Measures of Hengtai Securities Co., Ltd (《恒泰證券股份有限公司風險限額管理辦法》); and amended three systems including the Credit Risk Management Regulations of Hengtai Securities Co., Ltd (《恒泰證券股份有限公司信用風險管理規定》).

(II) Framework

The Company established a four-level risk management system including the Board, the management, the risk management department and business departments. It specified the responsibilities of the Board, the Supervisory Committee, the management, all departments, branches and subsidiaries in performing the comprehensive risk management and established a multi-layered and inter-connected operation mechanism with effective balances. Meanwhile, the Company has gradually incorporated all subsidiaries into the comprehensive risk management system and guided subsidiaries in establishing and improving the governance structure, setting risk preference and perfecting the risk monitoring, reporting and response mechanism. It specified the responsible person for the risk management of subsidiaries and the chief risk officer of the Company conducts appraisal on the responsible person.

(III) Information Technology

The Company has established a securities risk monitoring and management platform with the integration of dynamic risks monitoring on net capitals, market risk management, credit risk management, operation risk management, liquidity risk management, abnormal transaction monitoring and other functions. It supports the collection, identification, measurement, appraisal, monitoring and reporting of various risk information and can meet the demands of the Company in risk management and decision-making.

(IV) Indicator System

The Company has established a risk preference indicator system with net capital and liquidity as the core covering market risks, credit risks, operation risks and concentration risks. The risk preference of the Company can cover all business line, including proprietary investment business, asset management business, securities brokerage business and investment banking business. Based on the development strategy, operation targets and financial conditions of the Company, it set management and control quota on major risks, including but not limited to risk quota, business size, value at risk, sensitivity indicator, concentration, stop-loss and stop-profit. It also regularly appraises the risk tolerance through stress test and other methods and guides resources allocation.

(V) Talent Team

The risk management department of the Company has established four secondary department professional teams for market risk, credit risk, operation risk and comprehensive risks. The planning and financial department and the board office designate special persons to be responsible for the management of liquidity risks and reputation risks. Currently, risk management staff with over three years of relevant working experience account for over 2% of the total staff at the head office of the Company, which provided talent guarantees to effectively conducting the comprehensive risk management work. In addition, all business and functional departments of the Company have set risk management positions as an integral part of the risk management system. They accept the business guidance of the risk management department and serve as the bridge link.

(VI) Response Mechanism

The Company established a working mechanism on net assets trend monitoring, risk authorization, regular risk reporting and regular stress test to identify significant potential risks in the business process in a timely manner and actively take prevention and response measures. The Company also has risk emergency plans on significant risks and emergencies, specified the emergency triggering conditions, the organizational system, measures, methods and procedures in risk disposal and continuously improved them through emergency exercises. The Company has established a performance appraisal and accountability mechanism linked to risk management results. It regularly appraises the risk management performance of all business departments and branches and the appraisal results are included in the performance appraisal system. Meanwhile, the audit department regularly appraises the comprehensive risk management system to guarantee the effectiveness of the comprehensive risk management.

X. INVESTMENT IN COMPLIANCE, RISK CONTROL AND INFORMATION TECHNOLOGY

The Company has always attached great importance to compliance and risk management, continuously improved the construction of compliance and risk management system and insisted on providing adequate guarantee for compliance and risk management. During the Reporting Period, the Company continued to increase investment in compliance and risk management, including preparation of annual budget for compliance and risk management, strengthening the construction of the professional compliance and risk management talent team, updating or upgrading the compliance and risk management information system, etc. During the Reporting Period, the Company further strengthened the construction of information system and improved overall information and operation security capability to provide technical support for the development of various businesses. The main investment in the fields of system software, hardware and engineering, system operation and maintenance, network construction and maintenance, server room and line leasing amounted to approximately RMB59.25 million.

