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

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

The offering circular referred to in this announcement includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor (as defined below) and the Group (as defined in the offering circular appended herein). The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this announcement and the offering circular and confirms, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

*This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold in the United States except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the Company making the offer, its management and financial statements. The Company does not intend to make any public offering of securities in the United States.*

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

PUBLICATION OF OFFERING CIRCULAR AND PRICING SUPPLEMENT ON THE STOCK EXCHANGE OF HONG KONG LIMITED

CMS INTERNATIONAL GEMSTONE LIMITED
(incorporated with limited liability in the British Virgin Islands)
(the "Issuer")

CNY1,000,000,000 3.30 per cent. Guaranteed Notes due 2026 (The "Notes")
(Stock Code: 84447)
Unconditionally and Irrevocably Guaranteed by

CMS 招商證券國際

CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
(招商證券國際有限公司)
(incorporated with limited liability in Hong Kong)
(the "Guarantor")

Issued under U.S.$2,000,000,000 Medium Term Note Programme of CMS International Gemstone Limited

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

Please refer to the offering circular dated 4 September 2023 (the "**Offering Circular**") in relation to the U.S.$2,000,000,000 Medium Term Note Programme of CMS International Gemstone Limited unconditionally and irrevocably guaranteed by China Merchants Securities International Company Limited (招商證券國際有限公司) and the pricing supplement dated 11 September 2023 (the "**Pricing Supplement**") prepared in relation to the issue of the Notes appended herein. As disclosed in the Offering Circular, the Notes are intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and have been listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities. The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of the Issuer, and no such inducement is intended.

The Offering Circular is published in English only. No Chinese version of the Offering Circular has been published.

Hong Kong, 19 September 2023

As at the date of this announcement, the directors of CMS International Gemstone Limited are Zhang Baojiang and Xie Qingjiao, and the directors of China Merchants Securities International Company Limited (招商證券國際有限公司) are Liu Rui, Lu Gonglu, Zhang Xing, Wang Jinbao, Zhan Guifeng and Liao Jinqiang.

Appendix I – Offering Circular

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR (IN THE CASE OF AN OFFERING OR SALE IN RELIANCE ON CATEGORY 2 OF REGULATION S UNDER THE SECURITIES ACT) TO ANY U.S. PERSONS

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED, SOLD OR (IN THE CASE OF SECURITIES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES OR (IN THE CASE OF AN OFFERING OR SALE IN RELIANCE ON CATEGORY 2 OF REGULATION S UNDER THE SECURITIES ACT) TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION.

THE OFFERING CIRCULAR MAY NOT BE DOWNLOADED, FORWARDED OR DISTRIBUTED, IN WHOLE OR IN PART, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY DOWNLOADING, FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of Your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be purchasing the securities outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. By accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to China Merchants Securities (HK) Co., Limited (the "**Arranger**"), the Dealers (as defined in the Offering Circular), CMS International Gemstone Limited (the "**Issuer**") or China Merchants Securities International Company Limited (招商證券國際有限公司) (the "**Guarantor**" or the "**Company**") that (1) you and any customers you represent are not, and that the electronic mail address that you gave us and to which this e-mail has been delivered is not, located in the United States and (2) that you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular to any other person. You should not reply by e-mail to this notice, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

The Offering Circular does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Arranger or a Dealer or any affiliate of it is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arranger or such Dealer or such affiliate on behalf of the Issuer and the Guarantor in such jurisdiction.

Important Notice to Prospective Investors

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes (as defined in the Offering Circular) pursuant to this Programme (as defined in the Offering Circular), each such offering, a "**CMI Offering**", including certain Dealers, may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Guarantor, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuer, the Guarantor, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Guarantor or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement (as defined in the Offering Circular) or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50 per cent. interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Guarantor, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

The Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Guarantor, the Arranger, the Dealers, the Trustee or the Agents (as defined in "*Terms and Conditions of the Notes*"), nor any person who controls any of them, nor any director, officer, employee, adviser nor agent of any of them, or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arranger or the Dealers.

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

OFFERING CIRCULAR

CMS INTERNATIONAL GEMSTONE LIMITED

(incorporated in the British Virgin Islands with limited liability)

U.S.$2,000,000,000

MEDIUM TERM NOTE PROGRAMME UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY

CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
(招商證券國際有限公司)

(incorporated in Hong Kong with limited liability)

Under the U.S.$2,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), CMS International Gemstone Limited (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**"). The Notes will be unconditionally and irrevocably guaranteed (the "**Guarantee of the Notes**") by China Merchants Securities International Company Limited (招商證券國際有限公司) (the "**Guarantor**" or the "**Company**").

Where the NDRC Administrative Measures (as defined below) apply to a Tranche of Notes, the Guarantor will file or cause to be filed with the National Development and Reform Commission of the PRC or its local counterparts (the "**NDRC**") the requisite information and documents within the relevant prescribed timeframes in accordance with the Administrative Measures for the Review and Examination of Medium and Long-Term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法(國家發展和改革委員會令第56號)) issued by the NDRC and effective from 10 February 2023, and any implementation rules as issued by the NDRC from time to time ("**NDRC Administrative Measures**") and any implementation rules, regulations, certificates, circulars or notices in connection therewith as issued by the NDRC from time to time.

The aggregate nominal amount of the Notes outstanding will not at any time exceed U.S.$2,000,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuing basis to one or more of the Dealer specified under "*Summary of the Programme*" and/or any additional Dealer appointed under the Programme from time to time by the Issuer (each, a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of the Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

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

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

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

Unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement (as defined in the "*Terms and Conditions of the Notes*") in respect of the issue of any Series (as defined in "*Summary of the Programme*") of Notes will specify whether or not such Series of Notes will be listed on the HKSE (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notice of the aggregate nominal amount of Notes, interest payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Series of Notes will be set out in the Pricing Supplement which, with respect to Notes to be listed on the HKSE, will be delivered to the HKSE, on or before the date of issue of such series of Notes.

The Notes of each Series to be issued in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (each, a "**Temporary Global Note**") or a permanent global note (each a "**Permanent Global Note**" and, together with the Temporary Global Notes, the "**Global Notes**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**").

The Notes of each Series to be issued in registered form ("**Registered Notes**") will be represented by registered certificates (each a "**Individual Note Certificate**"), one Individual Note Certificate being issued in respect of each Noteholder's (as defined in the "*Terms and Conditions of the Notes*") entire holding of Notes in registered form of one Series. Individual Note Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee for, one or more clearing systems are referred to as global note certificates ("**Global Note Certificates**").

Global Notes and Global Note Certificates may be deposited on the relevant Issue Date (as defined in the "*Terms and Conditions of the Notes*") with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), or with a sub-custodian for the Central Moneymarkets Unit (the "**CMU**") operated by the Hong Kong Monetary Authority (the "**HKMA**"), and in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream and/or the CMU, or delivered outside a clearing system, as agreed between the Issuer, the Trustee, the Principal Paying Agent, the CMU Lodging and Paying Agent, the Registrar and the relevant Dealer. The provisions governing the exchange of interests in a Global Note for other Global Notes or Definitive Notes or a Global Note Certificate for Individual Note Certificates are described in "*Forms of the Notes*".

The Notes and the Guarantee of the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes and the Guarantee of the Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S under the Securities Act ("Regulation S"), to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any Series of Notes may be subject to additional selling restrictions. The relevant Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See "*Subscription and Sale*" and the relevant Pricing Supplement. Registered Notes are subject to certain restrictions on transfer as described in "*Subscription and Sale*".

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

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

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

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

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

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

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE – The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to section 309B(1) of the Securities and Futures Act 2001 of Singapore (the "**SFA**"). The Issuer will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

The Programme is expected to be rated "Baa2" by Moody's Investor Service, Inc. ("**Moody**'s"). In addition, the Guarantor has been assigned a rating of "Baa2" with a stable outlook by Moody's. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

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

Arranger and Dealer
China Merchants Securities (HK)

The date of this Offering Circular is 4 September 2023

IMPORTANT NOTICE

Each of the Issuer and the Guarantor, having made all reasonable enquiries, accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor and its subsidiaries (including the Issuer) taken as a whole (the "**Group**"), the Notes and the Guarantee of the Notes which is material in the context of the issue and offering of the Notes (including all information required by applicable laws and according to the particular nature of the Issuer, the Guarantor, the Group, the Notes and the Guarantee of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, condition (financial or otherwise) and profits and losses of the Issuer, the Guarantor and the Group and of the rights attaching to the Notes and the Guarantee of the Notes), (ii) this Offering Circular does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein, in the light of the circumstances under which they were made, not misleading, (iii) the statements of facts relating to the Issuer, the Guarantor, the Group, the Notes and the Guarantee of the Notes contained herein are in every material respect true and accurate and not misleading, (iv) all statements of opinion, intention, belief or expectation contained in this Offering Circular are truly and honestly held and have been reached after due and careful consideration of all relevant circumstances and are based on reasonable assumptions and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

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

Each Tranche of the Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as amended and/or supplemented by the Pricing Supplement specific to such Tranche. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of the Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular is to be read in conjunction with all documents, which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

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

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

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

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

IMPORTANT – EEA RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to EEA Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS – If the Pricing Supplement in respect of any Notes includes a legend entitled "*Prohibition of Sales to UK Retail Investors*", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PRODUCT CLASSIFICATION PURSUANT TO SECTION 309B OF THE SECURITIES AND FUTURES ACT 2001 OF SINGAPORE – The Pricing Supplement in respect of any Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to section 309B(1) of the SFA. The Issuer will make a determination in relation to each issue about the classification of the Notes being offered for purposes of section 309B(1)(a). Any such legend included on the relevant Pricing Supplement will constitute notice to "relevant persons" for purposes of section 309B(1)(c) of the SFA.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, China Merchants Securities (HK) Co., Limited (the "**Arranger**") and the Dealers to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor, the Arranger or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Arranger or the Dealers, which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and the British Virgin Islands, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing any Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

The Notes and the Guarantee of the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States or (in the case of an offering or sale in reliance on Category 2 of Regulation S under the Securities Act) to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any Series of Notes may be subject to additional selling restrictions. The relevant Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See "*Subscription and Sale*" and the relevant Pricing Supplement. Registered Notes are subject to certain restrictions on transfer as described in "*Subscription and Sale*".

Important Notice to Prospective Investors

Prospective investors should be aware that certain intermediaries in the context of certain offerings of Notes pursuant to this Programme, each such offering, a "**CMI Offering**", including certain Dealers, may be "capital market intermediaries" ("**CMIs**") subject to Paragraph 21 of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "**SFC Code**"). This notice to prospective investors is a summary of certain obligations the SFC Code imposes on such CMIs, which require the attention and cooperation of prospective investors. Certain CMIs may also be acting as "overall coordinators" ("**OCs**") for a CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Guarantor, a CMI or its group companies would be considered under the SFC Code as having an association ("**Association**") with the Issuer, the Guarantor, the CMI or the relevant group company. Prospective investors associated with the Issuer, the Guarantor or any CMI (including its group companies) should specifically disclose this when placing an order for the relevant Notes and should disclose, at the same time, if such orders may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not disclose their Associations are hereby deemed not to be so associated. Where prospective investors disclose their Associations but do not disclose that such order may negatively impact the price discovery process in relation to the relevant CMI Offering, such order is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should ensure, and by placing an order prospective investors are deemed to confirm, that orders placed are bona fide, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). A rebate may be offered by the Issuer to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of the relevant CMI Offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate. Details of any such rebate will be set out in the applicable Pricing Supplement or otherwise notified to prospective investors. If a prospective investor is an asset management arm affiliated with any relevant Dealer, such prospective investor should indicate when placing an order if it is for a fund or portfolio where the relevant Dealer or its group company has more than 50 per cent. interest, in which case it will be classified as a "proprietary order" and subject to appropriate handling by CMIs in accordance with the SFC Code and should disclose, at the same time, if such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". If a prospective investor is otherwise affiliated with any relevant Dealer, such that its order may be considered to be a "proprietary order" (pursuant to the SFC Code), such prospective investor should indicate to the relevant Dealer when placing such order. Prospective investors who do not indicate this information when placing an order are hereby deemed to confirm that their order is not a "proprietary order". Where prospective investors disclose such information but do not disclose that such "proprietary order" may negatively impact the price discovery process in relation to the relevant CMI Offering, such "proprietary order" is hereby deemed not to negatively impact the price discovery process in relation to the relevant CMI Offering.

Prospective investors should be aware that certain information may be disclosed by CMIs (including private banks) which is personal and/or confidential in nature to the prospective investor. By placing an order, prospective investors are deemed to have understood and consented to the collection, disclosure, use and transfer of such information by the relevant Dealers and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Guarantor, any OCs, relevant regulators and/or any other third parties as may be required by the SFC Code, it being understood and agreed that such information shall only be used for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. Failure to provide such information may result in that order being rejected.

No person has been or is authorised in connection with the issue, offer, sale or distribution of the Notes to give any information or to make any representation not contained in, or not consistent with, this Offering Circular or any other document entered into in relation to the Programme and the sale of the Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Group, the Arranger, any Dealer, the Trustee (as defined below) or any Agent or any of their respective directors, officers, employees, advisers, agents or affiliates.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no change, or any development or event involving a prospective change, in the condition (financial or otherwise) or results of operations of the Group since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor, the Arranger, the Dealers, the Trustee, the Agents or any director, officer, employee, adviser, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer, the Guarantor and/or the Group.

The maximum aggregate principal amount of the Notes outstanding at any one time under the Programme will not exceed U.S.$2,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement), **provided that**, the maximum aggregate principal amount of the Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

No representation or warranty, express or implied, is made or given by the Arranger, the Dealers, the Trustee or the Agents or any of their respective directors, officers, employees, agents or affiliates as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, any Pricing Supplement or any other information provided or incorporated by reference in connection with the Notes or the Guarantee of the Notes, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arranger, the Dealers, the Trustee or the Agents or any of their respective directors, officers, employees, adviser, agents or affiliates. The Arranger, the Dealers, the Trustee and the Agents and their respective directors, officers, employees, advisers, agents and affiliates have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee or any Agent or any director, officer, employee, advisers, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular or the contents of this Offering Circular or for any other statement made or purported to be made by the Arranger, the Dealers, the Trustee, any Agent, or any director, officer, employee, adviser, agent or affiliate of any such person or on its behalf in connection with the Programme, the Issuer, the Guarantor, the Group, the Guarantee of the Notes, the Notes or the issue and offering of the Notes. The Arranger, the Dealers, the Trustee, each Agent and each of their respective directors, officers, employees, advisers, agents or affiliates accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

In connection with the issue of any Tranche of the Notes, the Dealer(s) (if any) named as the stabilisation manager(s) in the applicable Pricing Supplement (the "Stabilisation Manager(s)") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the relevant issue date in respect of that Tranche of the Notes. However, there is no obligation on such Stabilisation Manager to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. Any of the Arranger, the Dealers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer, or the Guarantor or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group. Investors are advised to read and understand the contents of this Offering Circular and the relevant Pricing Supplement before investing. If in doubt, investors should consult his or her adviser.

The Issuer, the Guarantor, the Group, the Arranger, the Dealers, the Trustee and the Agents and their respective directors, officers, employees, advisers, agents and affiliates are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular or any Pricing Supplement acknowledges that such person has not relied on the Arranger, the Dealers, the Trustee, the Agents or any of their respective directors, officers, employees, advisers, agents or affiliates in connection with its investigation of the accuracy of such information or its investment decision.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the relevant Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisors as to the risks and investment considerations arising from an investment in an issue of the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Arranger, the Dealers, the Trustee or the Agents or any director, officer, employee, adviser, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Guarantor and the Group. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigation, as it deems necessary.

None of the Arranger, the Dealers, the Trustee, the Agents or any of their respective directors, officers, employees, agents or affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Arranger, the Dealers, the Trustee, the Agents or their respective directors, officers, employees, advisers, agents or affiliates.

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer and the Guarantor believe this information to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Arranger, the Dealers, Trustee or the Agents or their respective directors, officers, employees, advisers, agents and affiliates, and none of the Issuer, the Guarantor, the Arranger, the Dealers, the Trustee or the Agents and their respective directors, officers, employees, advisers, agents or affiliates makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2021 and 2022 (the "**Group's Audited Financial Statements**"), which are included elsewhere in this Offering Circular, have been prepared and presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants and have been audited by Deloitte Touche Tohmatsu Certified Public Accountants ("**Deloitte**"), the independent auditor of the Guarantor.

CERTAIN DEFINITIONS AND CONVENTIONS

Unless the context otherwise requires, references in this Offering Circular to "**Hong Kong dollars**", "**HK dollars**" or "**HK$**" are to the lawful currency of Hong Kong, "**Renminbi**" and "**RMB**" are to the lawful currency of the PRC, "**U.S. dollars**", "**U.S.$**" and "**USD**" are to the lawful currency of the United States, the "**United States**" are to the United States of America, "**PRC**", "**mainland China**" and "**China**" are to the People's Republic of China which for the purpose of this Offering Circular excludes Hong Kong, Macau and Taiwan, "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, and "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China.

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

Solely for convenience, this Offering Circular contains translations of certain HK dollar amounts into U.S. dollar amounts. Unless indicated otherwise, the translation of HK dollar amounts into U.S. dollar amounts has been made at the rate of HK$7.8015 to U.S.$1.00, the exchange rates set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 December 2022. These translations should not be construed as representations that the HK dollar amounts could actually be converted into any U.S. dollar amounts at the rates indicated or at all or *vice versa*.

Unless specified otherwise, references in this Offering Circular to, and financial and other information presented with respect to, the Group are to such information of the Guarantor compiled on a consolidated basis.

The English names of the PRC or Korean nationals, entities, departments, facilities, laws, regulations, certificates titles and the like are translations of their Chinese or Korean names and are included for identification purposes only. Unless the context otherwise requires, references to "**2020**", "**2021**" and "**2022**" in this Offering Circular are to the years ended 31 December 2020, 2021 and 2022, respectively.

In this Offering Circular, references to:

- "**MOF**" refer to Ministry of Finance of the PRC;
- "**PRC government**" refer to the central government of the PRC and its political subdivisions, including provincial, municipal and other regional or local government entities, and instrumentalities thereof, or where the context requires, any of them;
- "**PBOC**" refer to the People's Bank of China, the central bank of the PRC or its competent local counterparts;
- "**NDRC**" refer to the National Development and Reform Commission of the PRC or its competent local counterparts;
- "**SAFE**" refer to the State Administration of Foreign Exchange of the PRC or its competent local counterparts; and
- "**State Council**" refer to the State Council of the PRC.

Any reference to any PRC government authority or department includes such authority or department at central, provincial, municipal and other levels, such competent authority and their respective successor authority or department.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

FORWARD-LOOKING STATEMENTS

This Offering Circular includes "forward-looking statements". All statements other than statements of historical fact contained in this Offering Circular, including, without limitation, those regarding the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "will", "may", "anticipate", "seek", "should", "estimate", "plan" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Group's control, which may cause its actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Important factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*" and elsewhere in this Offering Circular. The Issuer and the Guarantor caution investors not to place undue reliance on these forward-looking statements which reflect their management's view only as at the date of this Offering Circular. Neither the Issuer nor the Guarantor undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur.

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SUMMARY

This summary does not contain all the information that may be important to prospective investors in deciding whether or not to invest in the Notes. Prospective investors should read the entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

OVERVIEW

The Guarantor is a well-established capital market financial services company incorporated in Hong Kong. It is the sole overseas integrated financial services platform of its sole shareholder, China Merchants Securities Co., Ltd. (招商證券股份有限公司) ("**CMS**", together with its subsidiaries, the "**CMS Group**"), one of the top ten comprehensive PRC securities firms, under China Merchants Group Limited ("**China Merchants Group**"). Over the years, CMS has provided financial support for, and assistance to, the Group's business development and strategic expansion. As a vital link between CMS and the overseas capital market, the Guarantor offers integrated financial services to investors in mainland China, Hong Kong, Asia and Europe, creating substantial and mutually beneficial synergies. Leveraging CMS's resources, extensive business network and strong brand recognition, the Group has continued to grow in scale, revenue, and profitability.

The Group's offerings encompass brokerage, corporate finance and capital markets, trading and investment, principal investment, asset management and commodities trading across various industries and sectors. The Group conducts its businesses mainly through its wholly-owned subsidiaries, some of which are licensed to undertake comprehensive regulated activities in Hong Kong. The Group has obtained the following licences from the SFC: Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management). Additionally, the Guarantor operates subsidiaries in the United Kingdom and South Korea.

The Group's principal business segments include:

- *Brokerage:* providing domestic and overseas investors with one-stop investment services, including brokerage, margin financing, stock borrowing and lending, and wealth management services, covering various products such as global stocks, bonds, futures, options, funds and other derivatives and OTC products;

- *Corporate Finance and Capital Markets*: engaging in IPO sponsorship and underwriting, equity and debt capital market financing, M&A, and financial advisory services;

- *Trading and Investment:* investing in stocks of listed companies, debt securities, funds, fixed income products, derivatives and other financial instruments for its own accounts;

- *Principal Investment:* providing a platform for private equity investment through its proprietary capital and specialised fund vehicles. It focuses on minority equity investments in private companies in industries including technology, new energy, healthcare and consumer. The Group also provides financial advisory services to portfolio companies by leveraging CMS's local network and industry expertise;

- *Asset Management:* providing investors with comprehensive asset management services which offer a wide range of product lines and strategies, including fund management, discretionary account management, cross-border asset management, and investment advisory services; and

- *Commodities Trading:* offering comprehensive commodity trading services to corporate clients, including over-the-counter derivatives products, spot transactions and financing services. The commodities under trading include precious metals and energy products.

For the year ended 31 December 2022, the Group's total revenue[1] was HK$1,056 million, compared to HK$2,286 million for the year ended 31 December 2021 and HK$1,561 million for the year ended 31 December 2020, respectively. For the year ended 31 December 2022, the Group's profit (loss) before taxation was HK$(297) million, compared to HK$1,026 million for the year ended 31 December 2021 and HK$580 million for the year ended 31 December 2020, respectively. The Group has recorded a net loss in 2022 primarily due to the tightening monetary policies and heightened geopolitical tensions across the world which led to, among others (i) unfavourable market conditions in Hong Kong and a consequential decline of the Group's revenue and income under certain business segments, (ii) slowdown in fund raising activities in Hong Kong and a reduction in brokerage fees and commissions received by the Group, (iii) decrease in market prices and valuations of the Group's investments, and (iv) reduction in the scale of the Group's margin financing business to reduce risk exposures. See also "*Corporate Finance and Capital Markets*", "*Trading and Investment*" and "*Principal Investment*" sections under the "*Description of the Group – Business Activities*" heading below for more detailed reasons. As at 31 December 2022, the Group's total assets were HK$48 billion, compared to HK$42 billion as at 31 December 2021 and HK$29 billion as at 31 December 2020, respectively, representing a compound annual growth rate ("**CAGR**")[2] of 28.65 per cent. between 2020 and 2022.

COMPETITIVE STRENGTHS

With a collaborative, full-service business and strong innovation capabilities, the Group continues to expand its business, strengthen its market position and enhance its core competitiveness, driven by the following competitive strengths:

- robust support from CMS creating strategic synergy;
- benefiting from the century-old "China Merchants" brand and its unique business resources;
- successful implementation of "One CMS" strategy;
- strong financing capabilities;
- effective and prudent integrated risk management; and
- staff and management team with extensive knowledge and experience.

BUSINESS STRATEGIES

In line with its core values, the Group strives to become a market leader in the capital market financial services industry by providing an integrated platform. The Group's strategy is not only to strengthen and develop its own business but also to align its goals with, and serve the wider goals of the CMS Group. The Group's strategies to achieve its goals are described as follows:

- achieve balanced growth;
- focus on improving customers experience and servicing the economy;
- enhance the Group's product innovation ability to improve its product offering; and
- enhance the Group's risk management system, internal control and IT capabilities.

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1 The Group's total revenue consists of revenue, interest income, other income and gains, change in fair value of financial assets and liabilities at fair value through profit or loss, net gain (loss) on disposal of financial asset at fair value through other comprehensive income, net trading gains of precious metals and change in fair value of derivative financial instruments disclosed in the consolidated statement of profit or loss and other comprehensive income.

2

$$CAGR = \left(\frac{Final\ value}{Beginning\ value}\right)^{1/time\ in\ year} - 1$$

Final value refers to the value as at the end of period. Beginning value refers to the value as at the beginning of period. Time in years equals to two in this paragraph.

RECENT DEVELOPMENT

Financial Results as at and for the Six Months Ended 30 June 2023

For the six months ended 30 June 2023, the Group's total revenue and net profit increased significantly as compared with the corresponding period in 2022, mainly because the Group's trading and investment business has outperformed in the first half of 2023 comparing to such in 2022.