XI. COMPETITION AND POSITION IN THE INDUSTRY AND CORE COMPETITIVENESS

(I) Competition in the Industry

In 2020, with the deepening of China's capital market reform and the continuing opening-up of the financial business, the competition in the domestic securities industry was further intensified. In the face of the competition between large domestic securities companies and foreign-funded securities companies, the market competition environment for small and medium-sized securities companies was even more arduous. Large domestic securities companies and foreign-funded securities companies have considerable advantages in terms of capital strength, product innovation capabilities, their own risk control capabilities, and human resource management capabilities, etc. To achieve high-quality development, small and medium-sized securities companies need to actively promote differentiated development strategies, continuously strengthen active management capabilities, improve investment and research capabilities and cross-business integration capabilities, and continue to meet the diversified financial needs of customers through innovations in management models and profit models, etc., so as to enhance their own competitiveness.

(II) Market Position

According to the statistics of the Securities Association of China, as of 31 December 2020, there were 135 securities companies in the PRC, and the average total assets, net assets and net capital size of a single securities company amounted to approximately RMB65.926 billion, RMB17.111 billion and RMB13.481 billion, respectively. In 2020, the average operating revenue of a single securities company amounted to approximately RMB3.322 billion, and the average net profit of a single securities company amounted to approximately RMB1.167 billion (all of which were unaudited).

The 2020 industry data shows that the Company remained as a small- and medium-sized securities companies in the industry. In 2020, industry development, transformation and competition coexisted, the Company still has a greater space for improvement in business diversification. The Company needs to create its characteristics and strengths in specific professional fields, change the status quo of business homogeneity, in order to build differentiated core competitive advantages.

(III) Core Competitiveness

1. Professional and stable management team

The management team of the Company has extensive experience in the securities and financial service industry. The stable management team with extensive management experience in the industry and their continued outstanding business development capabilities will enable the Company to quickly respond to the changes in the regulatory requirements and the competitive conditions in the market and make prompt adjustments of the business strategy of the Company, thus ensuring long-term stable development of the Company.

2. Implementation of effective risk management and internal control systems

The long-term implementation of effective risk management and internal control systems enables the Company to carry out compliance work and foster compliance awareness in full coverage, and to identify, assess, reduce and manage various risks in the course of business. The Board has always been dedicated to strengthening risk management, internal control and corporate governance, building corporate compliance culture, and continuously optimizing the risk management and internal control systems in accordance with regulatory requirements to enhance the ability of the Company in identifying the risks and correcting the shortcomings in risk management and internal control in a prompt manner, and continuously improving the Company's risk management and internal control systems by means of quantifying control over risk management and operational risks, thus ensuring sound and stable growth of the Company's business.

3. Sound capability in continuous innovation

The continuous and initiative innovation capability plays a key role in the development of the Company. The innovation work of the Company has focused on continuous understanding, research and satisfaction of different demands of the customers. The Company proactively responds to the competition in the market through initiative innovation.

In addition, the Company has always attached importance to innovative application in the Internet and fintech field. The traditional securities business has been transformed to the online business model due to cooperation with third party Internet service suppliers based on compliance and effective risk control, thus allowing the Company to

access and get more customer resources. The Company also provides one-stop comprehensive online diversified financial services including payment, financial management, investment and financing to satisfy the customer demands.

4. *Effective business layout to promote transformation and upgrade*

The Company highly values the future development and reform of the securities industry and proactively explores and deepens transformation and upgrade of the Company's businesses. The brokerage business has been actively transformed by the Company to the wealth management with preliminary results. Through adjusting the organizational structure and optimizing the network layout, the Company further improved the online and offline, retail + institutional whole-chain business system. Facing future challenges in the market, on the basis of intensifying compliance management and control and prevention of risks, the Company will continue to deepen the innovation and transformation of businesses to enhance the advantages of characteristic and differentiated businesses and gradually expand its business size and market influence.

5. *Excellent corporate culture*

The Company will always hold the corporate culture of "integrity, innovation, being practical and cooperation". The constant promotion of corporate culture construction further enhances staff's recognition of corporate culture and cohesiveness and ensures the smooth implementation of the Company's overall strategy and specific businesses. At the same time, the open cooperation mechanism also laid a favorable foundation for the Company to attract excellent talents and intensify its cooperation with external parties.

6. *Talent strategy centered, market-oriented staff incentive mechanism*

The Company always insists on the development approach centering on talent strategy, and pays great attention to the introduction, absorption, stability and promotion of the talents, especially the stability of the core talents. The Company has continuously improved the construction of human resources system and remuneration incentive system. At the same time, the Company will increase the introduction of market-oriented excellent talents and build a more efficient human resources platform.

XII. PROSPECTS FOR FUTURE DEVELOPMENT OF THE COMPANY

In 2021, with the deepening of capital market reform, the development of financial market will be accelerated. In the face of intensifying homogeneous competition in the securities industry, the Company needs to continuously promote business transformation, change its existing business development and profit models, develop specialties and strengths in specific professional areas, and form differentiated core competitive advantage.

The Company will make every effort to promote business integration and accelerate its transformation and upgrade. In terms of brokerage business, the Company will further promote the transformation of wealth management, based on the application of technology in the financial service system, promoting the deep integration of financial technology and business, and changing the traditional business model, profit model and competition pattern. In terms of investment banking business, the Company will strengthen the overall joint development and establish a multi-dimensional service and diversified income generation model. In terms of asset management business, the Company will accelerate the enhancement of active management capabilities and give full play to its value discovery function. The Company will continue to improve the construction of compliance and risk control systems, strengthen compliance examination, deepen the education of compliance and risk control culture, and improve the overall risk prevention and control capability of the Company to ensure the healthy and orderly development of various businesses. Under the new macroeconomic situation and regulatory environment, the securities industry has put forward higher requirements on the comprehensive quality and professionalism of practitioners, and talents have become a key factor affecting the core competitiveness of the Company. The Company will continue to optimize the incentive and performance assessment mechanism, and further carry out the building of position system and talent team to enhance the competitiveness of the Company's talents. It will strengthen the governance and support for its subsidiaries to realize their professional and market-oriented development. The Company will comprehensively enhance the information and operation support capability to provide technical support for the smooth development of various businesses. To serve business development as the core, it will strive to enhance the value of investment and research, strengthen back-office professional construction, and put support services into practice to lay a foundation for the high-quality development of the Company.

IMPORTANT EVENTS OCCURRED SINCE 31 DECEMBER 2020

(I) Change of Shareholders, Directors, Supervisors and Senior Management of the Company

Nil.

(II) Annual Profit Distribution Plan of the Company

The Board recommended that no profit distribution will be made for the year ended 31 December 2020.

(III) Major Investment and Financing

1. Major investment of the Company

Nil.

2. Major financing of the Company

The issue of beneficiary certificates is as follows:

Name	Size of the Issuance (RMB'00 million)	Interest rate	Term (days)	Issue date	Maturity date
Hengchuangtaifu No. 26	4.00	4.58%	305	22 January 2021	22 November 2021
Hengchuangtaifu No. 27	3.00	4.20%	186	18 March 2021	20 September 2021
Hengchuangtaifu No. 28	1.00	4.30%	214	18 March 2021	18 October 2021
Hengchuangtaifu No. 29	3.00	4.35%	364	19 March 2021	18 March 2022

(IV) Significant Litigations and Arbitrations

1. The dispute with regard to the Qinghui Leasing asset-backed special scheme Phase I under the management of the Company

For details of the case, please refer to II. Significant Lawsuits and Arbitrations in Section 7 Other Material Particulars of the 2018 annual report and 2019 annual report of the Company.

(1) The lawsuits filed by the Company against Hongyuan Petrochemical and Qinghui Leasing

The case that the Company instituted a proceeding against the single lessee Xianyang Hongyuan Petrochemical Co., Ltd. (咸陽鴻元石油化工有限公司) (“**Hongyuan Petrochemical**”) and the equity originator Qinghui Leasing Co., Ltd. (慶匯租賃有限公司) (“**Qinghui Leasing**”) of the Qinghui Leasing asset-backed special scheme Phase I (the “Special Scheme”) was heard at the Beijing Municipal Higher People’s Court on 19 August 2020. No judgment has been handed down in the case.