As at 30 June 2023, the Group's total assets decreased as compared to the balance at 31 December 2022, primarily because the Group has reduced its liquid assets and bank balance following the improved market liquidity after year-end. The Group's total liabilities as at 30 June 2023 decreased as compared to the balances at 31 December 2022.

No audit or review has been performed on the financial results as at and for the six months ended 30 June 2023 and they are not indicative of the Group's financial condition or results of operations for the full year ending 31 December 2023. Such financial results were prepared by the Guarantor management in accordance with China Accounting Standards for Business Enterprises. As the financial results as at and for the six months ended 30 June 2023 have not been audited or reviewed, they should not be relied upon by prospective investors to provide the same type or quality of information associated with information that has been subject to an audit or a review by an independent auditor.

Material Changes in Capitalisation and Indebtedness Since 31 December 2022

As at the date of this Offering Circular, the Guarantor's consolidated non-current bank borrowings have increased significantly as compared to the balance as at 31 December 2022, primarily driven by the Group's strategy to enhance liquidity and secure stable long-term funding. As at the date of this Offering Circular, the Guarantor's consolidated current bank borrowings, short-term notes issued and financial assets sold under repurchase agreements and other borrowings have decreased significantly as compared to the balance as at 31 December 2022, mainly attributed to the Group's adjustment to its surplus funds and repayment of certain bank loans following the relaxed market liquidity after year-end. The Guarantor's total equity has slightly increased as compared to the balance as at 31 December 2022.

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	CMS International Gemstone Limited.
Guarantor	China Merchants Securities International Company Limited (招商證券國際有限公司).
Programme Size	Up to U.S.$2,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Issuer and the Guarantor may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Arranger	China Merchants Securities (HK) Co., Limited.
Dealer	China Merchants Securities (HK) Co., Limited.
Principal Paying Agent	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Registrar and Transfer Agent	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
CMU Lodging and Paying Agent	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
CMU Registrar	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Trustee	China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司).
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the relevant Issue Date, the issue price, the first payment of interest and the timing to submit the NDRC Post-issue Filing and the deadlines for making notifications thereof), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each, a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the relevant Issue Date, the issue price, the first payment date of interest, the nominal amount of the Tranche and the timing to submit the NDRC Post-issue Filing and the deadlines for making notifications thereof, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.

Clearing Systems	With respect to Notes (other than any series of Notes cleared through the CMU (the "**CMU Notes**")), Euroclear, Clearstream and such other clearing system as shall be agreed between the Issuer, the Trustee, the Principal Paying Agent and the relevant Dealer. With respect to CMU Notes, the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**"). See "*Clearance and Settlement*".
Guarantee of the Notes	The Guarantor unconditionally and irrevocably guarantees the due and punctual payment of all sums from time to time payable by the Issuer under the Trust Deed or in respect of the Notes.
Forms of the Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the relevant Pricing Supplement, which, in each case, may be deposited on the relevant Issue Date with a common depositary for Euroclear, Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream or, in respect of CMU Notes, a sub-custodian for the CMU. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures of the time being of Euroclear, Clearstream, the CMU and/or any other agreed clearance system, as appropriate. Bearer Notes will be issued in compliance with applicable U.S. tax rules. Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**TEFRA D Rules**") unless (i) the relevant Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**TEFRA C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the relevant Pricing Supplement. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note.

	Each Tranche of Registered Notes will, unless otherwise specified in the relevant Pricing Supplement, be represented by a Global Note Certificate, which will be deposited on or about the relevant Issue Date with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream or in respect of CMU Notes, the Global Note Certificate will be lodged with a sub-custodian for the CMU operated by the HKMA and registered in the name of the HKMA. With respect to all offers or sales by a Dealer of an unsold allotment or subscription, beneficial interests in a Global Note Certificate of such Tranche may be held only through Euroclear or Clearstream or the CMU. Application will be made to have Global Notes or Global Note Certificates of any Tranche accepted for clearance and settlement through the facilities of Euroclear or Clearstream, and/or the CMU, as appropriate.
Currencies	Notes may be denominated in any currency or currencies, agreed between the Issuer, the Guarantor and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Denominations	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Status of the Notes	The Notes constitute direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 5(a) (*Negative Pledge*)) unsecured obligations of the Issuer and (subject as stated above) rank and will rank *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Status of the Guarantee of the Notes	The obligations of the Guarantor under the Guarantee of the Notes constitute direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 5(a) (*Negative Pledge*)) unsecured obligations of the Guarantor and (subject as stated above) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) such Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors"; or (ii) another applicable exemption from section 19 of the FSMA must be available.
Redemption	Unless previously redeemed, purchased or cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date of the relevant Tranche as described in Condition 9(a) (*Redemption at Maturity*).
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) as described in Condition 9(e) (*Redemption at the option of the Issuer*) and/or the Noteholders in Condition 9(g) (*Redemption at the option of Noteholders*) to the extent (if at all) specified in the relevant Pricing Supplement.
Tax Redemption	The Notes may be redeemed at the option of the Issuer in whole, but not in part for tax reasons as described in Condition 9(b) (*Redemption for Taxation Reasons*).
Redemption for Change of Control	In relation to Notes where the Change of Control Put is specified in the relevant Pricing Supplement, subject to the provisions of Condition 9(c) (*Redemption for Change of Control*), following the occurrence of a Change of Control, the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that holder's Notes on the Change of Control Put Date at a price equal to the relevant Early Redemption Amount (Change of Control) together with accrued interest up to but excluding the Change of Control Put Date.
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate and the method of calculating interest may vary between the issue date and the Maturity Date of the relevant Tranche. All such information will be set out in the relevant Pricing Supplement.

	For Floating Rate Notes, additional fallback provisions for Reference Rate and relevant risk factors may be set out in the relevant Pricing Supplement.
Covenants	The Issuer and the Guarantor are subject to certain covenants as further described in Condition 5 (*Covenants*).
Cross-Acceleration	The Notes will contain a cross-acceleration provision as further described in Condition 13(c) (*Events of Default – Cross-Acceleration*).
Withholding Tax	All payments in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (the "**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of such Taxes is required by law. In that event, the Issuer or the Guarantor, as the case may be, will (subject to certain exceptions as described in Condition 12 (*Taxation*)) pay such additional amounts as may be necessary in order that the net amount received by Noteholders and the Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction.
Listing and Trading	Application has been made to the HKSE for the listing of the Programme under which Notes may be issued during the 12-month period after the date of this Offering Circular on the HKSE by way of debt issues to Professional Investors only. Separate application will be made for the listing of the Notes on the HKSE. Notes listed on the HKSE will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies). However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the HKSE or listed, traded or quoted on or by any other competent authority, exchange or quotation system.
Governing Law	The Notes, the Agency Agreement and the Trust Deed and all non-contractual obligations arising out of or in connection therewith are governed by, and shall be continued in accordance with English law.

Rating	The Programme is expected to be rated "Baa2" by Moody's. These ratings are only correct as at the date of this Offering Circular. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. Notes issued under the Programme may be rated or unrated, as specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore and the British Virgin Islands, see "*Subscription and Sale*" below. In connection with the offering and sale of a particular Series of the Notes, additional restrictions may be imposed which will be set out in the relevant Pricing Supplement.
Initial Delivery of the Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU and/or any other clearing system on or about the issue date or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Principal Paying Agent, the CMU Lodging and Paying Agent, the relevant registrar and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or a sub custodian for, or the operator of, such clearing systems.
Legal Entity Identifier Code of the Issuer	9845001AE6C993CB8D75.

SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

The summary consolidated financial information of the Guarantor as at and for the years ended 31 December 2020, 2021 and 2022 is derived from the Group's Audited Financial Statements, which have been audited by Deloitte, and included elsewhere in this Offering Circular. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Group's Audited Financial Statements, including the notes thereto. Historical results are not necessarily indicative of results that may be achieved in any future period.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(All amounts in HKD unless otherwise stated)

	For the year ended 31 December		
	2020	**2021**	**2022**
		(audited)	
Revenue	556,941,968	597,341,018	509,257,684
Interest income	454,823,727	528,244,071	452,535,323
Other income and gains	109,587,652	65,050,855	38,277,586
Change in fair value of financial assets and liabilities at fair value through profit or loss	319,059,751	(752,835,511)	(1,479,795,091)
Net gain (loss) on disposal of financial asset at fair value through other comprehensive income	1,376,431	(74,651,013)	(34,819,654)
Net trading gains of precious metals	81,042,014	26,953,422	4,982,905
Change in fair value of derivative financial instruments	38,636,314	1,896,226,169	1,565,607,437
Brokerage fee and commission expenses	(144,080,875)	(184,794,778)	(119,584,852)
Staff costs	(358,918,007)	(477,416,094)	(351,452,768)
Depreciation and amortisation	(23,116,210)	(23,493,863)	(18,288,078)
Depreciation on right-of-use asset	(37,142,337)	(35,989,007)	(32,769,272)
Finance costs	(209,466,407)	(266,958,262)	(286,775,113)
Other operating expenses	(192,333,205)	(239,888,165)	(497,172,257)
Expected credit losses, net	(11,592,659)	(37,248,029)	(73,064,963)
Impairment allowance on intangible assets	(18,991)	–	–
Change in third-party interests in consolidated investment funds	(4,903,717)	5,133,237	25,625,406
Profit (loss) before taxation	579,895,449	1,025,674,050	(297,435,707)
Taxation	(74,129,890)	(149,355,779)	(6,823,638)
Profit (loss) for the year	**505,765,559**	**876,318,271**	**(304,259,345)**
Other comprehensive income (expense) for the year, net of income tax	**22,173,975**	**(28,266,892)**	**(20,598,182)**
Total comprehensive income (expense) for the year	**527,939,534**	**848,051,379**	**(324,857,527)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All amounts in HKD unless otherwise stated)

	As at 31 December		
	2020	2021	2022
		(audited)	
Non-current assets			
Property and equipment	33,937,750	22,644,875	19,090,251
Right-of-use asset	118,820,518	121,879,780	94,718,761
Goodwill	42,764,486	42,764,486	42,764,486
Deferred tax asset	4,759,186	10,988,814	5,841,337
Intangible asset	18,371,106	38,031,650	41,915,301
Equity instruments at fair value through other comprehensive income	–	–	101,076,320
Statutory deposits and other receivables	110,127,097	73,514,616	71,511,589
Amounts due from the immediate holding company	–	–	2,829,184,332
Total non-current assets	**328,780,143**	**309,824,221**	**3,206,102,377**
Current assets			
Trade receivables	8,024,462,900	9,085,527,065	6,875,456,133
Other receivables and prepayments	30,150,874	36,404,452	32,789,624
Tax recoverable	411,807	560,626	51,468,720
Financial assets at fair value through profit or loss	7,000,826,021	16,391,046,178	12,700,298,212
Debt instruments at fair value through other comprehensive income	2,459,739,193	833,969,079	2,186,371,917
Debt instruments at amortised cost	159,156,105	251,090,541	494,309,792
Other assets at fair value	473,090,605	127,167,093	284,330,081
Derivative financial assets	39,417,929	1,938,134,237	909,646,862
Bank balances and cash	10,729,407,669	12,776,409,188	21,159,488,128
Total current assets	**28,916,663,103**	**41,440,308,459**	**44,694,159,469**
Current liabilities			
Trade payables	12,513,745,862	13,136,190,528	9,941,674,050
Payable under securities lending agreements	–	–	2,140,639,409
Bank borrowings	4,208,256,494	6,379,167,851	12,844,114,220
Short-term notes issued	–	484,169,691	39,157,230
Tax liabilities	55,870,426	85,578,500	70,018,707
Other payables and accrued charges	163,016,823	267,574,782	181,108,982
Financial liabilities at fair value through profit or loss	1,570,585,417	3,144,431,437	2,947,333,888
Derivative financial liabilities	38,582,367	242,032,446	881,426,924
Financial assets sold under repurchase agreements and other borrowings	3,745,899,889	3,174,186,429	4,314,895,453
Lease liabilities	36,050,456	31,683,782	28,863,821
Third-party interests in consolidated investment funds	22,348,388	99,574,540	1,049,860,270
Total current liabilities	**22,354,356,122**	**27,044,589,986**	**34,439,092,954**
Net current assets	**6,562,306,981**	**14,395,718,473**	**10,255,066,515**
Total assets less current liabilities	**6,891,087,124**	**14,705,542,694**	**13,461,168,892**

	As at 31 December		
	2020	2021	2022
		(audited)	
Equity			
Share capital	4,103,627,390	6,453,627,390	6,453,627,390
Reserves	2,207,565,121	3,055,616,500	2,730,758,973
Total equity	**6,311,192,511**	**9,509,243,890**	**9,184,386,363**
Non-current liabilities			
Bank borrowings	497,068,431	1,198,067,518	300,139,628
Long-term note issued	–	3,902,536,450	3,904,010,042
Deferred tax liabilities	–	2,811,212	3,197,530
Lease liabilities	82,826,182	92,883,624	69,435,329
Total non-current liabilities	**579,894,613**	**5,196,298,804**	**4,276,782,529**
Total equity and non-current liabilities	**6,891,087,124**	**14,705,542,694**	**13,461,168,892**

RISK FACTORS

Prior to making an investment decision, prospective investors should carefully consider the following risk factors, along with the other matters set out in this Offering Circular. Additional risks not described below or not currently known to the Issuer, the Guarantor or the Group or that the Issuer and the Guarantor currently deem immaterial may also adversely affect the value of the Notes. The Issuer and the Guarantor believe that the risk factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes or the inability of the Guarantor to satisfy its obligations under the Guarantee of the Notes may occur for reasons which may not be considered as significant risks by the Issuer or the Guarantor based on information currently available to it or which it may not currently be able to anticipate or which the Issuer or the Guarantor may currently deem immaterial. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

The Issuer and the Guarantor do not represent that the statements below regarding the risk factors of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

RISKS RELATING TO THE GROUP'S BUSINESSES

General economic, political and market conditions could materially and adversely affect the Group's business.

The Group's business, financial condition, results of operations and prospects may be impacted by macroeconomic and political risks. As the Group's business is highly dependent on economic and market conditions in Hong Kong, mainland China and other jurisdictions where the Group operates its businesses, it may be affected by global market conditions.

Global economic and market conditions have experienced significant negative trends in recent years due to political tensions, ongoing international trade disputes, the elevated uncertainty stemming from the long-term effects of monetary and fiscal policies adopted by central banks and other leading financial authorities globally and other relevant factors. The rise of economic nationalist sentiment and trade protectionism has led to increasing political uncertainty and unpredictability throughout the world. Since the second half of 2018, there have been trade tensions between China and the United States with both countries imposing tariffs on certain products imported from each other. The escalating U.S.-China trade tensions and the U.S. global trade policy concerning the PRC, including tightening regulatory restrictions, industry-specific quotas, tariffs, non-tariff barriers and taxes may have an adverse effect on the PRC economy. On 31 January 2020, the United Kingdom officially withdrew from the European Union (the "**EU**") ("**Brexit**"). With Brexit taking full effect, it is unclear how it will ultimately affect the fiscal, monetary and regulatory landscape within the United Kingdom, the EU and other countries. Furthermore, the Russo-Ukrainian conflict has led to significant volatility in the global markets. The extent and duration of such conflict, resulting sanctions and future market disruptions are impossible to predict, but could be significant and may have a severe adverse effect on the region, including a significant negative impact on the economy and the markets for certain securities and commodities, such as oil and natural gas, and on global economies.

Concerns over various factors, including inflation, energy costs, geopolitical issues, the availability and cost of credit, unemployment, consumer confidence, declining asset values, capital market volatility and liquidity issues, have created difficult operating conditions in the past and could create difficult operating conditions in the future, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

Changes in the global financial market conditions could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

The Group's businesses are directly affected by the risks inherent in the financial markets globally and nationally, such as market volatility, investment sentiment, fluctuations in securities trading volumes, supply of liquidity and perceived creditworthiness of the securities industry in the marketplace. Global financial market conditions may also influence financial market conditions in Hong Kong and mainland China, which could in turn significantly affect the Group.

Volatility in the global capital markets, including other major financial centres such as the United States, the United Kingdom, Europe and Japan, has at times negatively impacted the Asian financial markets and may continue to do so in the future. Unfavourable financial or economic conditions, such as those caused by the global financial and economic crisis within this decade, have adversely affected the confidence of potential investors. Weakening investor confidence can result in significant declines in the number and size of transactions in which the Group participates and/or invests. Any adverse conditions in Asian financial markets, particularly the capital markets in Hong Kong, may adversely affect the Group's business. The Hong Kong stock market has experienced declines and volatility since February 2018, following multiple interest hikes by the U.S. Federal Reserve, currency depreciations of emerging markets, escalating trade friction between the U.S. and China and the outbreak of COVID-19.

Downturns in economic conditions and adverse market conditions could materially and adversely affect the Group's business, financial condition, results of operations and prospects in various ways, including:

- the demand of the Group's clients for the services provided by the Group could decrease, resulting in a decline in the Group's revenues generated from its business lines;

- the value and returns on financial assets the Group holds for securities trading and investment and the value of investment portfolio for the Group's asset management products may be adversely affected by market volatility;

- the Group may face increased default risks if clients or counterparties fail to perform their respective contractual obligations;

- the Group's financing costs may increase due to limited access to liquidity and the capital markets, which could limit the Group's ability to raise funding to further develop the Group's business; and

- the Group may not be able to effectively execute the Group's business plans and strategies.

A reduction in the Group's income or a loss resulting from its brokerage, corporate finance and capital markets, trading investment, principal investment and asset management business could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces increasing competition in the financial services industry.

The financial services industry in Asia, in particular in Hong Kong and mainland China, accommodates a large number of participants and is highly competitive. The financial services industry in Hong Kong has a low entry barrier as new participants are able to enter as long as they have engaged professionals with the appropriate skills and have obtained the requisite licences and permits to engage in the various types of activities regulated under the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"). The Group has been facing increasing competition from securities institutions and financial services firms with similar background and similar target customers, multinational financial institutions including commercial banks and investment banks with global networks, local securities institutions in the financial services industry in Hong Kong and asset management firms over the years.

The Group competes on the basis of a number of factors, including pricing, product and service offerings, innovation, transaction execution capability, reputation, understanding of clients' needs and employee remuneration. Competition in these businesses has always been fierce and the emergence of online securities brokerage and financial information portals have increased competition for online business revenue. In recent years, as the asset management and brokerage markets in Hong Kong and mainland China have become more saturated, banks and brokerage firms have lowered their management fees, prolonged commission-free concessions, or required extra-low fixed commission rates as incentives to attract customers with different backgrounds, intensifying competition in this industry. The Group expects that competition in corporate finance and capital markets, asset management, wealth management and investment businesses, which are the Group's core businesses, will continue to be intense. The Group may not be able to compete effectively and successfully in its core business areas in which it currently operates or plans to operate. The increasing competitive pressure may adversely affect its business, financial condition and results of operations by, amongst other things, (i) reducing the Group's market share in its principal business lines; (ii) decreasing the Group's net interest margins and spreads; (iii) reducing fees and commission income; (iv) increasing non-interest expenses, including sales and marketing expenses; and (v) increasing competition for qualified employees with relevant experience.

The Group cannot provide any assurance that it can compete effectively against its current and future competitors. Moreover, the Group's business objectives may become impractical and/or impossible due to the competitive forces in the market. Under those circumstances, the Group's operating performance, financial results and prospects would be adversely affected.

The Group's businesses are highly regulated and are subject to regulatory risks.

The Group operates in a highly regulated financial services industry and is subject to extensive laws, regulations, rules, policies, guidance and codes of conduct established by relevant regulatory authorities, including those in Hong Kong, the United Kingdom and South Korea. Regulatory bodies have been strengthening regulation and taking a rigorous approach to compliance, investigation and penalties across the financial services sector in recent years.

Key regulations in Hong Kong that govern the Group's operations include the SFO, Insurance Ordinance (Cap. 41), Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC. Its employees may also become the subject of inquiries or investigations by the relevant regulatory authorities. See "*Description of the Group – Regulatory Requirements and Compliance*". Compliance with these rules is critical, as failure to do so may subject the Group to inquiries and investigations by the relevant regulatory authorities. The consequences of non-compliance can range from fines, censure, and reprimand to the suspension or revocation of licenses.

Any regulatory inquiries or investigations resulting in substantial penalties and/or protracted litigation could jeopardise the Group's reputation and financial position, leading to a material and adverse effect on the Group's business, financial condition, results of operations and prospects.

Moreover, the regulatory environment is dynamic, and laws, regulations, rules, guidance, codes of conduct, government policies and/or their respective interpretations currently affecting the Group may change and, despite the Group's continuous monitoring of regulatory developments, it cannot predict future initiatives or changes. Changes in laws, regulations and/or the enforcement or interpretations of the existing laws or regulations, or heightened regulatory scrutiny or increasingly hefty fines that could be applied to or imposed on the Group's businesses or those of its clients may adversely affect the Group's ability to compete effectively with other institutions not subjected to similar regulatory pressures. This could potentially impact the Group's market position and competitiveness in the industry.

The Group is subject to extensive and evolving regulatory approval, licensing and due diligence requirements, non-compliance with which may result in penalties and revocation of the licences for the Group's businesses.

The Group's businesses are subject to extensive and evolving regulatory approval and licensing requirements. Withdrawal or amendment of any regulatory approval or of any exemption from registration in respect of any part of the Group's activities in any jurisdiction could force the Group to terminate certain businesses or change the way in which it is conducted. Licensing requirements are becoming increasingly stringent for the Group's employees in Hong Kong and mainland China. Since the Group relies on its employees to conduct regulated activities, such as investment consulting and asset management, any withdrawal of either a licence or an approval for the responsible personnel would hinder their ability to perform their current role. The Group will be subject to adverse consequences if its regulated activities businesses are conducted by unauthorised persons, such as nullification of otherwise valid business agreements.

The Group must be prepared to respond to material changes in legislation or regulation that could affect its business model or products. Adapting to these changes may lead to increased compliance costs, particularly if the relevant market is significant for the Group. Such changes in regulations could hinder the Group's expansion strategy and have a material adverse effect on its business, financial condition, and results of operations.

In addition, changes in regulations relating to the due diligence process for primary offerings in capital markets, for example, initial public offerings of shares, could create more onerous obligations on the part of sponsors, bookrunners and other parties in the offering process, with an increased risk of non-compliance. The performance and prospects of the Group's corporate finance and capital markets business may be hindered if tighter due diligence requirements result in the non-compliance of such tightened regulatory requirements by the Group. See "*Risk Factors – The Group's corporate finance and capital markets business is subject to risks relating to macroeconomic conditions and transaction-specific execution barriers.*"

If the Group fails to comply with any rules and regulations, it may become subject to inquiries and/or investigations by the relevant regulatory bodies. If the Group is found to be involved in serious misconduct, the Group may become subject to penalties including fines, censure, reprimand, suspension or revocation of licences or restrictions on the Group's business activities. The reputation, image and financial position of the Group may be damaged if such penalties are substantial or protracted litigation is involved. In such cases, there may be a material and adverse impact on the Group's business, financial condition, results of operations and prospects.

The Group may be subject to claims of mis-selling.

The Group offers various financial products directly to corporate and institutional investors as well as to private investors through intermediaries or distributors. These investors or their advisers may seek compensation from the Group if they suffer losses on such financial products, alleging that the products were mis-sold, unsuitable for their needs, or that risks were not properly disclosed, violating relevant financial regulations. They may also claim that marketing materials contained erroneous or misleading information, leading to their investment decisions.

Notwithstanding the policies implemented by the Group on providing guidance to employees on the appropriate selling procedures, it is possible that the Group has rogue or fraudulent employees who do not comply with such policies. Any potential legal action undertaken by investors for mis-selling may be successful and this could in turn adversely affect the business, financial condition, results of operations and prospects of the Group. Such claim may also result in regulatory investigation and censure and may damage the reputation of the Group.

The Group's businesses are vulnerable to volatility in stock price and illiquidity of securities.

Fluctuations in securities markets could adversely affect the Group's investment and financial assets. Unfavourable market conditions could affect the value of its financial assets while favourable market conditions may not always be sustainable. Lack of liquidity or price volatility could reduce the value of the financial assets that the Group invests in or manages which, in turn, may have a material adverse effect on its business, growth prospects, net inflows of the assets under management (the "**AUM**"), fee income, results of operations and/or financial condition.

In particular, margin financing products provided by the Group to its clients is vulnerable to stock price volatility and illiquidity of those securities which are pledged as security for loans. In a volatile market, if the stock price drops, clients may be required to deposit additional cash or other securities in the collateral portfolio to reduce credit risk exposure or increase collateral value. If clients are unable to meet the relevant margin calls, the Group is entitled to sell the relevant pledged securities and use the sale proceeds toward repayment of the loans. As proceeds from selling of pledged securities may not result in sufficient proceeds to cover the amount of margin loan outstanding, the failure of a client to make up for such a shortfall could adversely affect the Group's businesses and financial performance. The Group's businesses and financial performance may also be adversely affected if any borrower fails to repay the amount owed to the Group.

The Group has incurred net loss for the year ended 31 December 2022 and any further net losses in the future may have a material adverse impact on its business, financial condition and results of operations.

The Group has incurred a net loss before taxation of HK$297 million for the year ended 31 December 2022, decreasing from a net profit before taxation of HK$1,026 million for the year ended 31 December 2021. The loss was largely attributable to the tightening monetary policies and heightened geopolitical tensions across the world which led to, among others, (i) unfavourable market conditions in Hong Kong and a consequential decline of the Group's revenue across certain business segments, (ii) a slowdown in fund raising activities in Hong Kong, resulting in a reduction in brokerage fees and commissions, (iii) decrease in market prices and valuations of the Group's investments, and (iv) reduction in the scale of the Group's margin financing business to reduce risk exposures.

The Group may again incur net losses in the future due to a number of factors, including, among others, the downturns in the financial markets, fluctuations of stock indices, fewer initial public offerings or merger and acquisition activities, reduction in trading volumes, illiquidity of securities in the secondary market and asset price fluctuations. Given the current economic landscape, these factors are likely to continue their impacts on the market, and the Group's future results of operations will also continue to be affected by and depend upon a number of other factors, such as social, political, economic and other factors, most of which are beyond the Group's control. There is no assurance that the Group will not continue to experience such negative trends of, or significant fluctuations in, revenue or net profit in the future.

The Group faces various risks as it expands its product and service offerings.

Products and services provided by the Group have expanded in recent years to include, among others, margin financing and securities lending, stock-based lending, swaps, online financial services, and mutual fund and private equity fund management. The Group will continue to expand its product and service offerings with the permission given by the relevant regulatory authorities. New businesses may expose the Group to additional and potential risks and challenges including:

- Insufficient financing: the Group may not be able to obtain sufficient financing to support its business expansion;

- Marketing condition uncertainty: the Group may be unable to make accurate and precise judgments on market conditions for its new business, and properly identify or adequately evaluate the risks of the Group's new business;

- Risk management capabilities: the Group may not be successful in enhancing its risk management capabilities and upgrading its information technology systems to support a broader range of products and services;

- Inexperience with new offerings: the Group may not have sufficient experience or expertise in offering new products and services and dealing with new counterparties and clients, and the Group's new products and services may fail to meet its profitability expectations or not be accepted by its clients;

- Regulatory restrictions and scrutiny: the Group may encounter unexpected regulatory restrictions on its planned business activities and subject itself to greater regulatory scrutiny;

- Legal disputes with clients: the Group may be involved in legal disputes with clients due to deficiencies in its new products and its failure to identify the risks associated with new products and match with clients' risk tolerance, which could be detrimental to the Group's reputation; and

- Talent retention and recruitment: the Group may fail to employ or retain competent personnel with the requisite experience to support the new products and services.

If the Group is unable to achieve the intended results with respect to the Group's new products and services, the Group's reputation, business, financial condition, results of operations and prospects could be materially and adversely affected.

The Group's business is subject to the risks associated with international expansion.

The Group has been exploring business opportunities in the international markets, and thus subject to risks associated with its international expansion. Since 2013, the Group has expanded its businesses through its subsidiaries in the United Kingdom and South Korea and set up a global financial servicing network. Any significant disruption in the Group's overseas operations may have certain adverse effects on its business, financial condition, results of operations and prospects.

The Group expects to continue exploring opportunities in overseas markets and it may enter into markets where it has limited or no prior operating experience. Consequently, the Group may not be able to attract enough new clients due to its limited presence and brand recognition in such overseas markets and may fail to compete effectively with well-established competitors in these markets. In addition, such expansion may increasingly subject the Group to risks inherent in conducting business internationally, including failure to comply with laws and regulations, approvals or licence requirements, as well as industry or technical standards of the overseas markets which the Group has expanded into, challenges in administering and providing support to offshore operations and clients in the overseas markets; and differences in cultural, commercial and operating environments and corporate governance. The lack of brand recognition and limited presence in new overseas markets may also hinder the Group's ability to attract new clients and effectively compete with well-established competitors. Failure to manage these risks effectively could result in adverse consequences for the Group, including reputational damage, financial strain, and compromised operational performance.

The Group's brokerage business is subject to changing market conditions, fluctuations in its brokerage commission rates and its ability to maintain or expand its client base.

The Group generates brokerage commission income from brokerage services to its clients in equities, margin financing, wealth management and swap businesses. Such brokerage commission income depends significantly on the turnover of trading that the Group executes for its clients. Various external factors out of control of the Group may affect trading turnover of the Group, such as general economic and financial market conditions, volatility of stock prices, fluctuations in interest rates, as well as investor behaviour. The increasing competition in the securities industry and the development of internet finance and other alternative trading systems could lead to a decrease in the Group's brokerage commission rates, which will adversely affect the Group's brokerage business.

The success of the Group's brokerage business is also subject to its ability to maintain and expand its client base. Whether the Group can retain and attract clients is dependent on its ability to compete with alternative investment products available in the market, investment performance, client services, and marketing and distribution capabilities. If the Group is unable to cater to the needs of its clients by providing high-quality, value-added client services, and continue to introduce innovative products, or if the Group fails to meet clients' demands or expectations, it may lose existing clients to competitors or fail to attract new clients. As a result, the Group's business, financial condition and results of operations could be adversely affected.

The Group's corporate finance and capital markets business is subject to risks relating to macroeconomic conditions and transaction-specific execution barriers.

The Group's corporate finance and capital markets business is subject to various risks including changes in macroeconomic conditions and transaction-specific execution barriers.

Economic and market conditions may adversely affect the Group's corporate finance and capital markets business. Poor economic conditions may reduce investor confidence, resulting in significant industry-wide declines in the size and number of securities offerings and mergers and acquisitions ("**M&A**"), which could result in a decrease in the Group's revenue from its corporate finance and capital markets business and the Group's profit margins. Adverse market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten or sponsored by the Group and M&A advised by the Group, which may materially and adversely affect the Group's revenue from the corporate finance and capital markets business.

The Group is exposed to transaction-specific execution risks for each securities offering it sponsors and underwrites or places and for each M&A transaction that it advises on. In general, the Group receives payment of sponsorship fees, underwriting commissions or advisory fees only after it successfully completes a transaction. If a project is delayed or it is not completed as scheduled or at all for any reason, including weak investor interest or a failure to obtain approval from the relevant listing or regulatory authorities, the Group may not receive payment for its advisory and capital financing services in a timely manner, or at all, which may materially and adversely affect its business, financial condition, results of operations and prospects. Further, the Group may be exposed to litigation, reputational and other risks from the securities offerings in which it participates, even after the completion of the offerings, if controversies, disputes and claims arise from the projects, including but not limited to securities class actions, and regulatory investigations and sanctions about alleged securities fraud and other causes of action.

The Group may also be exposed to investment risk on securities it underwrites on a firm commitment basis and may suffer additional losses as a member of an underwriting syndicate if an offering is not fully subscribed. The performance of the underwriting activities may severely weaken during periods of inactive and unstable market conditions when the securities underwritten by the Group are undersubscribed and the Group and other underwriters/sub-underwriters are required to take up unsubscribed securities. If the Group fails to sell the securities it underwrites on a firm commitment basis, it will suffer reputational damage. It will also incur additional expenses to purchase and hold the underwritten securities, thereby materially and adversely affecting its business, financial condition, results of operations and prospects.

The Group's corporate finance and capital markets business is subject to regulatory risks, particularly in relation to the underwriting of securities offerings.

The Group is exposed to uncertainties in obtaining regulatory approvals for securities offerings that the Group sponsors or underwrites and M&A transactions that the Group advises on. The primary offerings of securities, especially IPOs, and certain types of M&A involving listed companies in Hong Kong and mainland China, are subject to reviews and approvals by various regulatory authorities. The Group's ability to successfully navigate these regulatory processes is essential for the timely completion of transactions. However, the results and timing of regulatory approvals are beyond the Group's control, which may lead to substantial delays or even the termination of securities offerings and M&A deals.

In the case of Hong Kong IPOs, the Group takes on the role of a sponsor and is required to fulfil certain due diligence and disclosure requirements. As a sponsor, the Group plays a critical role in ensuring the accuracy and completeness of information provided to investors. Any breach of relevant regulations or failure to meet disclosure requirements could expose the Group to regulatory sanction, civil and criminal liability, and potential legal action from investors. In recent years, the SFC has exercised heightened scrutiny on sponsor activities in connection with Hong Kong IPOs and levied hefty fines and imposed penalties on sponsors that breached the relevant laws, regulations and rules of conduct. The increasingly stringent regulatory environment has increased liabilities for IPO sponsors, creating additional risks for the Group's corporate finance and capital market business. It is expected that there could be even more stringent regulatory requirements in the future. Failure to satisfy these requirements could subject the Group to fines and other administrative or regulatory penalties, such as suspension of its licences, or even criminal liability, which may materially and adversely affect the Group's business, financial condition, results of operations and prospects.

The Group's asset management and principal investment business is exposed to the risks associated with poor investment performance and fluctuations in market conditions.

The Group's revenue from its asset management business primarily consists of asset management fees and performance fees, which are charged generally based on the asset size of various mutual funds, private equity funds and asset management schemes under its management. Poor investment performance could lead to a decline in the Group's AUM, as clients may withdraw their funds in favour of better-performing products offered by competitors. This withdrawal of funds would result in a decrease in investment returns and a reduction in management fees for the Group. Market volatility also poses a challenge to the Group's ability to provide stable returns for its clients. As a result, clients may seek fee reductions for asset management services, especially in a highly competitive industry. Additionally, the Group's performance fees, which are contingent on achieving a certain level of investment returns, could be reduced in periods of poor investment performance. Furthermore, the Group's asset management fees or market share may decrease due to increased competition from commercial banks, fund management companies, trust companies, insurance companies and other competitors.

In certain cases, the Group acts as the investment manager and contributes its own capital to specific asset management schemes. If there is a significant decline in the AUM, or poor performance of, these schemes, the Group will experience investment losses. In addition, if the Group's clients incur significant losses from investing in its asset management schemes, the Group may be subject to regulatory penalties, client complaints and compensation, litigation, or damage to its reputation.

The Group's private equity investment business is subject to various risks associated with limited due diligence and limited control over the Group's portfolio companies.

The Group's private equity investment business generally involves direct equity investments in private companies and management of private equity funds. The Group has no controlling stake in these investments. Before making private equity investments, the Group usually conducts due diligence investigations that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. However, the due diligence investigation that the Group carries out with respect to any investment opportunity may not readily identify instances of fraud, accounting irregularities and other improper, illegal or deceptive practices of a target company, which could lead the Group to overvalue the target company and prevent it from making a profit on such investments. Even when due diligence investigations are carried out, the Group cannot guarantee the success of the related investment and investment returns may be uncertain. Another significant risk faced by the Group is its limited control over its portfolio companies. As the Group typically does not hold a controlling stake in these companies, it is subject to the risk that the majority shareholders or the management of these companies may act in a manner that does not serve its best interests. The general operational risks, such as inadequate or failed internal control of the Group's portfolio companies, may also expose its investments to risks. In addition, the Group's portfolio companies may fail to abide by their agreements with the Group, for which the Group may have limited or no recourse. If any of the foregoing were to occur, the Group's business, reputation, financial condition and results of operations could be materially and adversely affected.

The Group may be unable to exit or profit from its private equity investments due to the portfolio companies' performance and market conditions.

The Group's revenue from its private equity investment business mainly consists of dividends paid by portfolio companies and the listing or the disposal of portfolio companies.

One significant risk is associated with the nature of unlisted securities. Compared with listed securities, unlisted securities do not have a public market and may not be liquidated in a timely manner. In addition, unlisted securities do not have an available public market price for reference. The ability of the Group and its private funds to realise their investments may depend upon the Group's portfolio companies' ability to complete a domestic or overseas IPO or trade sale transaction. If such unlisted securities cannot be liquidated on the terms and prices satisfactory to the Group, the Group's return on investments may be lower than originally expected. Even if the securities of the Group's portfolio companies are listed and publicly traded, the disposal of large holdings of securities may require substantial time and may face the risks of a downward movement in market prices during the intended disposition period. These market fluctuations could further impact the Group's ability to realise its intended returns on investment.

The investment portfolio profile of the Group's private equity investment platform may also change from time to time. The Group utilises its distribution channels within the CMS Group, as well as engages its own high-net-worth professional investors, family trusts and institutional investors through direct sales and third-party distribution channels. There is, however, no guarantee that these distribution channels will remain the core distribution channels of the Group in the future and the risk appetite and investment strategy of the Group in relation to its investment portfolio may change over time. In recent years, there has been increased competition for private equity investment opportunities resulting from the increased amount of capital invested in alternative funds and high liquidity in the bond market and the increased competition for investment opportunities may reduce the Group's returns in the future.

The Group's trading and investment business is exposed to various risks due to market fluctuations and volatility.

The Group maintains various trading and investment positions in the equity, private funds, fixed income, currency and commodity markets. The Group's trading decisions and investment positions are subject to the inherent uncertainties and unpredictability of financial markets. Despite the Group's best efforts and judgments, market fluctuations can result in gains or losses for the Group's positions, making the returns on its trading and investment activities uncertain. In addition, limited availability of investment options and hedging strategies in the PRC may affect the Group's ability to effectively hedge its exposure to the risks associated with its investments. The hedging instruments or strategies might not be fully effective in mitigating risk under all market conditions or against all types of risks. The Group may suffer losses if any of the hedging instruments or strategies the Group utilises to hedge its exposure to different risks are not effective.

Revenue from the Group's trading and investment business is primarily derived from the commissions the Group charges its clients for their trading activities. Accordingly, revenue from the Group's trading and investment business depends significantly on trading volume. Trading volume is influenced by market conditions in Hong Kong, mainland China and major overseas financial markets, which may be adversely affected by unexpected events such as the outbreak of contagious diseases, debt crises, significant volatility in the stock market and trade disputes between countries. In addition, the Group's trading and investment business could also be hindered by a reduction in agency and brokerage commission rates as a result of increased competition in the Hong Kong securities and brokerage markets.

The Group's distribution of various financial products entails significant risks, particularly if it fails to identify, fully appreciate, or disclose the risks associated with these products.

The Group distributes a broad variety of financial products developed in-house or by third-party financial institutions, including fund management companies, trust companies and commercial banks. Although the Group, as a third-party distributor, is not liable for any investment loss or default directly derived from the third-party financial products the Group distributed to its clients, the Group may be subject to client complaints and possibly litigation, which could harm its reputation and business operations.

In addition, some of these third-party financial products often have complex structures and involve various risks, including credit risk, interest risk, liquidity risk and other risks. Financial products sold to clients are required to be suitable for the financial sophistication and risk-return profile of the target clients. The Group's risk management policies and procedures must be robust and effective in identifying and understanding the risks associated with these products. If the Group fails to identify and fully appreciate or disclose the risks associated with the financial products it distributes to clients, or sells unsuitable financial products to clients, and its clients suffer financial loss or other damages, the Group could be subject to lawsuits brought by clients or regulatory actions, which could damage its reputation and client relationships, and adversely affect the Group's business and prospects.

Failure to maintain adequate liquidity could adversely affect the Group's business, financial condition and results of operations.

Maintaining adequate liquidity is crucial to the Group's business operations. Without sufficient liquidity, the Group may encounter various challenges and potential adverse consequences that can significantly impact its business, financial condition, and results of operations.

Firstly, a lack of adequate liquidity could hinder the Group's expansion plans in various areas such as margin financing, swap, investment, and trading businesses, as well as other business activities requiring substantial cash. Opportunities for expansion, development of new products and services, or potential acquisition of complementary business or technologies may be compromised if the Group lacks the necessary liquidity. Additionally, the Group is also required to comply with regulatory liquidity requirements in Hong Kong, South Korea and the United Kingdom. As stipulated under the SFC (Financial Resources) Rules (the "**FRR**"), a licensed corporation shall at all times maintain liquid capital which is not less than the FRR requirement. In order to comply with the FRR, the Group must maintain a high level of liquidity at all times. Any failure to meet the Group's capital requirements may cause the SFC to take disciplinary actions against the Group, which may adversely affect its operations and performance.

There are various factors that may adversely affect the Group's liquidity position which may be partly or completely out of the Group's control, including, among others, a significant increase in its products and services which provide financing for its clients, large underwriting amounts on a firm commitment basis in its corporate finance and capital markets business, substantial investments, failure to liquidate financial asset investments at reasonable prices, overconcentration of holdings in certain assets or asset classes, early redemption of the Group's products by clients, mismatch of durations of assets and liabilities, and increased regulatory capital requirements or other regulatory changes.

The Group may need to seek further financing or sell its existing assets to meet its liquidity and capital needs. During periods of adverse credit and capital market conditions, potential sources of external financing could be limited or unavailable, and the Group's financing costs could increase. Although the Group's management believes that it has diversified sources of external financing, including a mix of short-term and long-term financing instruments, such financing may not be available on commercially acceptable terms or at all in a timely manner. Furthermore, any additional equity financing may dilute the shareholding interest of the shareholders of the Group, and debt financing, if available, may involve restrictive covenants. The Group's ability to sell assets may be impaired if other market participants are seeking to sell similar assets within the same market at the same time, which is likely to occur in a liquidity crunch or other market crisis. Under such circumstances, the Group may have to curtail its business activities and increase its cost of funding, which could adversely affect its business, financial condition and results of operations. A reduction in the Group's liquidity could also reduce the confidence of its clients or counterparties in the Group, which may result in the loss of business and client accounts.

The level of the Group's indebtedness and potential unavailability of credit may materially and adversely affect the Group's business.

The Guarantor and its subsidiaries rely on bank and other external borrowings and bond issuances to fund a significant portion of their working capital requirements. The Group's financial condition, liquidity and business operations will be negatively affected to the extent it is not able to repay its debt in a timely manner due to lack or unavailability of internal resources or inability to obtain external financing. Even if the Group were able to meet its debt service obligations, the amount of debt it borrows could adversely affect it in a number of ways, including by:

- limiting the Group's ability to obtain any necessary capital and/or financing in the future for working capital, strategic investment, debt service requirements, or other purposes;

- limiting the Group's flexibility in planning for, or reacting to, changes in its business;

- placing the Group at a competitive disadvantage relative to its competitors which have lower levels of debt;

- increasing the Group's financing cost;

- making the Group more vulnerable to a downturn in its business or general economic conditions; and

- subjecting the Group to the risk of being forced to refinance its debts at higher interest rates.

The Group has incurred and expects to continue to incur a significant amount of interest expense relating to its borrowings. It also incurs interest expenses from accounts payable to brokerage clients and placements from banks and other financial institutions in its operation activities. The Group may continue to incur substantial amount of debt, and the Group's interest expenses may continue to increase. Any such increase could adversely affect the Group's business, financial condition, operating results and prospects.

The Group may suffer significant losses from its credit exposures.

The Group's businesses are subject to risks that clients or counterparties may fail to perform their respective contractual obligations or that the value of collateral held to secure their obligations might be inadequate. The Group's credit exposure results mainly from its margin financing, securities lending, fixed income trading, futures brokerage as well as its role as counterparty in repurchase agreements and derivative contracts. The primary sources of credit risks include the potential non-performance of clients or counterparties in fulfilling their contractual obligations and the adequacy of collateral provided by them.

With respect to the margin financing and securities lending business, the Group may enforce liquidation against clients who are unable to settle their obligations as scheduled or fail to replenish the collateral in full within the agreed-upon period. In respect of the futures brokerage business, the Group requires its clients to maintain a certain amount of account balance for their futures trading. The Group conducts automatic valuations for each client's account balances on each trading day, and, in the event of insufficient account balance, the Group would contact and require clients to replenish their account balance or liquidate their positions. Such mandatory liquidation mechanisms may trigger disputes between clients and the Group, and hence the Group may be subject to litigation risks or significant legal expenses. The Group serves as counterparty to its clients in repurchase agreements, stock-based lending, swap and derivative contracts to provide them with customised products or services. Since there is no exchange or clearing agent for these products, the Group will be subject to the credit risk and non-performance of the counterparty. The debt securities the Group holds may also be subject to price fluctuations because of changes in the financial market's assessment of the issuer's creditworthiness, delinquency and default rates and other factors, which could adversely affect the Group's financial condition and results of operations.

The Group's ability to carry out forced liquidation of client positions is affected by factors such as changes in regulatory policies, market volatilities and limitations on the sale of stocks. If the market price of securities which the Group holds as collateral decreases sharply for an extended period, the value of the collateral may fall below the value of its margin loans, or the Group may not be able to liquidate because of limitations on liquidation, or because the securities it holds as collateral are subject to a judicial freeze. In these cases, the Group may not be able to recover the amounts loaned to clients, and thus will incur losses.

While the Group has implemented internal policies and procedures to manage its credit exposure, these policies and procedures may not be fully effective and it may also fail to receive all relevant information with respect to the trading risks of its clients and counterparties. If the Group's credit exposure becomes overly concentrated in a limited set of assets or a limited number of third parties, or if the Group fails to effectively manage its credit exposure through its risk management policies and procedures, the Group may experience significant financial losses arising from such credit exposure that could materially adversely affect its business, financial condition, results of operations and prospects.

The Group's risk management and internal control systems, as well as the risk management tools available to it, may not fully protect the Group against various risks inherent in its business.

The Group has established risk management and internal control systems in line with the internal control requirements of the CMS Group consisting of relevant organisational frameworks, policies, procedures, and risk management methods which aim at managing its risk exposure, primarily including market risk, credit risk, liquidity risk, operational risk, IT risk, compliance risk, legal risk and reputational risk. Although the Group continues to implement its risk management policies and internal control systems, they may not be adequate or effective in mitigating its risk exposures in all market environments or against all types of risks, including risks that are unidentified or unanticipated.

The Group's risk management capabilities are limited by the information, tools or technologies available to it. For example, some of the Group's risk management methods are based upon its use of historical market data and management judgment. As a result, these methods may not predict future risk exposure, which could be significantly greater than the exposure that historical measures indicate. If the Group fails to promptly adapt and improve its risk management and internal control systems in response to the development of its business and products, the expansion of its branch network and the changes to regulatory requirements, its business operations could be materially and adversely affected.

Effective implementation of the Group's risk management and internal control policies and procedures also depends on its employees. The Group cannot provide any assurance that its employees will be able to consistently comply with or correctly apply these policies and procedures. Deficiencies in the Group's risk management and internal control systems and procedures may adversely affect its ability to identify any reporting errors and compliance with rules and regulations, which may also have a material and adverse effect on the Group's business, financial condition and results of operations.

Significant fluctuations in interest rates could adversely affect the Group's financial condition and results of operations.

The Group's exposure to interest rate risk is primarily associated with its interest income, interest expenses, fixed-income securities and valuation of securities. The Group earns interest income primarily from deposits with banks and non-bank financial institutions, margin financing, securities lending, financial assets held under resale agreements and fixed-income securities. The Group makes interest payments primarily on deposits that it holds on behalf of its clients, its borrowings and debt securities as well as financial assets sold under repurchase agreements. The Group's interest income and interest expenses are directly linked to the prevailing market interest rates. If market interest rates decrease, the Group's interest income would generally decrease, and during periods of rising interest rates, the Group's interest expenses and financing costs would generally increase. In addition, during periods of rising interest rates, the market prices of and the Group's investment returns on fixed-income securities it holds will generally decrease. Significant interest rate fluctuations could affect its interest income or returns on fixed-income investments, or increase the Group's interest expenses, any of which could adversely affect its business, financial condition, results of operations and prospects. Furthermore, interest rate volatility, for example, the multiple interest rate hikes by the U.S. government since 2022, may also affect stock market performance and general market sentiment, hence causing an indirect adverse impact on the Group's business performance. To manage interest rate exposure and reduce associated risks, the Group may engage in derivatives transactions, such as interest rate swaps and/or futures, to hedge the interest rate exposure. However, the Group's ability to hedge interest rate exposure may be limited to the availability and effectiveness of derivative products.

The Group's business is subject to concentration risks arising from significant holdings of financial assets or substantial commitments of capital to specific businesses or asset classes.