(2) The lawsuits filed by the preferential holders of the Special Scheme against the Company

On 14 January 2020, 14 January 2020 and 24 February 2020, Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. refiled lawsuits to the Second Intermediate People’s Court of Beijing against the Company, respectively, claiming for the repayment of the outstanding principals (i.e., RMB60 million, RMB130 million and RMB100 million, respectively), and the interest payable and relevant charges by the Company. On 7 May 2020, the above three lawsuits were heard at the Second Intermediate People’s Court of Beijing in the first instance. On 1 December 2020, the above three cases were heard at the Second Intermediate People’s Court of Beijing in the first instance for the second time.

On 7 May 2020, the Company received the civil claims brought by Xinyuan Fund Management Limited, Chuangjin Hexin Fund Management Limited and Tianhong Asset Management Co., Ltd., in which the above three companies refiled lawsuits to the People’s Court of Xicheng District, Beijing against the Company, claiming for the repayment of the outstanding principals (i.e., RMB20 million, RMB40 million and RMB35 million,

respectively), and the interest payable and relevant charges by the Company. On 18 December 2020, the above three cases were heard at the People's Court of Xicheng District, Beijing in the first instance. No judgment has been handed down in the case.

On 26 February 2021, the Beijing Second Intermediate People's Court ruled the Company to compensate Galaxy Jinhui Securities Assets Management Co., Ltd., Goldstate Capital Fund Management Co., Ltd. and Bank of Nanjing Co., Ltd. the outstanding principals (i.e. RMB60 million, RMB130 million and RMB100 million, respectively) and relevant losses. The Company has appealed to the Beijing Municipal Supreme People's Court on 15 March 2021.

(V) Merger or Disposal of Subsidiaries

Nil.

(VI) Other Major Subsequent Events which may Affect the Financial Conditions, Operating Results, and Cash Flow of the Company

Nil.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions contained in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to Listing Rules. The Company has complied with the CG Code during the Reporting Period.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors and Supervisors. Having made specific enquiry with all Directors and Supervisors, all Directors and Supervisors confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company, comprising one non-executive director and two independent non-executive directors, together with the Board and external auditor of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements of the Group for the year ended 31 December 2020.

The figures in respect of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, and the related notes thereto for the year ended 31 December 2020 as set out in this announcement have been agreed by the Company's auditors, Grant Thornton Hong Kong Limited. The work performed by the Company's auditors in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Grant Thornton Hong Kong Limited on the result announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's listed securities during the Reporting Period.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnht.com.cn). The annual report for the year ended 31 December 2020 will be dispatched to Shareholders and published on the above websites in due course.

APPRECIATION

I would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, customers and bankers for their continuous support.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of directors of the Company
“Company”	a joint stock company incorporated in the People’s Republic of China with limited liability under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English)
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid in Renminbi
“Group”	the Company and its subsidiaries
“H Share(s)”	ordinary share(s) issued by the Company with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Hengtai Capital”	Hengtai Capital Investment Co., Ltd. (恒泰資本投資有限責任公司)
“Hengtai Changcai”	Hengtai Changcai Securities Co., Ltd. (恒泰長財證券有限責任公司)
“Hengtai Futures”	Hengtai Futures Co., Ltd. (恒泰期貨股份有限公司)
“Hengtai Pioneer”	HengTai Pioneer Investment Co., Ltd. (恒泰先鋒投資有限公司)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New China Fund”	New China Fund Management Co., Ltd. (新華基金管理股份有限公司)
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Reporting Period”	the year ended 31 December 2020
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the Domestic Share(s) and the H Share(s)
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company

By order of the Board
Wu Yigang
Acting Chairman

Beijing, the PRC
26 March 2021

As at the date of this announcement, the Board comprises Mr. Wu Yigang as executive Director; Mr. Yu Lei, Mr. Wang Linjing, Ms. Dong Hong and Ms. Gao Liang as non-executive Directors; Dr. Lam Sek Kong, Mr. Xie Deren and Mr. Dai Genyou as independent non-executive Directors.