From time to time, the Group commits substantial amounts of capital to certain types of businesses or asset classes, including the Group's wealth management business, corporate finance and capital markets business, institutional client services and principal investment businesses. If a particular asset class experiences a decline in value, the Group's revenues could be adversely affected, and it may even incur losses. Moreover, if a significant portion of the Group's capital is tied up in illiquid assets, it could face challenges in adjusting its investment positions swiftly, potentially leading to suboptimal outcomes during times of market volatility. Credit risk is another aspect of concentration risk that the Group faces. If the Group has a large portion of its capital committed to a few specific clients or counterparties, it may encounter difficulties if any of these clients experience financial distress or default on their obligations. The failure of one or more major clients to fulfil their contractual obligations could lead to substantial losses for the Group.

The Group may be exposed to currency risk as a result of movements in foreign exchange rates.

The Group's major transactions are denominated in Hong Kong dollars, United States dollars, South Korean Won and Renminbi and its financial statements are presented in Hong Kong dollars. Although the Hong Kong dollar has been linked to the U.S. dollar since 1983, there can be no assurance that such linkage will be maintained in the future. In order to ensure continued liquidity of the Hong Kong dollar, the Hong Kong Monetary Authority has entered into bilateral repurchase agreements with the central banks or monetary authorities of various jurisdictions including Australia, China, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore and Thailand. In addition, the Hong Kong Government has in the past expressed its commitment to stabilise the exchange rate under the linked exchange rate system, an automatic interest rate adjustment mechanism. However, it cannot be assured that the Hong Kong dollar will continue to be linked to the U.S. dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or the automatic interest rate adjustment mechanism will help to maintain adequate liquidity for the Hong Kong dollar. Any suspension of the linkage of the Hong Kong dollar to the U.S. dollar (and its corresponding impact on the Hong Kong economy) and significant fluctuations in the Renminbi and other foreign currencies the Group transacted may impose negative effects on the Group's business, financial condition and results of operations.

In addition, a portion of the Group's revenue and expenses are denominated in Renminbi. As a result, fluctuations in exchange rates, particularly Renminbi against Hong Kong dollars or U.S. dollars, could affect the Guarantor's profitability and may result in exchange losses of Renminbi-denominated assets and liabilities. The volatility in exchange rate of Renminbi against U.S. dollars and other currencies is affected by, among other factors, changes in the PRC and international political and economic conditions and the fiscal and currency policies of the PRC government. The PRC government may make further adjustments to the exchange rate system in the future. There is no assurance that the Renminbi will not experience significant appreciation or depreciation against the Hong Kong dollar or U.S. dollar in the future, which could materially and adversely affect the Group's business, financial condition, results of operations and prospects.

The Group's reliance on the CMS Group for business development exposes it to certain risks.

As a wholly-owned subsidiary of CMS, the Guarantor benefits from significant support and resources provided by the CMS Group, which plays a crucial role in the development of the Group's business. The CMS Group offers a network of clients, financial backing, and strategic synergies that contribute to the Group's competitive strengths and business opportunities. See "*Description of the Group – Competitive Strengths – Robust support from CMS creating strategic synergy*". However, in the event that the CMS Group changes its strategy or reduces its support to the Group, the Group's relationship with its clients and the Group's business, revenue, fee income, results of operations and financial condition could be adversely affected.

Furthermore, the Group regularly reports to the CMS Group for approvals in relation to its risk indicators as the Group must operate within the boundaries and limits set by the CMS Group in aspects of operations, corporate governance and strategies. Such limitations may restrict or delay the Group's individual business management or strategy, which may adversely affect its financial performance and operation. The CMS Group also exerts, and is expected to continue to exert, a certain degree of influence over the risk control, management and human resource functions of the Group, including the appointment and removal of the board of directors of the Group. It is expected that the CMS Group has, and will continue to have, significant control over the management and overall operation of the Group, and any decisions it makes will have regard to various factors, including the overall interests of the CMS Group.

Any damage to its reputation or the "CMS" brand may materially and adversely affect the Group's business, financial condition, results of operations and prospects.

The Group's and the CMS Group's brand and reputation are vital to the success of the Group's business. Consequently, the Group is vulnerable to negative publicity and market perceptions that may be difficult or impossible for it to control or monitor, especially those in relation to the wider CMS Group. Brand or reputation can be negatively impacted by various events partly or wholly beyond the Group's control, such as failure in IT or a data breach, an adverse claim (even if frivolous and vexatious) made against a member of the CMS Group, perceived deteriorations in financial strength, regulatory sanctions or incidents of fraud or misconduct. In addition, customers or potential customers may not be able to identify scam websites that plagiarise the CMS name that are in fact operated by scammers without any authorisation from the CMS Group. If the customers suffer losses due to the transactions undertaken via such scam websites, they may nonetheless attribute their losses to the CMS Group, causing damage to the CMS brand. As the "CMS" brand name is also used by other members of the CMS Group, if any of these entities takes any action that damages the "CMS" brand name, or any negative publicity is associated with any of these entities, the Group's business, financial condition, results of operations and prospects may also be adversely affected. If its reputation or brand is damaged, the Group could lose existing customers and encounter difficulties in attracting new customers. It may also face difficulties to cultivate new businesses and be subject to more stringent regulatory oversight. Each of these occurrences may have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Any failure to appropriately identify and address conflicts of interest could adversely affect the Group's business.

Securities firms regularly encounter conflicts of interest. It is important for the Group to identify conflicts of interest, including those arising between (i) the Group's various operating units, (ii) the Group's clients and the Group, (iii) the Group's various clients, (iv) the Group's employees and the Group, or (v) the Group's clients and its employees. The Group has extensive risk management and internal control systems that are intended to identify and address conflicts of interest. However, managing conflicts of interest is challenging for the Group, primarily due to the broad scope and complexity of its businesses, as well as the extensive client base it serves. In addition, as the Group continually expands its business and develops new products, the Group may face additional risks in identifying and managing the conflicts of interest resulting from the Group's new businesses and products. If the Group fails to manage conflicts of interest, it could harm the Group's reputation and erode client confidence. In addition, perceived conflicts of interest may give rise to potential litigation or regulatory actions against the Group. Any of the foregoing could adversely affect the Group's business, financial condition and results of operations.

Public information in respect of the Guarantor or the Issuer is limited and neither of them is subject to continuous disclosure requirements as listed companies.

Neither the Guarantor nor the Issuer is listed on any stock exchange and, therefore, they are not subject to any requirement to produce, disclose and maintain public information relating to their respective business or to publicly publish financial information or other information that would be required if either of them had an equity listing in Hong Kong or elsewhere. Whilst requirements will be imposed on the Issuer and the Guarantor relating to disclosure of financial information, the disclosure of interests of shareholders and directors in shares and debentures and other information material to investors for issuances of listed Notes under this Programme, these requirements are not as stringent as those which would apply to a primary or secondary equity listing. The Issuer and the Guarantor are also not subject to, and will not become subject to, by virtue of establishing this Programme or issuing listed Notes under this Programme, the continuous disclosure requirements that apply to companies with a primary or secondary equity listing in Hong Kong or elsewhere, including relevant corporate governance standards, restrictions on directors' dealings in securities, controls on transactions with connected persons, requirements for notification and, in some cases, approval of major acquisitions and disposals, conditions on further debt and equity issuance and certain other ongoing disclosure requirements. Therefore, there may be less publicly available information about the Group, including historical and future information, than is regularly made available by public companies in Hong Kong and certain other countries and territories.

The Group may undertake acquisitions, investments, joint ventures or other strategic alliances, which could have a material adverse effect on the Group's ability to manage its business. In addition, such undertakings might not be successful.

The strategies of the Group include plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances. Joint ventures and strategic alliances may expose the Group to new operational, regulatory and market risks, as well as risks associated with additional capital requirements. The Group may not be able, however, to identify suitable targets for future acquisitions or alliance partners. Even if the Group identifies suitable targets or partners, it may not be able to complete an acquisition or form an alliance on terms commercially acceptable to it. Even when acquisitions are completed, the Group may encounter difficulties in integrating the acquired targets and their businesses, such as difficulties in retention of clients and personnel, challenges of integration and effective deployment of operations or technologies and assumption of unforeseen or hidden material liabilities or regulatory non-compliance issues. Any of these events could disrupt the Group's business plans and strategies, which in turn could have a material adverse effect on its financial condition and results of operations. Such risks could also result in the Group's failure to derive the intended benefits of acquisitions, strategic investments, joint ventures or strategic alliances. The Group therefore may be unable to recover its investment in such initiatives. In addition, the Group may not be able to realise any anticipated benefits or achieve the synergies the Group expects. The Group's clients may react unfavourably to its strategies for acquisition or establishment of joint ventures, and the Group may incur additional costs and/or liabilities due to acquisitions, the establishment of joint ventures and other alliances.

The Group is subject to the risks arising from any failure of, or inadequacies in, its operational systems and infrastructure.

The Group's operations rely heavily on its ability to process and monitor a very large number of transactions daily. The proper functioning of the Group's securities trading, financial control, risk management, accounting, client service and other data processing systems, together with the communication networks between its headquarters, subsidiaries and branches and its communication networks with exchanges, regulators, clearing agents and depositaries, are critical and vital to its business. The Group's operating systems and facilities could fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control. The Group cannot ensure that its disaster recovery centres or other contingency plans for operation system failures will fully protect it from all potential business disruptions and/or risks. A prolonged disruption to or failure of the Group's information processing or communications systems would limit its ability to process transactions. This in turn would impair the Group's ability to execute trades on behalf of clients or for its own account, which could, in turn, materially and adversely affect its competitiveness, financial condition and results of operations. In addition, if the IT products and services developed by third-party developers, contractors and vendors that the Group uses are defective, it may experience system failures, incompatibility of software or platforms, and problems with synchronization, data transfer and data management across its various IT systems and platforms, which may cause disruption to, or a breakdown or slowdown of its systems, thus affecting the daily business operations of the Group.

Furthermore, the securities industry is characterised by rapidly changing technology. Online securities trading platforms and other new channels are becoming increasingly popular among the Group's customers. The Group has been increasing the provision of high-quality online services through upgrading its technology regularly, particularly the internet. The Group's operations rely on the secure processing, storage and transmission of confidential and other information in its computer systems, and may be vulnerable to unauthorised access, computer viruses, other malicious programmes and other events that could cause security breaches. The occurrence of any such events could jeopardise the security and integrity of confidential information processed by, stored in, and transmitted through the Group's computer systems and networks, or otherwise disrupt its operations, which could result in reputational damage, potential litigation against the Group and financial losses and/or additional expenses incurred by the Group.

The Group may be subject to legal or regulatory liability if the Group is unable to protect the personal and other confidential information of its clients.

The Group is required to protect the personal data and confidential information of its clients under applicable laws, rules and regulations. The relevant authorities may impose sanctions or penalties against the Group if it fails to protect the personal information of its clients or any of their related parties, and the Group may have to pay compensation to its clients or the relevant person if it fails to do so. For example, the Group is subject to the Personal Data (Privacy) Ordinance (Cap. 486 of the Laws of Hong Kong) which regulates "data users" such as finance companies that use databases of personal information for their businesses and protects the privacy of individuals in relation to personal data.

The Group routinely transmits and receives personal, confidential and proprietary information through the internet and by other electronic means and may not be able to ensure that its clients, vendors, service providers, counterparties and other third parties have appropriate controls or internal procedures in place to protect the confidentiality of the information. Any misuse or mishandling of such personal, confidential or proprietary information could result in legal liabilities, regulatory actions and may materially and adversely affect the Group's reputation and prospects.

Changes in tax laws and regulations may adversely affect the Group's business.

The Group's business operations are subject to the tax laws and regulations in Hong Kong, the PRC and other relevant jurisdictions. The Group may also be subject to taxation in other jurisdictions as the Group trades or invest in the financial products issued or provide services in such jurisdictions. Any unfavourable changes in the tax laws and regulations applicable to the Group may have an adverse effect on the Group's business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters, terrorist attacks or outbreaks of contagious diseases may have a material adverse effect on the Group's business, financial condition and results of operations.

The regions where the Group has operations may be affected by natural disasters, such as typhoons, tornadoes, snowstorms, earthquakes, floods, droughts, power shortages or failures, or potential wars or terrorist attacks, riots, civil disturbances or strikes. In addition, these regions may be susceptible to a number of communicable diseases and epidemics, such as various types of influenza, Ebola virus, and COVID-19. Serious natural disasters may result in heavy casualties and destruction of assets and disrupt the Group's business and operations. Severe and prolonged contagious disease outbreaks, such as COVID-19, could result in a widespread health crisis that could dampen investor sentiment, and the business activities and operations in the affected regions operated by the Group could be severely affected.

In 2022, a number of countries have cancelled or relaxed their containment measures in relation to COVID-19. While restrictive measures have been relaxed and many aspects of daily life gradually returned to normal, it is difficult to predict how long the COVID-19 pandemic will continue to develop and the extent to which it may continue to have a material adverse impact on the global economy and financial markets in general, which in turn could materially and adversely affect the Group's business, financial condition and results of operations. In addition, acts of war or terrorist activities, riots or disturbances may also cause casualties to the Group's employees, and disrupt its business network and operations. Any of these factors and other factors beyond the Group's control could have an adverse effect on the overall business environment of the areas where the Group operates and therefore its business and results of operations.

The Group's business is susceptible to the operational failure of third parties and its employees.

The Group faces the risk of operational failure, capacity constraints or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries the Group uses to facilitate its securities transactions. Any operational failure or termination of the particular financial intermediaries that the Group uses for its business operations could adversely affect its ability to execute transactions, serve clients and manage risk exposure. Any disputes or difficulties in cooperating with these financial intermediaries could adversely affect the Group's business operations. As the Group's interconnectivity with its clients grows, its business relies on its clients' use of their own systems, and the Group will increasingly face the risk of operational failure in connection with the Group's clients' systems.

In addition, the Group also faces the risk of the operational failure of its employees, which mainly includes accidents or errors that take place during the daily operations of brokerage, corporate finance and capital markets, asset management, institutional clients and financial products and services. Although the Group has implemented relevant internal control measures, including strengthened transaction review and enhanced standard operation training to prevent the risk of employee operational failure, the Group may not be able to avoid the occurrence of or timely detect any operational failure completely. Any operational failure of employees or any termination of employment relationship in relation to operational failure could hinder the Group's business and reputation, as well as the Group's ability to execute transactions, service the Group's clients and manage the Group's exposure to various risks.

The Group may not be able to detect and prevent fraud or other misconduct committed by its employees, agents or other third parties on a timely basis or at all.

The Group may be exposed to fraud or other misconduct committed by its employees, agents or other third parties, including, among others, improperly using or disclosing confidential information and engaging in fraudulent or other activities. Actual or alleged misconduct of the Group's employees could result in investigations or prosecutions of the relevant parties, including but not limited to directors and senior management of the Group, involved in the subject activities or litigation or regulatory sanctions against the Group, as well as adversely affect its reputation. In particular, employee misconduct, which includes violations of laws or regulations concerning the offering and sale of the Group's financial products and fraudulent or otherwise improper activity could result in regulatory violations and sanctions which could damage the Group's reputation and business, particularly since many of the Group's employees are involved in direct dealing with customers. It may also reduce clients' confidence in the services provided by the Group.

The Group has a robust and solid framework, which is intended to monitor its operations and compliance, and reduce the risk of employee misconduct and outside parties' misconduct and fraud. However, it is difficult for the Group to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions the Group takes to prevent and detect such activities may not be fully effective. The Group's failure to detect and prevent fraud and other misconduct may have a material adverse effect on the Group's reputation, financial condition and results of operations.

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

The Group is required to comply with applicable anti-money laundering and anti-terrorism laws and other regulations in Hong Kong, mainland China and other jurisdictions where the Group operates. The anti-money laundering laws and regulations in Hong Kong, mainland China, South Korea, and the United Kingdom require the Group to establish sound internal control policies and procedures with respect to anti-money laundering and counter-terrorist financing monitoring and reporting activities. Although the Group has adopted policies and procedures aimed at detecting, and preventing being used for, money-laundering activities by criminals or terrorist-related organizations and individuals or improper activities (including but not limited to market manipulation and aiding and abetting tax evasion), such efforts may not completely eliminate instances where the Group's networks may be used by other parties to engage in money laundering and other illegal or improper activities. The Foreign Account Tax Compliance Act ("**FATCA**"), the Common Reporting Standard and similar regulations aiming to control tax evasion, also impose regulatory and compliance obligations on the Group, and any failure to meet such obligations could result in sanctions, fines, litigation and other penalties against the Group. If the Group fails to fully comply with applicable laws and regulations, the relevant government agencies may impose fines and other penalties on the Group, which may adversely affect its business.

The Group's operations depend on key management and professional staff and its business may suffer if the Group is unable to recruit or retain them.

The success of the Group's business depends, to a large extent, on its ability to attract and retain key personnel who possess in-depth knowledge and understanding of, and extensive working experience in, the securities and financial markets. Competition for talented and competent professionals in the financial services industry is intense, and the availability of suitable and qualified candidates is limited. Intense competition may require the Group to offer higher compensation and other benefits to attract and retain talented professionals. The Group devotes considerable resources to recruiting and retaining its key management and professional staff so as to a maintain low turnover rate. However, the Group cannot provide any assurance that it will be successful in retaining its current personnel or in hiring or retaining qualified personnel in the future. The loss of key employees or inability to hire or retain professional staff in the future could have a material adverse effect on the Group's ability to operate successfully. Any inability on the Group's part to enforce non-compete arrangements related to senior management and key employees who have left the Group could have a material adverse effect on its business. If any of the Group's former senior management or other key employees join or establish competing businesses, the Group may lose some of its clients, which could have a material adverse effect on its business.

The Group may be subject to litigation and regulatory investigations and proceedings and may not always be successful in defending itself against such claims or proceedings.

The securities industry faces substantial litigation and regulatory risks, including but not limited to potential liabilities relating to information disclosure, product designs and sales, breach of fiduciary duty or breach of contracts. The Group may be difficult to assess or quantify these risks and their existence and magnitude often remain unknown for a substantial period of time. The Group may also be subject to inquiries, investigations and proceedings by regulatory and other governmental agencies.

The Group has in the past been and may in the future be subject to lawsuits and arbitration claims arising from its ordinary course of business. The Group may incur significant legal and/or other additional expenses in defending itself in litigation and arbitration proceedings. If court judgments, arbitration awards or regulatory enforcement decisions were against the Group, the Group may face substantial legal liability or significant regulatory action which could materially adversely affect the Group's business, financial condition or results of operations or cause significant reputational harm to the Group and seriously harm the Group's business prospects.

Historical growth of the Group may not be indicative of its future performance.

There is inherent risk in using the Group's historical financial information to project or estimate its financial performance in the future, as it only reflects past performance of the Group under particular conditions. The Group may not be able to sustain its historical growth rate, revenue, gross profit margin and return on net assets for various reasons, including, but not limited to, deterioration in the market conditions of the financial services industry in Hong Kong, the PRC and other jurisdictions where the Group operates, macroeconomic measures taken by the government to manage economic growth and intensified competition among securities firms. In addition, the financial and operating results of the Group may not meet the expectations of public market analysts or investors. The Group's revenue, expenses and operating results may vary from period to period due to a variety of factors beyond its control. As a result of these and other factors, there can be no assurance that its future revenues will increase or that it will continue to be profitable. Accordingly, investors should not rely on the Group's historical results as an indication of its future financial or operating performance.

RISKS RELATING TO NOTES ISSUED UNDER THE PROGRAMME AND THE GUARANTEE OF THE NOTES

The Notes and the Guarantee of the Notes are unsecured obligations.

As the Notes and the Guarantee of the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;

- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

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

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

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

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

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

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

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

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

Any failure to complete the relevant filings under the NDRC Administrative Measures within the prescribed timeframes following the completion of the issue of the Notes or to comply with the continuing reporting obligations under the NDRC Administrative Measures may have some impact on the Issuer and/or the Noteholders.

Under the NDRC Administrative Measures, the Guarantor shall (i) file or cause to be filed with the NDRC the requisite information and documents within ten PRC business days after each foreign debt issuance and the expiration of the relevant pre-issuance certificate of review and registration of enterprise borrowing of foreign debts with respect to the relevant Notes in accordance with the NDRC Administrative Measures, (ii) so long as any Note remains outstanding, file or cause to be filed with the NDRC the requisite information and documents within five PRC business days before the end of January and the end of July each year, and (iii) file or cause to be filed the requisite information and documents on a timely basis upon the occurrence of any material event that may affect the enterprise's due performance of its debt obligations and take risk control measures to mitigate cross-default risks. The NDRC Administrative Measures set forth certain legal liabilities and disciplinary measures which would be imposed on enterprises and intermediaries if they fail to comply with the relevant requirements. According to the NDRC Administrative Measures, for any enterprise that fails to report relevant information according to the NDRC Administrative Measures, the review and registration authorities shall, depending on the seriousness of the circumstances, impose disciplinary measures such as interviews and public warnings on such enterprise concerned and its principal responsible person. Furthermore, conducts in violation of the NDRC Administrative Measures committed by enterprises will be published on, among others, the Credit China (信用中國) website and the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統). In the worst case scenario, non-compliance with the NDRC reporting obligations under the NDRC Administrative Measures may result in it being unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under the Notes and the relevant Notes might be subject to enforcement as provided in Condition 13 (*Events of Default*) of the Conditions.

Any failure to complete the relevant filings under the NDRC Administrative Measures within the prescribed timeframes following the completion of the issue of the Notes may have some impact on the Issuer, the Guarantor and/or the investors of the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity and the results of the Noteholder meetings may be severely influenced by the Guarantor or, as the case may be, a limited number of investors, if a substantial amount of the Notes are purchased by the Guarantor or its affiliates, or, as the case may be, such limited number of investors and their affiliates.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). It cannot be assured that the liquidity of the Notes or that an active trading market will develop. The liquidity of the Notes could be affected by various factors, and in particular, if a limited number of investors subscribe for a significant portion of the Notes. Where a substantial amount of the Notes are subscribed or purchased by a limited number of investors and/or their affiliates, the Noteholders that are not affiliated to such entities may find it difficult (and in the worst scenario, impossible) to pass any resolution to determine any matter that may affect the Notes or Noteholders without the support of such entities. In such situation, the results of the Noteholders' meetings may be severely influenced by such entities and the right of non-affiliated Noteholders may be severely affected as a result.

If the Notes are traded after their initial issuance, the trading price may be discounted as compared with the initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer, the Guarantor or the Group. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances, investors may not be able to sell their Notes at all or at their fair market value. Although an application may be made for the Notes issued under the Programme to be admitted to listing on the HKSE on any other stock exchange, there is no guarantee that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes, especially when the Notes are highly sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have an adverse effect on the market value of the Notes.

Each of the Issuer and the Guarantor will follow the applicable corporate disclosure standards for debt securities listed on the HKSE, which standards may be different from those applicable to companies in certain other countries. As a result, the level of information that is available may not correspond to the level that Noteholders are accustomed to.

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

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

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes.

The Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong ("**FIRO**"), which came into operation on 7 July 2017, provides for, among other things, the establishment of a resolution regime for authorised institutions and other financial institutions within FIRO's scope in Hong Kong that may be designated by the relevant resolution authorities (a "**FIRO Group Entity**"). There can be no assurance that any member of the Group will not be deemed to be a FIRO Group Entity. FIRO seeks to provide the relevant resolution authorities with administrative powers to bring about a timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within-scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, if a member of the Group were deemed to be a FIRO Group Entity, the relevant resolution authority may have the ability to resolve other entities within the Group as if each of them were themselves a within-scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to such entities. Any such actions could potentially affect contractual and property rights relating to the relevant entity within the Group. In addition, the relevant resolution authority is provided with powers to effect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result.

Noteholders (whether senior or subordinated) may become subject to and bound by FIRO. The implementation of FIRO remains untested and certain details relating FIRO will be set out through secondary legislation and supporting rules. Therefore, the Group is currently unable to assess the full impact of FIRO on the financial system generally, the Guarantor's counterparties, the Guarantor, any of its consolidated subsidiaries or other Group entities, and the Group's operations and/or its financial position.

There could be conflicts of interest arising out of the different roles played by the Guarantor and China Merchants Securities (HK) Co., Limited ("China Merchants Securities (HK)"), as Arranger and Dealer for the Programme, and the Group's other activities may affect the value of the Notes.

China Merchants Securities (HK), the Arranger and Dealer for the Programme, is a wholly-owned subsidiary of the Guarantor, which, in turn, is a wholly-owned subsidiary of CMS. Potential and actual conflicts of interest may arise from the different roles served by the Guarantor on the one hand, and China Merchants Securities (HK) (as the Arranger and Dealer for the Programme) on the other hand, in connection with the Notes. The economic interests in each role may not align with the investors' interests in the Notes. Although the Guarantor has its own internal control policies and procedures to minimise any potential conflict of interest, the Guarantor does not guarantee that such potential conflict of interest will be completely eliminated, and the Guarantor owes no duty to any investor to avoid such conflicts. In addition, any of the Guarantor, CMS or their respective subsidiaries may also issue other competing financial products which may affect the value of the Notes.

The credit ratings assigned to the Programme or any issue of Notes may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Programme or an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of such Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. The Group cannot ensure that the ratings assigned to the Programme or any Notes will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgment, the circumstances so warrant. The Group has no obligation to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of the Programme or any Notes at any time may adversely affect the market price of the Notes.

Changes in interest rates may have an adverse effect on the price of the Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. In general, a rise in interest rates may cause a decrease in the prices of the Notes and Noteholders may suffer from capital loss. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates drop, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

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

The Issuer and the Guarantor will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This may cause certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. The risks include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

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

The Issuer currently does not have operating activities or revenue, and payments with respect to the Notes are dependent upon the Issuer's future business, financial condition and results of operations and cash flow from other members of the Group.

The Issuer currently does not have operating activities or revenue, and payments with respect to the Notes are dependent upon the Issuer's future business, financial condition and results of operations and cash flow from other members of the Group. If the Issuer cannot make payments under the Note with its own cash flows, its ability to make payments under the Notes will depend upon its receipt of timely remittance of funds from the Guarantor and/or other members of the Group. In the event that the Guarantor and/or other members of the Group do not provide such funds and/or adequate funds to the Issuer due to lack of available cash flows or other factors, the Issuer's ability to make payment under the Notes may be adversely affected.

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

Optional redemption features as contained in the Conditions are likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not increase substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes are redeemable in the event of certain withholding taxes being applicable.

No assurances are made by the Issuer or the Guarantor as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the date on which agreement is reached to issue the first Tranche of Notes for or on account of any present or future Taxes imposed, or levied by or on behalf of any Relevant Jurisdiction (as defined in the Conditions) or any political subdivision or authority therein having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it of principal, premium and interest on the Notes. Pursuant to the Conditions, although the Issuer or the Guarantor, as the case may be, is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time in the event that it or, as the case may be, the Guarantor has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any Taxes imposed or levied by or within any Relevant Jurisdiction or any political subdivision or any authority therein having power to tax as a result of any change in, or amendment to, the laws of a Relevant Jurisdiction, or any change in, or amendment to, the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of Notes.

The Issuer has limited assets, which affects its ability to make payments under the Notes.

On certain dates, including the occurrence of any early redemption event specified in the relevant Pricing Supplement or otherwise and at maturity of the Notes, the Issuer may, and at maturity, will, be required to redeem all of the Notes. Nevertheless, the Issuer is a special purpose vehicle, which does not generate any revenue. If such an event was to occur, the Issuer may not have sufficient cash on hand and may not be able to arrange capital and/or financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. The Issuer's and the Guarantor's failure to repay, repurchase or redeem tendered Notes would constitute an Event of Default (as defined in the Conditions) under the Notes, which may also constitute a default under the terms of other indebtedness of the Group.

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

The Notes and the Guarantee of the Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's and the Guarantor's existing and future subsidiaries, other than the Issuer, whether or not secured. The Notes will not be guaranteed by any of the Issuer's and the Guarantor's subsidiaries, and the Issuer and the Guarantor may not be able to access to the assets of such subsidiaries directly unless these assets are transferred by dividend or otherwise to the Issuer or the Guarantor. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer and the Guarantor is subject to various restrictions under the applicable laws. Each of the Issuer's and the Guarantor's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or Guarantee of the Notes or make any funds available therefor whether by dividends, loans or other payments. The Issuer's and the Guarantor's right to receive assets of any of the Issuer's and the Guarantor's subsidiaries, respectively, upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer or the Guarantor are creditors of that subsidiary). Consequently, the Notes and the Guarantee of the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's and the Guarantor's subsidiaries, other than the Issuer, and any subsidiaries that the Guarantor may in the future acquire or establish.

The Notes and the Guarantee of the Notes are the Issuer's and the Guarantor's unsecured obligations, respectively, and will (i) rank equally in right of payment with all the Issuer's and the Guarantor's other present and future unsecured and unsubordinated indebtedness; (ii) be effectively subordinated to all of the Issuer's and the Guarantor's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's and the Guarantor's present and future subordinated obligations. Accordingly, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will be prior with respect to those assets. In the event of the Issuer's or the Guarantor's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be made available and will be used to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders rateably with all of the Issuer's or the Guarantor's other unsecured creditors, including trade creditors. If the remaining assets are not sufficient for paying all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

The insolvency laws of the British Virgin Islands and Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the Noteholders are familiar.

As the Issuer and the Guarantor are incorporated under the laws of the British Virgin Islands and Hong Kong, respectively, any insolvency proceeding relating to the Issuer and the Guarantor, even if brought in other jurisdictions, would likely involve British Virgin Islands and Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

A change in English law which governs the Notes may adversely affect Noteholders.

The Notes are governed by English law in effect as at the date of issue of the relevant Notes. It cannot be assured that the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

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

The Notes, the Trust Deed and the Agency Agreement are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. Hong Kong courts may need to take certain additional procedures so as to hear the matters or disputes governed by English law.

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

If the Issuer, the Guarantor or any other member of the Group is unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, the Guarantor or such other member of the Group, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, as some of the Group's debt agreements contain cross-acceleration or cross-default provisions, the default by the Issuer, the Guarantor or any other member of the Group under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under such entity's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure Noteholders that the respective assets and cash flows of the Issuer, the Guarantor or any other member of the Group would be sufficient to repay in full all of their respective indebtedness, or that the Issuer, the Guarantor or any other member of the Group would be able to find alternative financing. Even if they could obtain alternative capital and/or financing, the Issuer and the Guarantor cannot assure holders that it would be on terms that are favourable or acceptable to them.

The Conditions provide only limited protection against a Change of Control that could adversely impact the investors' investment in the Notes.

While the Conditions contain terms intended to provide protection to Noteholders upon the occurrence of a Change of Control of the Issuer or the Guarantor, these terms are limited and may not be sufficient to protect the investors' investment in the Notes. See "*Terms and Conditions of the Notes – Redemption and Purchase*".

The Trust Deed for the Notes also does not:

- require the Guarantor to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows or liquidity;

- restrict the Guarantor's subsidiaries' or consolidated affiliated entities' ability to issue unsecured securities;

- restrict the Issuer nor the Guarantor from incurring unsecured indebtedness that would be senior to the Issuer's equity interests in the Group's subsidiaries or consolidated affiliated entities and therefore rank effectively senior to the Notes;

- limit the ability of the Guarantor's subsidiaries or consolidated affiliated entities to service indebtedness;

- restrict the Issuer's or the Guarantor's ability to redeem or prepay any other of the Issuer's or the Guarantor's securities or other indebtedness; or

- restrict the Guarantor's ability to invest or to repurchase or pay dividends or make other payments in respect of the Issuer's shares or other securities ranking junior to the Notes.

Accordingly, when evaluating the terms of the Notes, the investors should be aware that the terms of the Notes do not restrict the Issuer's or the Guarantor's ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events that could have an adverse impact on the investors' investment in the Notes.

The Notes do not restrict the Group's ability to incur additional debt or to take other actions that could negatively impact holders of the Notes.

The Group is not restricted under the Conditions from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the Group is not required to achieve or maintain any minimum financial results relating to the Group's financial position or results of operations under the covenants applicable to the Notes. The Group's ability to recapitalise, incur additional debt and take other actions that are not limited by the Conditions could diminish the Group's ability to make payments on the Notes and amortising bonds when due.

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

Notes issued under the Programme may be represented by one or more Global Notes or Global Note Certificates. Such Global Notes or Global Note Certificates will be deposited with a common depositary for Euroclear and Clearstream or lodged with a sub-custodian for the CMU. Investors will not be entitled to receive Definitive Notes or Individual Note Certificates except in the circumstances described in the relevant Global Note and the Global Note Certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes and Global Note Certificates. While the Notes are represented by one or more Global Notes or Global Note Certificates, investors will be able to trade their beneficial interests only through the relevant Clearing Systems.

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

A beneficial holder of a Global Note or Global Note Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. Each of the Issuer and/or the Guarantor does not have any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes or Global Note Certificates.

Bearer Notes where denominations involve integral multiples: definitive Bearer Notes.

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system, would not be able to sell the remaining holding without first purchasing a principal amount of Bearer Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of the Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

The Trustee may request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction.

In certain circumstances, including, without limitation, giving notice to the Issuer pursuant to Condition 13 (*Events of Default*) of the Conditions and taking enforcement steps pursuant to Condition 18 (*Enforcement*) of the Conditions, the Trustee may, at its sole discretion, request Noteholders to provide an indemnity, security and/or pre-funding to its satisfaction before it takes actions on behalf of Noteholders.

The Trustee is not obliged to take any such actions and/or steps and/or instituting proceedings if not first indemnified, secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity, security and/or pre-funding can be a lengthy process and may impact on when such actions, steps and/or proceedings can be taken. The Trustee may not be able to take any action, steps and/or proceedings, notwithstanding the provision of an indemnity, security and/or pre-funding to it, in breach of the terms of the Trust Deed or the Conditions and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions, steps and/or proceedings directly.

Decisions that may be made on behalf of all Noteholders may be adverse to the interests of individual Noteholders.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Noteholders may not align with the interests of the individuals.

Considerations related to a particular issue of the Notes.

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

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. The spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate if the Issuer converts from a fixed rate to a floating rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. The fixed rate may be lower than then prevailing rates on its Notes if the Issuer converts from a floating rate to a fixed rate.

Certain benchmark rates, including EURIBOR, may be discontinued or reformed in the future.

The Euro Interbank Offered Rate ("**EURIBOR**") and other interest rates or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**EU Benchmarks Regulation**") applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Regulation (EU) No. 2016/1011 as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmarks Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the UK. The EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmarks Regulation or UK Benchmarks Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, on 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has subsequently been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

The elimination of EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(j) (*Benchmark Discontinuation*) or Condition 7A (*Interest – Floating Rate Notes referencing SOFR*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, such as EURIBOR, (including any page on which such benchmark may be published (or any other successor service)) becomes unavailable or a Benchmark Event or a Benchmark Transition Event (each as defined in the Conditions), as applicable, otherwise occurs. Such an event may be deemed to have occurred prior to the issue date for a Series of Notes. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in accordance with the recommendation of a relevant governmental body or in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions) in certain circumstances, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks arising from the possible cessation or reform of certain reference rates in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The market continues to develop in relation to risk-free rates (including overnight rates) as reference rates for Floating Rate Notes.

The use of risk-free rates – including those such as the Sterling Overnight Index Average ("**SONIA**"), the Secured Overnight Financing Rate ("**SOFR**") and €STR, as reference rates for Eurobonds continues to develop. This relates not only to the substance of the calculation and the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates, but also how widely such rates and methodologies might be adopted.

The market or a significant part thereof may adopt an application of risk-free rates that differs significantly from that set out in the Conditions and used in relation to Notes that reference risk-free rates issued under this Programme. The Issuer may in the future also issue Notes referencing SONIA, the SONIA Compounded Index, SOFR, the SOFR Compounded Index or €STR that differ materially in terms of interest determination when compared with any previous Notes issued by it under this Programme. The development of risk-free rates for the Eurobond markets could result in reduced liquidity or increased volatility, or could otherwise affect the market price of any Notes that reference a risk-free rate issued under this Programme from time to time.

In addition, the manner of adoption or application of risk-free rates in the Eurobond markets may differ materially compared with the application and adoption of risk-free rates in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of such reference rates in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing such risk-free rates.

In particular, investors should be aware that several different methodologies have been used in risk-free rate notes issued to date. No assurance can be given that any particular methodology, including the compounding formula in the terms and conditions of the Notes, will gain widespread market acceptance. In addition, market participants and relevant working groups are still exploring alternative reference rates based on risk-free rates, including various ways to produce term versions of certain risk-free rates (which seek to measure the market's forward expectation of an average of these reference rates over a designated term, as they are overnight rates) or different measures of such risk-free rates. If the relevant risk-free rates do not prove to be widely used in securities like the Notes, the trading price of such Notes linked to such risk-free rates may be lower than those of Notes referencing indices that are more widely used.

Investors should consider these matters when making their investment decision with respect to any Notes which reference SONIA, SOFR, €STR or any related indices.

Risk-free rates may differ from LIBOR and other inter-bank offered rates in a number of material respects and have a limited history.

Risk-free rates may differ from The London Interbank Offered Rate ("**LIBOR**") and other inter-bank offered rates in a number of material respects. These include (without limitation) being backwards-looking, in most cases, calculated on a compounded or weighted average basis, risk-free, overnight rates and, in the case of SOFR, secured, whereas such interbank offered rates are generally expressed on the basis of a forward-looking term, are unsecured and include a risk-element based on interbank lending. As such, investors should be aware that risk-free rates may behave materially differently to interbank offered rates as interest reference rates for the Notes. Furthermore, SOFR is a secured rate that represents overnight secured funding transactions, and therefore will perform differently over time to an unsecured rate. For example, since publication of SOFR began on 3 April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmarks or other market rates.

Risk-free rates offered as alternatives to interbank offered rates also have a limited history. For that reason, future performance of such rates may be difficult to predict based on their limited historical performance. The level of such rates during the term of the Notes may bear little or no relation to historical levels. Prior observed patterns, if any, in the behaviour of market variables and their relation to such rates such as correlations, may change in the future. Investors should not rely on historical performance data as an indicator of the future performance of such risk-free rates nor should they rely on any hypothetical data.

Furthermore, interest on Notes which reference a backwards-looking risk-free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference such risk-free rates reliably to estimate the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, in contrast to Notes linked to interbank offered rates, if Notes referencing backwards-looking rates become due and payable as a result of an Event of Default under Condition 13 (*Events of Default*), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest Rate payable in respect of such Notes shall be determined by reference to a shortened period ending immediately prior to the date on which the Notes become due and payable or are scheduled for redemption.

The administrator of SONIA, SOFR or €STR or any related indices may make changes that could change the value of SONIA, SOFR or €STR or any related index, or discontinue SONIA, SOFR or €STR or any related index.

The Bank of England, the Federal Reserve, Bank of New York or the European Central Bank (or their successors) as administrators of SONIA (and the SONIA Compounded Index), SOFR (and the SOFR Compounded Index) or €STR, respectively, may make methodological or other changes that could change the value of these risk-free rates and/or indices, including changes related to the method by which such risk-free rate is calculated, eligibility criteria applicable to the transactions used to calculate SONIA, SOFR or €STR, or timing related to the publication of SONIA, SOFR or €STR or any related indices. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SONIA, SOFR or €STR or any related index (in which case a fallback method of determining the interest rate on the Notes will apply). The administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing any such risk-free rate.

RISKS RELATING TO RENMINBI DENOMINATED NOTES

A description of risks which may be relevant to an investor in Notes denominated in Renminbi (“**Renminbi Notes**”) is set out below.

Renminbi is not freely convertible and there are regulations on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes.

Currently, Renminbi is not freely convertible. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar. However, there has been significant reduction in regulation by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items. Remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities. These approvals are granted on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC government.

Although the PBOC has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC government will liberalise regulation on cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite internationalisation pilot programme in respect of Renminbi and efforts made in recent years to internationalise the currency, there can be no assurance that the PRC government will not issue interim or long-term regulations on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

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

As a result of the regulations implemented by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While PBOC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centres and cities, including but not limited to, Hong Kong, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

Regulations implemented by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement include those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC, although PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. The participating banks will need to source Renminbi from outside the PRC if they cannot source sufficient Renminbi through the above channels.

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

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by various factors such as changes in the PRC and international political and economic conditions. In 2015, the PBOC implemented changes to the way it calculates the Renminbi's daily midpoint against the U.S. dollar, taking into account market-maker quotes before announcing such daily midpoint. Such changes, and other changes that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Notes unless otherwise specified. The value of these Renminbi payments may then be varied with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the Renminbi Notes in that foreign currency will decline.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by Global Notes or Global Note Certificates held with the common depositary for Clearstream and Euroclear or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement or (ii) for so long as the Renminbi Notes are represented by Global Notes or Global Note Certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations. The Issuer does not have the ability to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Remittance of proceeds in Renminbi into or out of the PRC is subject to the regulation by the PRC government.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, prior approvals from, and/or registration or filing with, the relevant PRC government authorities must be obtained before it remits such proceeds. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be successfully obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC government will continue to gradually liberalise regulation on cross-border Renminbi remittances in the future, that the PRC government will not issue any interim or long-term regulations on capital inflow or outflow which may regulate cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. If the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently cannot repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

FORMS OF THE NOTES

BEARER NOTES

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each, a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV as operator of the Euroclear System ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), a sub-custodian for the CMU operated by the HKMA and/or a custodian for any other relevant clearing system.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, duly authenticated to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent or the CMU Lodging and Paying Agent; and

(ii) receipt by the Principal Paying Agent or the CMU Lodging and Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within seven days of the bearer requesting such exchange.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Bearer Notes in definitive form ("**Definitive Notes**") not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes note earlier than 40 days after the issue date for the relevant Tranche of the Notes upon, certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note, to or to the order of the Principal Paying Agent or the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following event occurs:

    (a) Euroclear or Clearstream, the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

    (b) any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent or the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Definitive Notes to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*."

REGISTERED NOTES

Each Tranche of Notes in registered form ("**Registered Notes**") will be represented by either:

(i) individual note certificates in registered form ("**Individual Note Certificates**"); or

(ii) one or more unrestricted global note certificates ("**Global Note Certificate(s)**"),

in each case as specified in the relevant Pricing Supplement.

Each Note represented by a Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream or for the HKMA in its capacity as the operator of the CMU and/or a custodian for any other relevant clearing system, and the relevant Global Note Certificate will be deposited on or about the issue date with the common depositary or a sub-custodian for the CMU.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be represented by one or more Global Note Certificates, each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then:

  (a) in the case of any Global Note Certificate held by or on behalf of Euroclear and/or Clearstream, the CMU and/or any other clearing system, if Euroclear, Clearstream, the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

  (b) in any case, if any of the circumstances described in Condition 13 (*Events of Default*) occurs.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the Registrar (through the relevant clearing system) with such information as the Issuer and the Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person's holding).

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which completes those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

CLEARING SYSTEM ACCOUNTHOLDERS

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Conditions to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be that depositary or common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by one or more Global Note Certificates, references in the Conditions to "Noteholder" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which (a) in the case of any Global Note Certificate which is lodged with a sub-custodian for the CMU, will be the HKMA; or (b) in the case of any Global Note Certificate which is held by or on behalf of a depositary or common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, will be that depositary or common depositary or its nominee, as the case may be.

Each of the persons shown in the records of Euroclear, Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each, an "**Accountholder**") must look solely to Euroclear, Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or the Guarantor to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear, Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer or the Guarantor in respect of payments due under the Notes and such obligations of the Issuer or the Guarantor will be discharged by payment to the holder of such Global Note or Global Note Certificate.

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

CONDITIONS APPLICABLE TO GLOBAL NOTES

Each Global Note and Global Note Certificate will contain provisions which modify the Conditions as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Note Certificate, shall be, if the currency of payment is euro, the applicable Payment Business Day shall be any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of any payment is not euro, the applicable Payment Business Day shall be any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register or in the case of CMU Notes, to the person(s) for whose account(s) interests in such Global Note Certificate are credited as being held with CMU in respect of such amount at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 9(c) (*Redemption for Change of Control*) or Condition 9(g) (*Redemption at the option of Noteholders*), the bearer of a Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Global Note or Global Note Certificate and put option notice, as the case may be, give written notice of such exercise to the Principal Paying Agent or, as the case may be, the CMU Lodging and Paying Agent, specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 9(e) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Notices: Notwithstanding Condition 20 (*Notices*), while all the Notes are represented by a Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, (i) held on behalf of Euroclear or Clearstream, or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions. Any such notice shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to Euroclear and/or Clearstream and/or the alternative clearing system; or (ii) held on behalf of the CMU, notices to the Noteholders may be given by delivery of the relevant notice to the CMU. Any such notice shall be deemed to have been given to the Noteholders in accordance with Condition 20 (*Notices*) on the date of delivery to the CMU.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be used for supporting the Group's business development, optimising its debt structure and improving its operational liquidity. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

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

1. INTRODUCTION

(a) *Programme*: CMS International Gemstone Limited (the "**Issuer**") has established a Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$2,000,000,000 in aggregate principal amount of notes (the "**Notes**") guaranteed by China Merchants Securities International Company Limited (the "**Guarantor**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a pricing supplement (the "**Pricing Supplement**") which supplements these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Trust Deed:* The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated 4 September 2023 (as amended, restated and/or supplemented from time to time, the "**Trust Deed**") between the Issuer, the Guarantor and China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).

(d) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement dated 6 September 2021 (as amended, restated and/or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) as CMU lodging and paying agent and CMU registrar (the "**CMU Lodging and Paying Agent**" and the "**CMU Registrar**", respectively, which expression includes any successor CMU lodging and paying agent and CMU registrar appointed from time to time in connection with Notes cleared through the CMU), China Construction Bank (Asia) Corporation Limited (中國建設銀行(亞洲)股份有限公司) as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes cleared through a clearing system other than the CMU, and together with the CMU Registrar, the "**Registrars**" and each, a "**relevant Registrar**"), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent, and all such references shall be construed accordingly.

(e) *The Notes*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Paying Agents and Transfer Agents.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours (being 9:00 a.m. to 3:00 p.m.) with prior written request and satisfactory proof of holding at the registered office of the Trustee (presently at 3/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong) and at the Specified Offices of each of the Agents.

2. INTERPRETATION

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Affiliate**" of any Person means any entity controlled, directly or indirectly, by such Person, any entity that controls such Person, directly or indirectly, or any entity under common control with such Person. For this purpose, control means ownership of a majority of the voting power of a person or power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise;

"**Authorised Signatory**" means any person who (a) is an authorised signatory of the Issuer or the Guarantor designated by the board of directors of the Issuer or the Guarantor, as applicable, or (b) has been notified by the Issuer or the Guarantor in writing to the Trustee as being duly authorised to sign documents and to do other acts and things on behalf of the Issuer or the Guarantor in accordance with the Trust Deed;

"**Business Day**" means:

(a) for the purposes of Condition 9(c) (*Redemption and Purchase – Redemption for Change of Control*) and Condition 13(c) (*Events of Default – Cross-Acceleration*), any day (other than a Sunday or a Saturday or a public holiday) on which commercial banks and foreign exchange markets are open for business and are not authorised or obligated by law or executive order to be closed; and

(b) for any other purposes under these Conditions (except for Condition 7(j) (*Benchmark Discontinuation*)):

  (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

  (ii) in relation to any sum payable in Renminbi, any day (other than a Sunday or a Saturday or a public holiday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed; and

  (iii) in relation to any sum payable in a currency other than euro and Renminbi, a day (other than a Saturday or a Sunday or a public holiday) on which commercial banks and foreign exchange markets settle payments generally in London, in Hong Kong, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day save in respect of Notes for which the Reference Rate is SOFR, for which the final Interest Payment Date will not be postponed and interest on that payment will not accrue during the period from and after the scheduled final Interest Payment Date;

(c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Principal Paying Agent or such other calculation agent as appointed by the Issuer in respect of the Notes pursuant to the terms of the Agency Agreement and as specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

a "**Change of Control**" means the occurrence of one or more of the following events:

(a) the Permitted Holders cease to, directly or indirectly, be the largest single shareholder(s) of CMS; or

(b) CMS ceases to, directly or indirectly, own at least 51 per cent. of the issued capital of the Guarantor; or

(c) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Guarantor and its Subsidiaries, taken as a whole, to any "person" or "group" (within the meaning of Section 13(d) of the Exchange Act), other than CMS, the Guarantor or any of their respective Subsidiaries; or

(d) the Guarantor ceases to, directly or indirectly, own 100 per cent. of the issued capital of the Issuer;

"**CMS**" means China Merchants Securities Co., Ltd. (招商證券股份有限公司) or any successor entity;

"**CMU**" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

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

(a) no Event of Default (as defined in Condition 13 (*Events of Default*)) or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(b) each of the Issuer and the Guarantor (as the case may be) has complied with all its obligations under the Trust Deed and the Notes, to which it is a party or, if non-compliance had occurred, giving details of it;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(a) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(b) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(c) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(d) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(e) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(g) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

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

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Change of Control)**" means, in respect of any Note, 101 per cent. of its principal amount or such other amount as may be specified in these Conditions or the relevant Pricing Supplement;

"**EURIBOR**" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro zone interbank offered rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Money Markets Institute (or any person which takes over administration of that rate);

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in these Conditions or the relevant Pricing Supplement;

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Guarantee of the Notes**" means the guarantee of the Notes given by the Guarantor in the Trust Deed;

"**HKFRS**" means Hong Kong Financial Reporting Standards;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

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

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means, in relation to any Series of Notes:

(a) unless "ISDA 2021 Definitions" are specified as being applicable in the relevant Pricing Supplement, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Notes of such Series), as published by the International Swaps and Derivatives Association, Inc. ("**ISDA**") (copies of which may be obtained from ISDA at www.isda.org); or

(b) if "ISDA 2021 Definitions" are specified as being applicable in the relevant Pricing Supplement, the latest version of the ISDA 2021 Interest Rate Derivatives Definitions, including each Matrix (as defined herein) (and any successor thereto), each as published by ISDA (or any successor) on its website (http://www.isda.org), on the date of the first Tranche of the Notes of such Series;

"**Issue Date**" has the meaning given in the relevant Pricing Supplement; "**Margin**" has the meaning given in the relevant Pricing Supplement; "**Material Subsidiary**" means any Subsidiary of the Guarantor:

(a) whose operating income or (in the case of a Subsidiary which itself has Subsidiaries) consolidated operating income, as shown by its latest audited income statement are at least five per cent. of the consolidated operating income as shown by the latest audited consolidated income statement of the Guarantor and its Subsidiaries; or

(b) whose operating profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated operating profit, as shown by its latest audited income statement are at least five per cent. of the consolidated operating profit as shown by the latest audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose total assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated total assets, as shown by its latest audited balance sheet are at least five per cent. of the amount which equals the amount included in the consolidated total assets of the Guarantor and its Subsidiaries as shown by the latest audited consolidated balance sheet of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the investment of the Guarantor in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Guarantor and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, **provided that** (xx) the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall forthwith become a Material Subsidiary and (yy) on or after the date on which the first published audited accounts (consolidated, if appropriate) of the Guarantor prepared as of a date later than such transfer are issued, whether such transferor Subsidiary or transferee Subsidiary is or is not a Material Subsidiary shall be determined on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

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

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

(ii) if at any relevant time in relation to the Guarantor or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, operating income, operating profit or total assets of the Guarantor and/or any such Subsidiary shall be determined on the basis of *pro forma* consolidated accounts prepared for this purpose by the Guarantor;

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its operating income, operating profit or total assets (consolidated, if appropriate) shall be determined on the basis of *pro forma* accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Guarantor; and

(iv) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Material Subsidiary shall be based on a *pro forma* consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor.

A statement in writing by any Authorised Signatory that in its opinion a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Guarantor, the Trustee, the Agents and the Noteholders;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

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

"**NDRC Administrative Measures**" means the Administrative Measures for the Review and Examination of Medium and Long-Term Foreign Debts of Enterprises (企業中長期外債審核登記管理辦法(國家發展和改革委員會令第56號)) issued by the NDRC and effective from 10 February 2023, and any implementation rules as issued by the NDRC from time to time;

"**NDRC Post-issue Filing**" means the filing with the NDRC of the offering information (including, without limitation, the major business indicators of the Issuer and the Guarantor and the issue details of the relevant Tranche of Notes) in respect of the issue of the Notes within ten PRC Business Days after the Issue Date;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Payment Business Day**" means:

(a) if the currency of payment is euro, any day which is:

   (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

   (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

   (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

   (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Holders**" means China Merchants Group Limited (招商局集團有限公司) and any Affiliate of China Merchants Group Limited (招商局集團有限公司);

"**Permitted Security Interest**" means any of the following:

(a) any Security Interest upon any asset acquired by the Guarantor or any of its Subsidiaries after the Issue Date if:

   (i) the Security Interest is in existence at the date of acquisition and was not created in contemplation of the acquisition of that asset by the Guarantor or the relevant Subsidiary;

   (ii) the assets concerned are solely listed or unlisted equity investments made in the ordinary course of the Guarantor or the relevant Subsidiary; and

   (iii) the principal amount secured does not exceed the amount secured as at the date of such acquisition;

(b) any Security Interest upon any asset of the Guarantor or any of its Subsidiaries created for the purposes of the Guarantor's or the relevant Subsidiary's issuance, in its usual course of business, of equities, derivatives and structured products **provided that** in each case, holders of the Relevant Indebtedness secured do not otherwise have recourse against the Guarantor or any of its Subsidiaries; or

(c) any Security Interest upon any asset of the Guarantor or any of its Subsidiaries created for the securities margin financing business, fixed income business, stock borrowing and lending business or any back-to-back financial instrument created for client transactions of the Guarantor or any of its Subsidiaries, **provided that** in each case, holders of the Relevant Indebtedness secured do not otherwise have recourse against the Guarantor or any of its Subsidiaries, **provided further that** such Security Interest shall be limited to the mortgage, charge, pledge, lien or other security interest upon the underlying shares or instruments under the relevant securities margin financing, stock borrowing and lending or fixed income scheme in accordance with the margin financing, stock borrowing or lending or fixed income policy, as the case may be of the Guarantor or the relevant Subsidiary;

a "**Person**" means

(a) for the purposes of the definition of "**Change of Control**", means individual, company, corporation, firm, partnership, joint venture, association, organisation, trust, state or agency of a state or other entity, in each case whether or not having separate legal personality; and

(b) for any other purposes under these Conditions, means individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China (for the purposes hereof not including Hong Kong or Macau Special Administrative Region of the People's Republic of China or Taiwan);

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

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided, however, that**:

(a) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(b) in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(c) in relation to Renminbi, it means Hong Kong or the principal financial centre as specified in the relevant Pricing Supplement;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder in accordance with Condition 9(g) (*Redemption at the option of Noteholders*);

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder in accordance with Condition 9(g) (*Redemption at the option of Noteholders*);

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Rating Agency**" means (a) Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors ("**S&P**"), (b) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**"), or (c) Fitch (Hong Kong) Limited and its successors ("**Fitch**"); and (d) if one or more of S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, any internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer and the Guarantor, which shall be substituted for S&P, Moody's or Fitch or any combination thereof, as the case may be;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Change of Control), the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put) and the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer (or an agent appointed by it) in the market that is most closely connected with the Reference Rate and notified in writing to the Trustee and the Calculation Agent;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" means EURIBOR, SOFR or any other applicable benchmarks as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement. Other than in the case of U.S. dollar-denominated floating rate Notes or a Note for which the "Reference Rate" is specified in the relevant Pricing Supplement as being SOFR, the term Reference Rate shall, following the occurrence of a Benchmark Event under Condition 7(j) (*Benchmark Discontinuation*), include any Successor Rate or Alternative Rate and shall, if a Benchmark Event should occur subsequently in respect of any such Successor Rate or Alternative Rate, also include any further Successor Rate or further Alternative Rate;

"**Relevant Period**" means, in relation to the consolidated financial statements of the Guarantor in respect of a financial year, each period of twelve months ending on the last day of the financial year (being, as at the Issue Date, 31 December of that financial year) and in relation to the Guarantor's condensed consolidated financial statements in respect of such semi-annual period, each period of six months ending on the last day of the first half financial year (being, as at the Issue Date, 30 June of that financial year);

"**Register**" has the meaning given in the Agency Agreement;

"**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent or the Trustee on or prior to such due date, the time when (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Indebtedness**" means any indebtedness incurred outside the PRC which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market), which does not include bi-lateral loans, syndicated loans or club loans;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

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

"**T2**" means the real time gross settlement system operated by the Eurosystem, or any successor system;

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which T2 is open for the settlement of payments in euro; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes or are Registered Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 12 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 12 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;

(vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended, restated and/or supplemented up to and including the Issue Date of the Notes.

3. FORM, DENOMINATION, TITLE AND TRANSFER

(a) *Bearer Notes:* Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes:* Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes:* Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement. Registered Notes are not exchangeable for Bearer Notes or *vice versa*.

(d) *Title to Registered Notes:* The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership:* The Holder of any Note or Coupon shall (except as ordered by a court of competent jurisdiction or otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes:* Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates:* Within five business days of receipt by the Registrar or (as the case may be) any Transfer Agent of a duly completed form of transfer and the surrender of a Note Certificate and provision of the required evidence in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge:* The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity and/or security and/or pre-funding as the Issuer, the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty or other governmental charges of whatsoever nature which may be imposed in connection with such transfer.

(i) *Closed periods:* Noteholders may not require transfers to be registered (i) during the period of 15 days ending on and including the due date for any payment of principal or interest in respect of the Registered Notes; or (ii) after a Change of Control Put Notice, or a Put Exercise Notice has been deposited in respect of the Notes pursuant to Condition 9 (*Redemption and Purchase*).

(j) *Regulations concerning transfers and registration:* All transfers of Registered Notes and entries on the Register will be made subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee, or by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder with prior written request and satisfactory proof of holding.

4. STATUS AND GUARANTEE

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

(b) *Guarantee of the Notes*: The Guarantor has in the Trust Deed unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. The obligations of the Guarantor under the Guarantee of the Notes constitutes direct, general, unconditional, unsubordinated and (subject to the provisions of Condition 5(a) (*Negative Pledge*)) unsecured obligations of the Guarantor and (subject as stated above) rank and will rank *pari passu* with all other outstanding unsecured and unsubordinated obligations of the Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

5. COVENANTS

(a) Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will create or permit to subsist any Security Interest (excluding any Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness or guarantee of Relevant Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security or arrangement for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

(b) Provision of Information

(i) So long as any Note remains outstanding, the Guarantor shall send to the Trustee:

(A) as soon as they are available but in any event within 150 days after each Relevant Period, a copy of consolidated financial statements of the Guarantor in respect of such financial year (including at least a consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and consolidated statement of cash flows) (audited by a nationally or internationally recognised firm of independent accountants) prepared and presented in accordance with HKFRS, and if such statements shall be in the Chinese language, together with an English translation of the same translated by (x) a nationally or internationally recognised firm of independent accountants or (y) a professional translation service provider and checked by a nationally or internationally recognised firm of independent accountants, in each case together with a certificate signed by an Authorised Signatory certifying that such translation is complete and accurate; and

(B) as soon as they are available but in any event within 90 days after each Relevant Period, a copy of condensed consolidated financial statements of the Guarantor in respect of such semi-annual period (including at least a condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows) prepared on a basis consistent with its audited consolidated financial statements, and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) a nationally or internationally recognised firm of independent accountants or (B) a professional translation service provider and checked by an internationally recognised firm of independent accountants, in each case together with a certificate signed by an Authorised Signatory certifying that such translation is complete and accurate,

provided that, if at any time the capital stock of the Guarantor is listed for trading on a recognised stock exchange, the Guarantor may deliver to the Trustee, as soon as they are available but in any event not more than 14 days after any annual consolidated financial statements or semi-annual interim consolidated financial statements is filed with such exchange, a copy of such annual consolidated financial statements or semi-annual interim consolidated financial statements in lieu of the consolidated financial statements identified above in this Condition 5(b)(i)(A) and 5(b)(i)(B).

The Trustee shall not be required to review any financial statement or report furnished or delivered to it as contemplated in this Condition 5(b) and, if the same shall not be in the English language, shall not be required to request or obtain or arrange for an English translation of the same, and the Trustee shall not be liable to any Noteholder or any other person for not doing so.

(ii) For so long as any Note remains outstanding, each of the Issuer and the Guarantor shall provide the Trustee with a Compliance Certificate (on which the Trustee may rely as to such compliance) (i) within 14 days of a written request by the Trustee and (ii) at the same time as the provision of the relevant audited consolidated financial statements as referred to in Condition 5(b)(i)(A) above, or alternatively if applicable, at the same time of provision to the Trustee of annual consolidated financial statements filed with a stock exchange at any time the capital stock of the Guarantor is listed for trading on a recognised stock exchange.

(iii) Neither the Trustee nor the Agents shall have any obligation to monitor and ensure the provision of financial information and Compliance Certificates to it or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with this Condition 5(b) and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor or any other person for any loss or liability from any failure to do so.

(c) Notification to NDRC

Where the NDRC Administrative Measures apply to the Tranche of Notes to be issued:

(i) the Guarantor undertakes (a) to file or cause to be filed with the NDRC the requisite information and documents within the relevant prescribed timeframes in accordance with the NDRC Administrative Measures and any implementation rules, regulations, certificates, circulars or notices in connection therewith as issued by the NDRC from time to time, including, without limitation, the NDRC Post-issue Filing; and (b) to comply with all applicable PRC laws and regulations in relation to the NDRC Administrative Measures promulgated thereunder from time to time; and

(ii) the Guarantor shall, within ten PRC Business Days after the submission of the NDRC Post-issue Filing, provide the Trustee with (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory confirming (A) the submission of the NDRC Post-issue Filing and (B) that no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred; and (ii) a copy of the NDRC Post-issue Filing setting out the particulars of filing, certified in English by an Authorised Signatory as being a true and complete copy of the original (the items specified in (i) and (ii) together, the "**Filing Documents**"). In addition, the Guarantor shall, within ten PRC Business Days after the Filing Documents are delivered to the Trustee, give notice to the Noteholders (in accordance with Condition 20 (*Notices*)) confirming the submission of the NDRC Post-issue Filing.

The Trustee may rely conclusively on the Filing Documents and shall have no obligation or duty to monitor, assist with or ensure the NDRC Post-issue Filing with the NDRC or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC

Post-issue Filing and/or the Filing Documents or to translate or procure the accuracy or completeness of any translation into English of any such certificate, confirmation or other document or to give notice to the Noteholders confirming the completion of the NDRC Post-issue Filing, and shall not be liable to Noteholders or any other person for not doing so.

(d) Rating Maintenance

Where the Notes are rated or expected to be rated by one or more Rating Agencies as specified in the applicable Pricing Supplement, so long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Noteholders, each of the Issuer and the Guarantor shall use all reasonable endeavours to maintain a rating on the Notes by a Rating Agency.

(e) Limitation on Business Activities

For so long as any Note remains outstanding, the Issuer shall not and the Guarantor shall procure that the Issuer will not conduct any business or other activities other than the offering, sale or issuance of the Notes (including any further securities issued in accordance with Condition 19 (*Further Issues*)) or other debt securities, the lending of the proceeds thereof to the Guarantor or a Subsidiary of the Subsidiary, directly or indirectly, the maintenance of the Issuer's corporate existence and any other activities in connection therewith.

6. FIXED RATE NOTE PROVISIONS

(a) *Application:* This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest:* The Notes bear interest from and including the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments – Bearer Notes*) and Condition 11 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Notes accruing interest otherwise than a Fixed Coupon Amount:* This Condition 6(d) shall apply to Notes which are Fixed Rate Notes only where the Pricing Supplement for such Notes specify that the Interest Payment Dates are subject to adjustment in accordance with the Business Day Convention specified therein. The relevant amount of interest payable in respect of each Note for any Interest Period for such Notes shall be calculated by the Calculation Agent by multiplying the product of the Rate of Interest and the Calculation Amount by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation

Amount. The Calculation Agent shall cause the relevant amount of interest and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Registrar (in the case of Registered Notes) and the Noteholders in accordance with Condition 20 (*Notices*) and, if the Notes are listed on a stock exchange and the rules of such exchange so requires, such exchange as soon as possible after their determination or calculation but in no event later than the fourth business day thereafter or, if earlier in the case of notification to the stock exchange, the time required by the rules of the relevant stock exchange.

(e) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. FLOATING RATE NOTE PROVISIONS

(a) *Application:* This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest:* The Notes bear interest from (and including) the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments – Bearer Notes*) and Condition 11 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be (other than in respect of Notes for which SOFR is specified as the Reference Rate in the relevant Pricing Supplement) determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall calculate the Rate of Interest at such time and by reference to such sources as the Issuer, in consultation with an Independent Adviser appointed by the Issuer, and such Independent Adviser acting in good faith and in a commercially reasonable manner;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (iii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Issuer (or an agent appointed by it) will request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time and the Issuer (or an agent appointed by it) shall notify the Calculation Agent of the same. The Calculation Agent will determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, requested and selected by the Issuer (or an agent appointed by it), at approximately 11:00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination:* If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement;

(iv) if applicable, the "Applicable Benchmark", "Fixing Day", Fixing Time" and/or any other items specified in the relevant Pricing Supplement are as specified in the relevant Pricing Supplement; and

(v) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall calculate the Rate of Interest at such time and by reference to such sources as the Issuer, in consultation with an Independent Adviser appointed by the Issuer, and such Independent Adviser acting in good faith and in a commercially reasonable manner, determines appropriate.

(e) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Calculation of Interest Amount:* The Calculation Agent will, as soon as reasonably practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, the Paying Agents and the Trustee as soon as reasonably practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Noteholders and, if the Notes have been admitted to listing, trading and/or quotation to any stock exchange and/or quotation system and the rules of the relevant competent authority or such stock exchange and/or quotation system so require, to such competent authority, stock exchange and/or quotation system. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(h) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Trustee, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(i) *Determination of Rate of Interest following acceleration:* If (i) the Notes become due and payable in accordance with Condition 13 (*Events of Default*) and (ii) the Rate of Interest for the Interest Period during which the Notes become due and payable is to be determined by reference to Condition 7A, then the final Rate of Interest for the Notes shall be calculated for the Interest Period to (but excluding) the date on which the Notes become so due and payable, and such Rate of Interest shall continue to apply to the Notes for so long as interest continues to accrue thereon as provided in these Conditions.

(j) *Benchmark Discontinuation*:

(i) This Condition 7(j) (*Benchmark Discontinuation*) shall not apply to Notes for which the Reference Rate is specified in the relevant Pricing Supplement as being "SOFR", in respect of which the provisions of Condition 7A (*Interest – Floating Rate Notes referencing SOFR*) and benchmark discontinuation provisions of Condition 7A(d) will apply.

(ii) Other than in the case of a U.S. dollar-denominated floating rate Note, if a Benchmark Event occurs in relation to the Reference Rate when the Rate of Interest (or any component part thereof) for any Interest Period remains to be determined by reference to such Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 7(j)) and, in either case, an Adjustment Spread, if any (in accordance with Condition 7(j)(ii)(C)) and any Benchmark Amendments (in accordance with Condition 7(j)(ii)(D)).

In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Guarantor, the Trustee, the Agents, the Noteholders or the Couponholders for any determination made by it pursuant to this Condition 7(j) (*Benchmark Discontinuation*). The Trustee and the Agents will not be liable for any loss, liability, cost, charge or expense which may arise as a result thereof.

(A) If (x) the Issuer is unable to appoint an Independent Adviser or (y) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7(j) (*Benchmark Discontinuation*) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Interest Period. For the avoidance of doubt, any adjustment pursuant to this Condition 7(j)(ii)(A) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 7(j) (*Benchmark Discontinuation*).

(B) If the Independent Adviser determines in its discretion that:

(1) there is a Successor Rate, then such Successor Rate shall (subject to adjustment as provided in Condition 7(j)(ii)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 7(j) (*Benchmark Discontinuation*) in the event of a further Benchmark Event affecting the Successor Rate; or

(2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate shall (subject to adjustment as provided in Condition 7(j)(ii)(C)) subsequently be used in place of the Reference Rate to determine the Rate of Interest for the immediately following Interest Period and all following Interest Periods, subject to the subsequent operation of this Condition 7(j) (*Benchmark Discontinuation*) in the event of a further Benchmark Event affecting the Alternative Rate.

(C) If the Independent Adviser determines in its discretion (x) that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) and (y) the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall apply to the Successor Rate or the Alternative Rate (as the case may be).

(D) If any relevant Successor Rate, Alternative Rate or Adjustment Spread is determined in accordance with this Condition 7(j) (*Benchmark Discontinuation*) and the Independent Adviser determines in its discretion (i) that amendments to these Conditions are necessary to ensure the proper operation of such Successor Rate, Alternative Rate and/or Adjustment Spread (such amendments, the "**Benchmark Amendments**") and (ii) the terms of the Benchmark Amendments, then the Issuer shall, following consultation with the Calculation Agent (or the person specified in the applicable Pricing Supplement as the party responsible for calculating the Rate of Interest and the Interest Amount(s)), subject to giving notice thereof in accordance with Condition 7(j)(ii)(F), without any requirement for the consent or approval of relevant Noteholders, vary these Conditions to give effect to such Benchmark Amendments with effect from the date specified in such notice (and for the avoidance of doubt, the Trustee and the Agents shall, at the direction and expense of the Issuer, consent to and effect such consequential amendments to the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 7(j) (*Benchmark Discontinuation*)).

(E) If (x) the Issuer is unable to appoint an Independent Adviser or (y) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 7(j) (*Benchmark Discontinuation*) prior to the relevant Interest Determination Date, the Reference Rate applicable to the immediate following Interest Period shall be the Reference Rate applicable as at the last preceding Interest Determination Date. If there has not been a first Interest Payment Date, the Reference Rate shall be the Reference Rate applicable to the first Interest Period. For the avoidance of doubt, any adjustment pursuant to this Condition 7(j)(ii)(A) shall apply to the immediately following Interest Period only. Any subsequent Interest Period may be subject to the subsequent operation of this Condition 7(j) (*Benchmark Discontinuation*).

(F) Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 7(j) will be notified promptly by the Issuer to the Trustee, the Principal Paying Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 20 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

(G) No later than notifying the Trustee and the Principal Paying Agent of the same, the Issuer shall deliver to the Trustee and the Principal Paying Agent a certificate signed by an Authorised Signatory of the Issuer:

(1) confirming (x) that a Benchmark Event has occurred, (y) the relevant Successor Rate, or, as the case may be, the relevant Alternative Rate and, (z) where applicable, any relevant Adjustment Spread and/or the specific terms of any relevant Benchmark Amendments, in each case as determined in accordance with the provisions of this Condition 7(j); and

(2) certifying that (x) the relevant Benchmark Amendments are necessary to ensure the proper operation of such relevant Successor Rate, Alternative Rate and/or Adjustment Spread and (y) the intent of the drafting of such changes is solely to implement the relevant Benchmark Amendments.

Each of the Trustee and the Agents shall be entitled to rely on such certificate (without further enquiry and without liability to any person) as sufficient evidence thereof.

(H) The Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of such Successor Rate or Alternative Rate and such Adjustment Spread (if any) and such Benchmark Amendments (if any)) be binding on the Issuer, the Guarantor, the Trustee, the Principal Paying Agent, the Calculation Agent, the other Paying Agents and the Noteholders.

(iii) As used in this Condition 7(j) (*Benchmark Discontinuation*):

"**Adjustment Spread**" means either a spread (which may be positive or negative), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser determines is required to be applied to the relevant Successor Rate or the relevant Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(B) (if no such recommendation has been made, or in the case of an Alternative Rate), the Independent Adviser, determines is customarily applied to the relevant Successor Rate or Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Reference Rate; or

(C) (if no such determination has been made) the Independent Adviser determines, is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be); or

(D) (if the Independent Adviser determines that no such industry standard is recognised or acknowledged) the Independent Adviser determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Rate (as the case may be);

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with this Condition 7(j) is customary in market usage in the international debt capital markets for the purposes of determining floating rates of interest (or the relevant component part thereof) in the Specified Currency;

"**Benchmark Amendments**" has the meaning given to it in Condition 7(j)(ii)(D);

"**Benchmark Event**" means:

(A) the relevant Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or

(B) a public statement by the administrator of the relevant Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of such Reference Rate) it has ceased publishing such Reference Rate permanently or indefinitely or that it will cease to do so by a specified future date (the "**Specified Future Date**"); or

(C) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will, by a specified future date (the "**Specified Future Date**"), be permanently or indefinitely discontinued; or

(D) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that such Reference Rate will, by a specified future date (the "**Specified Future Date**"), be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes; or

(E) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that, in the view of such supervisor, such Reference Rate is or will, by a specified future date (the "**Specified Future Date**"), be no longer representative of an underlying market; or

(F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (as applicable) (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable).

Notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraphs (B), (C), (D), or (E) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed to occur until the date falling six months prior to such Specified Future Date;

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Issuer at its own expense under Condition 7(j);

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

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

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

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

7A. INTEREST – FLOATING RATE NOTES REFERENCING SOFR

(a) This Condition 7A is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and the "Reference Rate" is specified in the relevant Pricing Supplement as being "SOFR".

(b) Where "SOFR" is specified as the Reference Rate in the Pricing Supplement, the Rate of Interest for each Interest Period will, subject as provided below, be the Benchmark plus or minus (as specified in the relevant Pricing Supplement) the Margin, all as determined by the Calculation Agent on each Interest Determination Date. In no event will the Rate of Interest for any Interest Period be less than the Minimum Rate of Interest.

(c) For the purposes of this Condition 7A:

"**Benchmark**" means Compounded SOFR, which is a compounded average of daily SOFR, as determined for each Interest Period in accordance with the specific formula and other provisions set out in this Condition 7A (*Interest – Floating Rate Notes referencing SOFR*).

Daily SOFR rates will not be published in respect of any day that is not a U.S. Government Securities Business Day, such as a Saturday, Sunday or holiday. For this reason, in determining Compounded SOFR in accordance with the specific formula and other provisions set forth herein, the daily SOFR rate for any U.S. Government Securities Business Day that immediately precedes one or more days that are not U.S. Government Securities Business Days will be multiplied by the number of calendar days from and including such U.S. Government Securities Business Day to, but excluding, the following U.S. Government Securities Business Day.

If the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of Compounded SOFR (or the daily SOFR used in the calculation hereof) prior to the relevant SOFR Determination Time, then the provisions under Condition 7A(d) below will apply.

"**Business Day**" means any weekday that is a U.S. Government Securities Business Day and is not a legal holiday in New York and each (if any) Additional Business Centre(s) and is not a date on which banking institutions in those cities are authorised or required by law or regulation to be closed;

"**Compounded SOFR**" with respect to any Interest Period, means the rate of return of a daily compound interest investment computed in accordance with the following formula (and the resulting percentage will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with 0.000005 being rounded upwards to 0.00001):

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \; x \; n_i}{360}\right)-1\right] x \; \frac{360}{d}$$

"**d**" is the number of calendar days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period.

"$\mathbf{d_o}$" is the number of U.S. Government Securities Business Days in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period.

"**i**" is a series of whole numbers from one to do, each representing the relevant U.S. Government Securities Business Day in chronological order from, and including, the first U.S. Government Securities Business Day in:

(i) where "Lag" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Interest Period; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant Observation Period,

to and including the last U.S. Government Securities Business Day in such period;

"**Interest Determination Date**" means, in respect of any Interest Period, the date falling "p" U.S. Government Securities Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" U.S. Government Securities Business Days prior to such earlier date, if any, on which the Notes are due and payable);

"**ni**" for any U.S. Government Securities Business Day "i" in the relevant Interest Period or Observation Period (as applicable), is the number of calendar days from, and including, such U.S. Government Securities Business Day "i" to, but excluding, the following U.S. Government Securities Business Day ("**i+1**");

"**Observation Period**" in respect of an Interest Period means the period from, and including, the date falling "p" U.S. Government Securities Business Days preceding the first day in such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) to, but excluding, the date falling "p" U.S. Government Securities Business Days preceding the Interest Payment Date for such Interest Period (or the date falling "p" U.S. Government Securities Business Days prior to such earlier date, if any, on which the Notes become due and payable);

"**p**" for any Interest Period or Observation Period (as applicable) means the number of U.S. Government Securities Business Days specified as the "Lag Period" or the "Observation Shift Period" (as applicable) in the relevant Pricing Supplement;

"**SOFR**" with respect to any U.S. Government Securities Business Day, means:

(i) the Secured Overnight Financing Rate published for such U.S. Government Securities Business Day as such rate appears on the SOFR Administrator's Website at 3:00 p.m. (New York time) on the immediately following U.S. Government Securities Business Day (the "**SOFR Determination Time**"); or

(ii) Subject to Condition 7A(d) below, if the rate specified in (i) above does not so appear, the Secured Overnight Financing Rate as published in respect of the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the SOFR Administrator's Website;

"**SOFR Administrator**" means the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate);

"**SOFR Administrator's Website**" means the website of the Federal Reserve Bank of New York, or any successor source;

"**SOFRi**" means the SOFR for:

(i) where "Lag" is specified as the Observation Method in the applicable Pricing Supplement, the U.S. Government Securities Business Day falling "p" U.S. Government Securities Business Days prior to the relevant U.S. Government Securities Business Day "i"; or

(ii) where "Observation Shift" is specified as the Observation Method in the relevant Pricing Supplement, the relevant U.S. Government Securities Business Day "i"; and

"**U.S. Government Securities Business Day**" means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(d) If the Issuer determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement, the Issuer will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of the Noteholders.

Any determination, decision or election that may be made by the Issuer pursuant to this section, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

(i) will be conclusive and binding absent manifest error;

(ii) will be made in the sole discretion of the Issuer; and

(iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

"**Benchmark**" means, initially, Compounded SOFR, as such term is defined above; **provided that** if the Issuer determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to Compounded SOFR (or the published daily SOFR used in the calculation thereof) or the then-current Benchmark, then "Benchmark" shall mean the applicable Benchmark Replacement.

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(i) the sum of: (A) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (B) the Benchmark Replacement Adjustment;

(ii) the sum of: (A) the ISDA Fallback Rate and (B) the Benchmark Replacement Adjustment; or

(iii) the sum of: (A) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (B) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the issuer or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(i) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event, "the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of clause (iii) of the definition of "Benchmark Transition Event, "the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark (including the daily published component used in the calculation thereof):

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, **provided that**, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (i) if the Benchmark is Compounded SOFR, the SOFR Determination Time, and (ii) if the Benchmark is not Compounded SOFR, the time determined by the Issuer after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(e) Any Benchmark Replacement, Benchmark Replacement Adjustment and the specific terms of any Benchmark Replacement Conforming Changes, determined under this Condition 7A will be notified promptly by the Issuer to the Trustee, the Principal Paying Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 20 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date on which such changes take effect.

No later than notifying the Trustee and the Principal Paying Agent of the same, the Issuer shall deliver to the Trustee and the Principal Paying Agent a certificate signed by an Authorised Signatory of the Issuer:

(A) confirming (x) that a Benchmark Transition Event has occurred, (y) the relevant Benchmark Replacement and, (z) where applicable, any Benchmark Replacement Adjustment and/or the specific terms of any relevant Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 7A; and

(B) certifying that the relevant Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of such Benchmark Replacement and/or Benchmark Replacement Adjustment.

8. ZERO COUPON NOTE PROVISIONS

(a) *Application:* This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and

(iii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. REDEMPTION AND PURCHASE

(a) *Redemption at Maturity*: Unless previously redeemed, purchased or cancelled as provided below, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments – Bearer Notes*) and Condition 11 (*Payments – Registered Notes*).

(b) *Redemption for Taxation Reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (unless the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 20 (*Notices*) (which notice shall be irrevocable), or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) up to but excluding the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(A) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 12 (*Taxation*)), or any change in, or amendment to, the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of Notes, either (i) the Issuer would be required to pay Additional Tax Amounts as provided or referred to in Condition 12 (*Taxation*) or (ii) (if the Guarantee of the Notes is called) the Guarantor in making payment itself would be required to pay such Additional Tax Amounts; and

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

provided, however, that no such notice of redemption shall be given earlier than:

(i) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes then due or, as the case may be, a demand under the Guarantee of the Notes then made; or

(ii) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such Additional Tax Amounts were a payment in respect of the Notes then due or, as the case may be, a demand under the Guarantee of the Notes then made.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver or procure that there is delivered to the Trustee (i) a certificate signed by any Authorised Signatory of the Issuer or, as the case may be, any Authorised Signatory of the Guarantor stating that the requirement referred to in (A) above will apply and cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it; and (ii) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment.

The Trustee shall be entitled (but shall not be obliged) to accept and conclusively rely upon such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event they shall be conclusive and binding on the Noteholders, and the Trustee shall be protected and shall have no liability to any Noteholder or any person for so accepting and relying on such certificate or opinion.

Upon the expiry of any such notice as is referred to in this Condition 9(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b).

(c) *Redemption for Change of Control*: If the Change of Control Put is specified in the relevant Pricing Supplement, following the occurrence of a Change of Control (as defined below), the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of that holder's Notes on the Change of Control Put Date (as defined below) at a price equal to the Early Redemption Amount (Change of Control) together with accrued interest up to but excluding the Change of Control Put Date.

To exercise such right, the holder of the relevant Note must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption (in the form for the time being current) obtainable from the specified office of any Paying Agent (the "**Change of Control Put Exercise Notice**") together with the Certificate evidencing the Notes to be redeemed by not later than 30 days following a Change of Control or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 20 (*Notices*).

The "**Change of Control Put Date**" shall be the fourteenth day or, if such day is not a Business Day, the next following Business Day after the expiry of such period of 30 days as referred to above. A Change of Control Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes the subject of the Change of Control Put Exercise Notices delivered as aforesaid on the Change of Control Put Date. If the Notes become due and repayable due to the occurrence of an Event of Default following the delivery of a Change of Control Put Exercise Notice but prior to the occurrence of the relevant Change of Control Put Date, such Change of Control Put Exercise Notice shall be deemed to be void.

The Trustee and the Agents shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to the occurrence of a Change of Control has occurred. The Issuer, failing whom the Guarantor, shall give notice to Noteholders in accordance with Condition 20 (*Notices*) and to the Trustee and the Principal Paying Agent in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition and shall give brief details of the Change of Control.

(d) *Notices of Redemption:* If there is more than one notice of redemption given in respect of any Note, the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

(e) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(f) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 9(e) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Trustee approves and in such manner as the Trustee considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 9(e) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(g), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Pricing Supplement), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(g), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 9(g), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(h) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 9(a) to 9(g) above.

(i) *Early redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 9(i) or, if none is so specified, a Day Count Fraction of 30E/360.

(j) *Purchase:* The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries may at any time purchase Notes in any manner and at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any of the Guarantor's other Subsidiary, shall not entitle the holder to vote at any meetings of the holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the holders or for the purposes of Condition 13 (*Events of Default)* and Condition 17(a) (*Meeting of Noteholders*).

(k) *Cancellation:* All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries shall be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons to the Principal Paying Agent or the CMU Lodging and Paying Agent and, in the case of Registered Notes, by surrendering the Note Certificate representing the Notes to the relevant Registrar and cancelled forthwith (together with all unmatured Coupons attached thereto or surrendered therewith) and accordingly may not be held, reissued or resold.

(l) *Calculations*: Neither the Trustee nor any of the Agents (other than the Calculation Agent and solely in respect of its functions as an appointed Calculation Agent of the Issuer) shall be responsible for calculating or verifying the calculations of any amount under any notice of redemption or have a duty to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection thereto, and shall not be liable to the Noteholders or any other person for not doing so.

10. PAYMENTS – BEARER NOTES

This Condition 10 is only applicable to Bearer Notes.

(a) *Principal:* Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (i) in the case of a currency other than Renminbi by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

In relation to Bearer Notes held in the CMU, payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Trust Deed) at the relevant time.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU.

(c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws:* All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons:* If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 9(b) (*Redemption for Taxation Reasons*), Condition 9(c) (*Redemption for Change of Control*), Condition 9(e) (*Redemption at the option of the Issuer*), Condition 9(g) (*Redemption at the option of Noteholders*), or Condition 13 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).

(i) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 14 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. PAYMENTS – REGISTERED NOTES

This Condition 11 is only applicable to Registered Notes.

(a) *Principal:* Payments of principal shall be made:

(i) in the case of a currency other than Renminbi, by wire transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency; and

(ii) in the case of Renminbi, by wire transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency,

and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest:* Payments of interest shall be made:

(i) in the case of a currency other than Renminbi, by wire transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency; and

(ii) in the case of Renminbi, by wire transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency,

and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

In relation to Registered Notes held in the CMU, payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in accordance with the CMU Rules at the relevant time.

(c) *Payments subject to fiscal laws:* All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 12 (*Taxation)*) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days:* Payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a Payment Business Day.

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

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

Payment of interest or principal by the in respect of a Global Note Certificate held through CMU shall be made to the person(s) for whose account(s) interests in the Global Note Certificate are credited as being held with the CMU at the relevant time.

12. TAXATION

(a) *Gross up:* All payments in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (the "**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law.

Subject to the following paragraph, where such withholding or deduction is made by the Issuer or the Guarantor, as the case may be, by or within the PRC at the rate up to and including the aggregate rate applicable on the date on which agreement is reached to issue the first Tranche of Notes (the "**Applicable Rate**"), the Issuer or the Guarantor, as the case may be, will pay such additional amounts as may be necessary in order that the net amount received by Noteholders and Couponholders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction.

(b) If the Issuer or the Guarantor is required to make a deduction or withholding (i) by or within the PRC in excess of the Applicable Rate or (ii) by or within any Relevant Jurisdiction other than the PRC, the Issuer or as the case may be, the Guarantor, will pay such additional amounts (the "**Additional Tax Amounts**") as may be necessary in order that the net amounts received by the Noteholders and the Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or Coupons in the absence of the withholding or deduction; except that no Additional Tax Amounts and no other additional amounts referred to in this Condition (together with the Additional Tax Amounts, the "**Additional Amounts**") shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon;

(ii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to Additional Tax Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or

(iii) to a Noteholder or Couponholder who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority, if such holder fails to do so within any applicable period prescribed by such relevant authority.

(c) *Taxing jurisdiction:* If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the Relevant Jurisdiction, references in these Conditions to the Relevant Jurisdiction shall be construed as references to the British Virgin Islands, Hong Kong or the PRC (as the case may be) and/or such other jurisdiction.

(d) Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 12 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Noteholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction, or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charges, withholding or other payment in any jurisdiction.

(e) *Interpretation*: In these Conditions, "**Relevant Jurisdiction**" means the British Virgin Islands, Hong Kong or the PRC or any political subdivision or any authority therein or thereof having power to tax to which the Issuer or the Guarantor becomes subject in respect of payments made by it of principal, premium and interest on the Notes.

13. EVENTS OF DEFAULT

If any of the following events (each an "**Events of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter (1/4) in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction), give written notice to the Issuer and the Guarantor declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest (if any) without further action or formality:

(a) *Non-Payment:* there has been a failure to pay the principal of or premium (if any) or interest on any of the Notes when due and in the case of interest, such failure continues for a period of seven days; or

(b) *Breach of Other Obligations:* the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations under the Notes (other than where it gives rise to a right of redemption pursuant to Condition 9(c)) or the Trust Deed and such default (i) is incapable of remedy, or (ii) being a default which is capable of remedy, remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Guarantor; or

(c) *Cross-Acceleration:* (i) any present or future indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described) unless such indebtedness is fully discharged, or such acceleration is irrevocably annulled, within three Business Days after receipt by the Trustee of the written notice from the Issuer and the Guarantor as provided in the Trust Deed, or (ii) failure to pay within three Business Days after final maturity or, if a grace period is applicable, after giving effect to the expiration of such grace period any such indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries, or (iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised and if such obligation is not discharged or otherwise satisfied within three Business Days after receipt by the Trustee of written notice as provided in the Trust Deed; **provided that** the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 13(c) have occurred equals or exceeds U.S.$20,000,000 (or its equivalent in any other currency or currencies on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this Condition 13(c) operates); or

(d) *Enforcement Proceedings:* a distress, attachment, execution or other legal process is levied, enforced or sued out on or against the whole or any material part of the property, assets or revenues of the Issuer, the Guarantor or any of the Material Subsidiaries and is not discharged within 60 days; or

(e) *Security Enforced:* any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any of the Material Subsidiaries in respect of all or a material part of its assets becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person) and is not discharged within 45 days; or

(f) *Insolvency:* (i) the Issuer, the Guarantor or any of the Material Subsidiaries is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as and when such debts fall due, (ii) the Issuer, the Guarantor or any of the Material Subsidiaries stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, (iii) the Issuer, the Guarantor or any of the Material Subsidiaries proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of all or a material part of its debts or (iv) a moratorium is agreed or declared in respect of or affecting all or any material part of the debts of the Issuer, the Guarantor or any of the Material Subsidiaries; or

(g) *Winding-up:* an order of any court of competent jurisdiction is made or an effective resolution is passed for the winding-up or dissolution of the Issuer, the Guarantor or any of the Material Subsidiaries (except for a voluntary solvent winding-up of any Material Subsidiary), or the Issuer, the Guarantor or any of the Material Subsidiaries ceases or threatens to cease to carry on all or a substantial part of its business or operations, except (i) for the purpose of and followed by a restructuring, amalgamation, reorganisation, merger or consolidation (A) on terms approved by an Extraordinary Resolution of the Noteholders, or (B) in the case of a Material Subsidiary, whereby the undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or another of the Guarantor's Subsidiaries or (ii) a disposal of a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) resulting from such disposal is vested in the Issuer, the Guarantor or any of their respective Subsidiaries in any combination; or

(h) *Nationalisation:* any step is taken by any person with a view to the seizure, compulsory acquisition or expropriation of all or any part of the assets of the Issuer, the Guarantor or any of the Material Subsidiaries, **provided that** the value of the assets subject to such seizure, compulsory acquisition or expropriation, individually or in the aggregate, exceeds 50 per cent. of the consolidated total assets of the Guarantor and its Subsidiaries; or

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

(j) *Illegality:* it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed; or

(k) *Guarantee not in force:* the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or

(l) *Analogous Events:* any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in Conditions 13(d) to 13(g) (both inclusive).

14. PRESCRIPTION

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years (in the case of principal) and five years (in the case of interest) of the appropriate Relevant Date.

15. REPLACEMENT OF NOTES AND COUPONS

If any Note, Note Certificate or Coupon is mutilated or defaced or is alleged to have been lost, stolen or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer, the Registrar or the Transfer Agent may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

16. TRUSTEE AND AGENTS

Under the Trust Deed, the Trustee is entitled to be indemnified, pre-funded and/or provided with security to its satisfaction and relieved from responsibility in certain circumstances and to be paid its costs, expenses and indemnity payments in priority to the claims of the Noteholders. In addition, the Trustee, the Agents and their respective directors and officers are entitled to enter into business transactions with the Issuer, the Guarantor and any entity relating to the Issuer or the Guarantor without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer and/or the Guarantor under the Trust Deed, the Agency Agreement or these Conditions or in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Noteholders. The Trustee shall be entitled to rely on any direction, request or resolution of the Noteholders given by Noteholders holding the requisite principal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed.

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

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of any circumstances particular to individual Holders of Notes, including but not limited to, such Holders being connected in any way with a particular territory or taxing jurisdiction. The Trustee shall not be entitled to require on behalf of any Noteholders, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided in Condition 12 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 12 (*Taxation*) pursuant to the Trust Deed.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and the Guarantor and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer and the Guarantor reserve the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, registrar, CMU lodging and paying agent, CMU registrar or calculation agent and additional or successor paying agents; **provided, however, that**:

(i) the Issuer and the Guarantor shall at all times maintain a principal paying agent and (in the case of Registered Notes) a registrar; and

(ii) the Issuer and the Guarantor shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU and (if such Notes are Registered Notes) a CMU Registrar; and

(iii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer and the Guarantor shall at all times maintain a Calculation Agent; and

(iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer and the Guarantor shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders.

17. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER; DIRECTIONS FROM NOTEHOLDERS; SUBSTITUTION

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or any modification to the Trust Deed and the Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) or by the

Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than 75 per cent. in aggregate principal amount of the outstanding Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

So long as the Notes are represented by the Global Note Certificate, Extraordinary Resolution includes a consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of all the Holders of not less than 75 per cent. in principal amount of the Notes for the time being outstanding.

(b) *Modification and waiver:* The Trustee may (but shall not be obliged to), without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or the Agency Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, not materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Trust Deed and the Agency Agreement which is of a formal, minor or technical nature or is to correct a manifest error or to comply with applicable law.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Trust Deed and the Agency Agreement (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be binding on the Noteholders and unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) *Directions from Noteholders*: Notwithstanding anything to the contrary in these Conditions, the Trust Deed or the Agency Agreement, whenever the Trustee is required or entitled by these Conditions, the Trust Deed or the Agency Agreement to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions or clarification of directions from the Noteholders by way of an Extraordinary Resolution and shall have been indemnified and/or provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions or clarification of any such directions, or in the event that the directions or clarifications sought are not provided by the Noteholders.

In addition, pursuant to Condition 7(j) (*Benchmark Discontinuation*), certain changes may be made to the interest calculation provisions of the Floating Rate Notes in the circumstances and as otherwise set out in such Condition, without the requirement for consent of the Trustee or the Noteholders.

(d) *Substitution:* The Trust Deed contains provisions under which the Guarantor or a subsidiary of the Guarantor may, without the consent of the Noteholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Notes **provided that** certain conditions specified in the Trust Deed are fulfilled, including, in the case of a substitution of the Issuer by a company other than the Guarantor, a requirement that the Guarantee of the Notes is fully effective in relation to the obligations of the new principal debtor under the Trust Deed and the Notes.

No Noteholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Noteholder, except to the extent provided for in Condition 12 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

18. ENFORCEMENT

The Trustee may at any time, at its discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed or the Agency Agreement in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or pre-funded and/or provided with security to its satisfaction.

No Noteholder may proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

19. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects save for their issue date, the first payment of interest thereon, and the timing to submit the NDRC Post-issue Filing and the deadlines for making notifications thereof) so as to form a single series with the Notes.

20. NOTICES

(a) *Bearer Notes:* Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes:* Notices to the Holders of Registered Notes shall be sent to them by uninsured mail at their respective addresses on the Register or published in a leading English language daily newspaper published in Hong Kong, or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the fourth day (being a day other than a Saturday, a Sunday or a public holiday) after the date of mailing or the date of publication or, if so published more than once or on different dates, on the date of the first publication.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of Euroclear or Clearstream or the CMU, or any other clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions.

21. CURRENCY INDEMNITY

If any sum due from the Issuer or as the case may be, the Guarantor, in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer or as the case may be, the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Coupons or the Guarantee of the Notes, the Issuer or as the case may be, the Guarantor shall indemnify each Noteholder, Couponholder and the Trustee, on the written demand of such Noteholder, Couponholder or the Trustee addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Principal Paying Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder, Couponholder or the Trustee may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

For the purposes of this Condition 21, it will be sufficient for the Noteholder, the Couponholder or the Trustee, as the case may be, to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder or Couponholder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note, the Trust Deed, the Agency Agreement or any other judgment or order.

22. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

23. GOVERNING LAW AND SUBMISSION TO JURISDICTION

(a) *Governing law:* The Notes, the Trust Deed and the Agency Agreement and all non-contractual obligations arising out of or in connection therewith are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction:* The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes, claims, difference or controversy that may arise out of, in relation to or in connection with the Trust Deed, the Agency Agreement or the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them (a "**Dispute**") and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed, the Agency Agreement or the Notes (the "**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor in the Trust Deed submits to the exclusive jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient or inappropriate forum to settle any Dispute.

(c) *Appointment of Process Agent*: The Issuer has in the Trust Deed irrevocably and unconditionally appointed the Guarantor as its agent for service of process in Hong Kong in respect of any Proceedings and the Guarantor has irrevocably accepted such appointment. If for any reason the Guarantor shall cease to have place of business in Hong Kong or cease to be such agent for service of process, each of the Issuer and the Guarantor shall as soon as practicable appoint a new agent for service of process in Hong Kong and notify the Trustee in writing of such appointment within 30 days of the Guarantor ceasing to have place of business in Hong Kong or ceasing to be such agent for service of process. Each of the Issuer and the Guarantor agrees that failure by a process agent to notify it of any process will not invalidate the relevant proceedings. Nothing in these Conditions shall affect the right to serve process in any other manner permitted by law.

(d) *Waiver of Immunity*: Each of the Issuer and the Guarantor has in the Trust Deed irrevocably and unconditionally waived and agreed not to raise with respect to the Trust Deed and the Notes any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

FORM OF PRICING SUPPLEMENT

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

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

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

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

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

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

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

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

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

[**Singapore Securities and Futures Act Product Classification** – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act 2001 of Singapore (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

Pricing Supplement dated [●]

CMS International Gemstone Limited

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*] (the "Notes")

unconditionally and irrevocably guaranteed by
China Merchants Securities International Company Limited (招商證券國際有限公司)
under the U.S.$2,000,000,000 Medium Term Note Programme

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

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the offering circular dated 4 September 2023 (the "**Offering Circular**") [and the supplemental offering circular dated [*date*]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular [and the supplemental offering circular dated [*date*]].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date and the relevant terms and conditions from that Offering Circular with an earlier date were incorporated by reference in the current Offering Circular.*]

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the [offering circular dated [*original date*] incorporated by reference in the offering circular dated [*current date*]] (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular [and the supplemental offering circular dated [*date*]][, save in respect of the Conditions which are set forth in the offering circular dated [*original date*] and are incorporated by reference in the Offering Circular].]]

Each of the Issuer and the Guarantor is a private company and therefore there is less publicly available information about the Issuer and the Guarantor than a public company. Please see "*Risk Factors – Public information in respect of the Guarantor or the Issuer is limited and neither of them is subject to continuous disclosure requirements as listed companies.*" in the Offering Circular.

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

1.	(i)	Issuer:	CMS International Gemstone Limited
	(ii)	Guarantor:	China Merchants Securities International Company Limited (招商證券國際有限公司)
2.	[(i)	Series Number:]	[●]
	[(ii)	Tranche Number:]	[●]
	[(iii)	Date on which the Notes become fungible]:	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [[●]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 23 below [which is expected to occur on or about [●]].]

3.	Specified Currency or Currencies:	[●]
4.	Aggregate Nominal Amount:	[●]
	[(i)] Series]:	[●]
	[(ii) Tranche:	[●]]
5.	(i) Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] *(in the case of fungible issues only*, *if applicable)*]
	(ii) Net proceeds:	[●] *(Required only for listed issues)*
6.	(i) Specified Denominations[1] [2] [3]	[●]
	(ii) Calculation Amount	[●]
7.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
8.	Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][4] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom*, *or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom*, *(i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available*.]

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

2 If the specified denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]. In relation to any issue of the Notes which are a "Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

3 For so long as any Notes are listed on the HKSE and the rules of the HKSE so require, such Notes will be traded on the HKSE in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

4 Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

9.	Interest Basis:	[[●] per cent. Fixed Rate] [*Specify reference rate*] +/-[●] per cent. Floating Rate] [Zero Coupon] [Other (*specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Other (*specify*)]
11.	Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of the Notes into another interest or redemption/payment basis*] [Not Applicable]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [Change of Control Put] (further particulars specified below)
13.	Approvals	
	(i) Board approval of the Issuer:	[●]
	(ii) Board approval of the Guarantor:	[●]
	(iii) Date of regulatory approval(s) for issuance of Notes obtained:	[NDRC pre-issuance certificate obtained dated [●]]
14.	Listing:	[HKSE/Other (*specify*)/None] (*For Notes to be listed on the HKSE, insert the expected effective listing date of the Notes*)
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear]

(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day*"]/not adjusted][5]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[6]
(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/Actual/365 (Fixed)/other]
(vi)	Determination Dates:	[[●] in each year (insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))]
(vii)	Party responsible for calculating the amount of interest:	[[*Name*] shall be the Calculation Agent] (*Required if the Interest Payment Dates are subject to adjustment*)
(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]

17. Floating Rate Note Provisions — [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(i)	Interest Period(s):	[●]
(ii)	Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable*")

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5 Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to adjustment in accordance with the Modified Following Business Day Convention.

6 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01, RMB0.005 for the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards".

(iii)	Specified Interest Payment	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention*, *Floating Rate Convention or Eurodollar Convention*, *insert "Not Applicable*")
(iv)	First Interest Period Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
(vi)	Additional Business Centre(s):	[Not Applicable/*give details*]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other *(give details)*]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s):	[[*Name*] shall be the Calculation Agent]
(ix)	Screen Rate Determination:	
	• Reference Rate:	[*For example*, *EURIBOR*, *HIBOR, CNH HIBOR, SONIA, SOFR or €STR*]
	• Observation Method:	[Lag/Observation Shift]
	• Lag Period:	[5/[●] TARGET Business Days/Not Applicable]
	• Observation Shift Period:	[5/[●] TARGET Business Days/Not Applicable] (*NB: A minimum of 5 TARGET Business Days should be specified for the Lag Period or Observation Shift Period, unless otherwise agreed with the Calculation Agent*)
	• D:	[360/365/[●]]/[Not Applicable]
	• Index Determination	[Applicable/Not Applicable]
	• SONIA Compounded Index	[Applicable/Not Applicable]

	• SOFR Compounded Index	[Applicable/Not Applicable]
	• Relevant Decimal Place	[●] (unless otherwise specified in the Pricing Supplement, be the fifth decimal place in the case of the SONIA Compounded Index and the seventh decimal place in the case of the SOFR Compounded Index)
	• Relevant Number of Index Days	[●] (unless otherwise specified in the Pricing Supplement, Relevant Number shall be, in the case of the SONIA Compounded Index shall be five and in the case of the SOFR Compounded Index shall be two)
	• Interest Determination Date(s):	[●]
	• Relevant Screen Page:	[*For example*, *Reuters LIBOR 01/EURIBOR 01*]
	• Relevant Time:	[*For example*, *11.00 a.m. London time/Brussels time/Hong Kong time*]
	• Relevant Financial Centre:	[*For example*, *London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro/Hong Kong*]
(x)	ISDA Determination:	
	• Floating Rate Option:	[●]
	• Designated Maturity:	[●]
	• Reset Date:	[●]
	• 2021 ISDA Definitions	[Applicable/Not Applicable]
(xi)	Linear interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii)	Margin(s):	[+/-] [●] per cent. per annum
(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
(xv)	Day Count Fraction:	[●]
(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]

18.	Zero Coupon Note Provisions	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Accrual Yield:	[●] per cent. per annum
	(ii) Reference Price:	[●]
	(iii) Day Count Fraction in relation to Redemption Amount:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(iv) Any other formula/basis of determining amount payable:	[●]

PROVISIONS RELATING TO REDEMPTION

19.	**Call Option**	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
20.	**Put Option**	[Applicable/Not Applicable]
		(If not applicable, delete the remaining sub-paragraphs of this paragraph)
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]

21.	**Change of Control Put**	[Applicable/Not Applicable]
22.	**Final Redemption Amount of each Note**	[●]
23.	**Early Redemption Amount**	
	(i) Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, on change of control triggering event or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[*Not Applicable (If the Early Redemption Amount (Tax) is the principal amount of the Notes and the Early Redemption Amount (Change of Control) is 101 per cent. of the principal amount of the Notes/specify the Early Redemption Amount (Change of Control) if different from 101 per cent. of the principal amount of the Notes and/or the Early Redemption Amount (Tax) if different from the principal amount of the Notes)*]
	(ii) Early Termination Amount per Calculation Amount payable on mandatory redemption on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[*Not Applicable (If the Early Termination Amount is the principal amount of the Notes)/specify the Early Termination Amount if different from the principal amount of the Notes or specify its method of calculation*]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	**Bearer Notes**[7]
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/in the limited circumstances specified in the Permanent Global Note][8]
		[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][9]

7 Bearer Notes issued in compliance with the TEFRA D Rules must initially be represented by a Temporary Global Note.

8 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days notice.] days notice.

9 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days notice.

		[Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/in the limited circumstances specified in the Permanent Global Note][10]
		Registered Notes:
		[Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/in the limited circumstances specified in the Global Note Certificate][11]
25.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*Give details*] (*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraph 17(vi) relates*)
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
27.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
28.	Consolidation provisions:	[[The provisions in Condition [19] (*Further Issues*)] [annexed to this Pricing Supplement] apply]
29.	Any applicable currency disruption/fallback provisions:	[Not Applicable/*give details*]
30.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

31.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager (if any):	[Not Applicable/*give names*]
32.	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]

10 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days notice.

11 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Note Certificate shall not be exchangeable on [●] days' notice.

33.	U.S. Selling Restrictions:	Reg. S Category [1/2] (*In the case of Bearer Notes*) – [TEFRA CRULES/TEFRA D RULES/TEFRA not applicable] (*In the case of Registered Notes*) – [TEFRA not applicable.][12]
34.	(i) Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable]
	(ii) Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

36.	Legal Entity Identifier:	9845001AE6C993CB8D75
37.	ISIN Code:	[●]
38.	Common Code:	[●]
39.	CMU Instrument Number:	[●]
40.	Any clearing system(s) other than Euroclear/Clearstream/the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
41.	Delivery:	Delivery [against/free of] payment
42.	Additional Paying Agents (if any):	[●]
43.	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
44.	The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of [●], producing a sum of (for Notes not denominated in United States dollars):	[Not Applicable/U.S.$[●]]
45.	[Ratings:	The Notes to be issued have been/are expected to be rated: [[●]: [●]][; and] [[●]: [●]]]

[12] TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU must be issued in compliance with the C Rules, unless at the time of issuance the CMU and the CMU Lodging and Paying Agent have procedures in place so as to enable compliance with the certification requirements under the D Rules.

HONG KONG SFC CODE OF CONDUCT

46.	(i)	Rebates:	[A rebate of [●] bps is being offered by the [Issuer] to all private banks for orders they place (other than in relation to Notes subscribed by such private banks as principal whereby it is deploying its own balance sheet for onward selling to investors), payable upon closing of this offering based on the principal amount of the Notes distributed by such private banks to investors. Private banks are deemed to be placing an order on a principal basis unless they inform the CMIs otherwise. As a result, private banks placing an order on a principal basis (including those deemed as placing an order as principal) will not be entitled to, and will not be paid, the rebate.]/[Not Applicable]
	(ii)	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	[*Include relevant contact email addresses of the Overall Coordinators where the underlying investor information should be sent*]/[Not Applicable]
	(iii)	Marketing and Investor Targeting Strategy:	[*if different from the Offering Circular*]

[**USE OF PROCEEDS**

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

[**STABILISING**

In connection with this issue, the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on such Stabilisation Manager (or persons acting on behalf of such Stabilisation Manager) to undertake stabilisation action. Any stabilisation action for a limited period after the Issue Date, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.]

PURPOSE OF PRICING SUPPLEMENT

[This Pricing Supplement comprises the final terms required for issue and admission to the HKSE of the Notes described herein pursuant to the U.S.$2,000,000,000 Medium Term Note Programme of the Issuer.]

RESPONSIBILITY

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

SIGNED on behalf of **CMS INTERNATIONAL GEMSTONE LIMITED**

By: ____________________________

Duly authorised

Name:

Title:

SIGNED on behalf of **CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED (招商證券國際有限公司)**

By: ____________________________

Duly authorised

Name:

Title:

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the consolidated capitalisation and indebtedness of the Company as at 31 December 2022. The following table should be read in conjunction with the Group's Audited Financial Statements and the notes thereto included elsewhere in this Offering Circular.

	As at 31 December 2022	
	(HKD in thousands)	(USD in thousands)[3]
Current indebtedness		
Current bank borrowings	12,844,114	1,646,365
Short-term notes issued	39,157	5,019
Financial assets sold under repurchase agreements and other borrowings	4,314,895	553,085
Total current indebtedness	**17,198,166**	**2,204,469**
Non-current indebtedness		
Non-current bank borrowings	300,140	38,472
Long-term note issued	3,904,010	500,418
Total non-current indebtedness	**4,204,150**	**538,890**
Total indebtedness[1]	**21,402,316**	**2,743,359**
Total equity	9,184,386	1,177,259
Total capitalisation[2]	**30,586,702**	**3,920,618**

Notes:

(1) Total indebtedness equals the sum of total current indebtedness and total non-current indebtedness.

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

(3) The translation of Hong Kong dollar amounts into U.S. dollar amounts has been made at the rate of HK$7.8015 to U.S.$1.00, the exchange rates set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 30 December 2022.

As at the date of this Offering Circular, the Guarantor's consolidated non-current bank borrowings have increased significantly as compared to the balance as at 31 December 2022, primarily driven by the Group's strategy to enhance liquidity and secure stable long-term funding. As at the date of this Offering Circular, the Guarantor's consolidated current bank borrowings, short-term notes issued and financial assets sold under repurchase agreements and other borrowings have decreased significantly as compared to the balance as at 31 December 2022, mainly attributed to the Group's adjustment to its surplus funds and repayment of certain bank loans following the relaxed market liquidity after year-end. The Guarantor's total equity has slightly increased as compared to the balance as at 31 December 2022.

Save as disclosed above, there has been no material change to the consolidated capitalisation and indebtedness of the Company since 31 December 2022.

DESCRIPTION OF THE ISSUER

FORMATION

The Issuer, incorporated in the British Virgin Islands on 18 August 2021 with company number 2072981, is a direct, wholly-owned subsidiary of the Guarantor. The Issuer was established for the purpose of issuing debt securities and on-lending the proceeds to the Guarantor or its subsidiaries or affiliates. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

FINANCIAL STATEMENTS

Effective from 1 January 2023, the Issuer is required by the law of the British Virgin Islands to file an annual financial return with its registered agent in the British Virgin Islands within nine months after the end of each year to which the financial annual return relates.

BUSINESS ACTIVITY

The Issuer was established pursuant to the objects and powers set out in its memorandum of association. As at the date of this Offering Circular, the Issuer has not engaged, since its incorporation, in any material activities other than entering into arrangements for the establishment and update of the Programme, the issue of U.S.$500,000,000 1.295 per cent. guaranteed notes due 16 September 2024 under the Programme and on-lending of the proceeds thereof to the Guarantor, and the issue of the Notes. As at the date of this Offering Circular, the Issuer has no subsidiaries.

DIRECTORS AND OFFICERS

As at the date of this Offering Circular, the directors of the Issuer are Zhang Baojiang and Xie Qingjiao. The correspondence address of the directors of the Issuer is 48/F, One Exchange Square, Central, Hong Kong.

SHARE CAPITAL

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of a single class each with a par value of U.S.$1.00. The register of members of the Issuer is maintained at its registered office. None of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being, or is proposed to be, sought.

DESCRIPTION OF THE GROUP

OVERVIEW

The Guarantor is a well-established capital market financial services company incorporated in Hong Kong. It is the sole overseas integrated financial services platform of its sole shareholder, CMS, one of the top ten comprehensive PRC securities firms, under China Merchants Group. Over the years, CMS has provided financial support for, and assistance to, the Group's business development and strategic expansion. As a vital link between CMS and the overseas capital market, the Guarantor offers integrated financial services to investors in mainland China, Hong Kong, Asia and Europe, creating substantial and mutually beneficial synergies. Leveraging CMS's resources, extensive business network and strong brand recognition, the Group has continued to grow in scale, revenue, and profitability.

The Group's offerings encompass brokerage, corporate finance and capital markets, trading and investment, principal investment, asset management and commodities trading across various industries and sectors. The Group conducts its businesses mainly through its wholly-owned subsidiaries, some of which are licensed to undertake comprehensive regulated activities in Hong Kong. The Group has obtained the following licences from the SFC: Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management). Additionally, the Guarantor operates subsidiaries in the United Kingdom and South Korea.

The Group's principal business segments include:

- *Brokerage:* providing domestic and overseas investors with one-stop investment services, including brokerage, margin financing, stock borrowing and lending, and wealth management services, covering various products such as global stocks, bonds, futures, options, funds and other derivatives and OTC products;

- *Corporate Finance and Capital Markets:* engaging in IPO sponsorship and underwriting, equity and debt capital market financing, M&A, and financial advisory services;

- *Trading and Investment:* investing in stocks of listed companies, debt securities, funds, fixed income products, derivatives and other financial instruments for its own accounts;

- *Principal Investment:* providing a platform for private equity investment through its proprietary capital and specialised fund vehicles. It focuses on minority equity investments in private companies in industries including technology, new energy, healthcare and consumer. The Group also provides financial advisory services to portfolio companies by leveraging CMS's local network and industry expertise;

- *Asset Management:* providing investors with comprehensive asset management services which offer a wide range of product lines and strategies, including fund management, discretionary account management, cross-border asset management, and investment advisory services; and

- *Commodities Trading:* offering comprehensive commodity trading services to corporate clients, including over-the-counter derivatives products, spot transactions and financing services. The commodities under trading include precious metals and energy products.

For the year ended 31 December 2022, the Group's total revenue[1] was HK$1,056 million, compared to HK$2,286 million for the year ended 31 December 2021 and HK$1,561 million for the year ended 31 December 2020, respectively. For the year ended 31 December 2022, the Group's profit (loss) before taxation was HK$(297) million, compared to HK$1,026 million for the year ended 31 December 2021 and HK$580 million for the year ended 31 December 2020, respectively. The Group has recorded a net loss in 2022 primarily due to the tightening monetary policies and heightened geopolitical tensions across the world which led to, among others (i) unfavourable market conditions in Hong Kong and a consequential decline of the Group's revenue and income under certain business segments, (ii) slowdown in fund raising activities in Hong Kong and a reduction in brokerage fees and commissions received by the Group, (iii) decrease in market prices and valuations of the Group's investments, and (iv) reduction in the scale of the Group's margin financing business to reduce risk exposures. See also "*Corporate Finance and Capital Markets*", "*Trading and Investment*" and "*Principal Investment*" sections under the "*Business Activities*" heading below for more detailed reasons. As at 31 December 2022, the Group's total assets were HK$48 billion, compared to HK$42 billion as at 31 December 2021 and HK$29 billion as at 31 December 2020, respectively, representing a CAGR[2] of 28.65 per cent. between 2020 and 2022.

RECENT DEVELOPMENT

Financial Results as at and for the Six Months Ended 30 June 2023

For the six months ended 30 June 2023, the Group's total revenue and net profit increased significantly as compared with the corresponding period in 2022, mainly because the Group's trading and investment business has outperformed in the first half of 2023 comparing to such in 2022.

As at 30 June 2023, the Group's total assets decreased as compared to the balance at 31 December 2022, primarily because the Group has reduced its liquid assets and bank balance following the improved market liquidity after year-end. The Group's total liabilities as at 30 June 2023 decreased as compared to the balances at 31 December 2022.

No audit or review has been performed on the financial results as at and for the six months ended 30 June 2023 and they are not indicative of the Group's financial condition or results of operations for the full year ending 31 December 2023. Such financial results were prepared by the Guarantor management in accordance with China Accounting Standards for Business Enterprises. As the financial results as at and for the six months ended 30 June 2023 have not been audited or reviewed, they should not be relied upon by prospective investors to provide the same type or quality of information associated with information that has been subject to an audit or a review by an independent auditor.

1 The Group's total revenue consists of revenue, interest income, other income and gains, change in fair value of financial assets and liabilities at fair value through profit or loss, net gain (loss) on disposal of financial asset at fair value through other comprehensive income, net trading gains of precious metals and change in fair value of derivative financial instruments disclosed in the consolidated statement of profit or loss and other comprehensive income.

2

$$CAGR = \left(\frac{Final\ value}{Beginning\ value}\right)^{1/time\ in\ year} - 1$$

Final value refers to the value as at the end of period. Beginning value refers to the value as at the beginning of period. Time in years equals to two in this paragraph.

Material Changes in Capitalisation and Indebtedness Since 31 December 2022

As at the date of this Offering Circular, the Guarantor's consolidated non-current bank borrowings have increased significantly as compared to the balance as at 31 December 2022, primarily driven by the Group's strategy to enhance liquidity and secure stable long-term funding. As at the date of this Offering Circular, the Guarantor's consolidated current bank borrowings, short-term notes issued and financial assets sold under repurchase agreements and other borrowings have decreased significantly as compared to the balance as at 31 December 2022, mainly attributed to the Group's adjustment to its surplus funds and repayment of certain bank loans following the relaxed market liquidity after year-end. The Guarantor's total equity has slightly increased as compared to the balance as at 31 December 2022.

HISTORY AND MILESTONES

The Group has a rich and dynamic history. It has constantly sought to reinvent itself and develop new engines of growth. Set forth below are the history and key milestones of the Group:

1999	UB Holdings Limited ("**UB Holdings**") was formed by China Merchants Finance Holdings Co., Ltd. ("**China Merchants Finance**") and became a wholly-owned subsidiary of China Merchants Finance.
2005	CMS obtained approval from the China Securities Regulatory Commission (the "**CSRC**") and acquired the entire equity interest in UB Holdings from China Merchants Finance.
2006	UB Holdings was renamed as China Merchants Securities Holdings (HK) Company Limited ("**Former CMSI**").
2010	Former CMSI was renamed as China Merchants Securities International Company Limited.
2011	CMS made a capital injection of HK$1.0 billion to the Guarantor. Following such capital increase, the equity of the Group amounted to approximately HK$2.6 billion as at 31 December 2011.
2013	The Guarantor established a wholly-owned subsidiary, China Merchants Securities (UK) Limited ("**CMS UK**"), in the United Kingdom.
2017	The Guarantor established a wholly-owned subsidiary, China Merchants Securities (Korea) Co., Limited (씨엠에스증권한국주식회사) ("**CMS Korea**"), in Korea.
2018	The Guarantor received a capital injection of HK$2.3 billion from CMS. Following such capital increase, the equity of the Group amounted to approximately HK$5.6 billion as at 31 December 2018.
2021	CMS made a capital injection of HK$2.35 billion to the Guarantor. Following such capital increase, the equity of the Group amounted to approximately HK$9.5 billion as at 31 December 2021.

AWARDS AND RECOGNITIONS

The Group has received numerous awards and recognitions from industry associations and relevant organisations. Set forth below are the significant awards and recognitions received by the Group in recent years:

2018	• “Outstanding International Member of 2015-2018” award by *Shanghai Gold Exchange*;
2019	• Various awards from the *Asia Money Brokers Poll 2019*, including but not limited to the “5th Best Local Brokerage” and “Best Sales Services Award”;
	• “Best IPO Advisors to New Economy” award by *the Sina Finance Hong Kong Financial Institutions Awards (HKFIA)*;
	• “Star Capital Market Investment Bank” award by *China Financial Market*;
2020	• Various awards from *Asia Money*, including but not limited to “Sixth Best Overall Country Research” and “Sixth Best Local Brokerage”;
	• “Good Employer Charter 2020” award by *Labour Department Hong Kong*;
	• “The Caring Company Scheme 2019/2020” award by *The Hong Kong Council of Social Services*;
2021	• “COVID-19 Special Award-Corporate”, “HR Best Practice-Training & Development” and “HR Best Practice-Compensation & Benefits” award by *South China Morning Post*;
2022	• “The Caring Company Scheme 2021/2022” award by *The Hong Kong Council of Social Services*;
2023	• “Best ETF Participating Dealer-Offshore China Fund Awards 2022” award by *Chinese Asset Management Association of Hong Kong & Bloomberg*; and
	• “The Caring Company Scheme 2022/2023” award by *The Hong Kong Council of Social Services*.

COMPETITIVE STRENGTHS

As a subsidiary and the sole overseas business platform of CMS, one of the leading securities firms in China, the Group is committed to creating value for clients by offering premier and comprehensive financial products and services. With a collaborative, full-service business and strong innovation capabilities, the Group continues to expand its business, strengthen its market position and enhance its core competitiveness, driven by the following competitive strengths:

Robust support from CMS creating strategic synergy

CMS, the sole shareholder of the Guarantor, is one of the top ten comprehensive domestic securities firms in China and is a pilot brokerage firm approved by the CSRC in 2018 to conduct cross-border business. The Guarantor, as the sole offshore capital market financial services platform of the CMS Group, holds a strategically important position in the CMS Group. The Group's business provides a solid foundation for CMS's strategic plan to integrate its investment banking arms and its onshore and offshore services platforms to provide a full range of collaborative financial services across regions. The Group's business extends and supplements CMS's business, leading to substantial support from CMS in the following ways:

- *Capital support:* The CMS Group has extended substantial capital support to the Guarantor through significant capital injections over the years. With the capital support from one of China's largest investment banks, the Group is well-equipped to pursue its strategic plans and realise its vision.

- *Client and business referral:* The Guarantor confers with CMS in formulating its development strategies and operating plans. It offers capital market financing solutions and products to CMS's onshore corporate clients, and constantly develops new products to meet their offshore investment needs. CMS's clients from mainland China can leverage the Group's international platform, while international clients can access CMS's extensive network in the PRC and its leading market positions across multiple business lines.

- *Technological and talent support:* CMS's advanced fintech capability enables the Group to integrate technology into its business, strengthening product development and customer servicing capabilities. Additionally, most of the directors and senior management of the Guarantor have had prior work experience in the CMS Group or China Merchant Group, enhancing the overall management capacities of the Group.

Through years of development, the Group has emerged as a leading provider of offshore capital market financial services with strong roots in the PRC. Seeking growth opportunities across all business segments, the Group delivers differentiated, personalised and innovative products and services, offering clients one-stop offshore financial services. Therefore, the Group's business serves as a crucial link between CMS and the international capital markets, creating a substantial and mutually beneficial synergy between CMS and the Group.

Benefiting from the century-old "China Merchants" brand and its unique business resources

As an overseas platform of China Merchants Group's securities business, the Guarantor draws upon the century-old legacy of the "China Merchants" brand and leverages the unique business resources of this pioneering enterprise. China Merchants Group, with its origins tracing back to 1872, has been a pioneer of industrial and commercial reforms in China for over 150 years. As a large-scale state-owned enterprise directly managed by the State-owned Assets Supervision and Administration Commission (the "**SASAC**") under the State Council, China Merchants Group's principal businesses include transportation and related infrastructure, financial services and urban development. China Merchants Group is well-recognised for its innovation capabilities, market-oriented and globalised operations, as well as sustainable track record, which have become an integral part of its corporate culture. China Merchants Group has been recognised as a class A state-owned enterprise by the SASAC for 19 consecutive years as at July 2023. In 2022, China Merchants Group became an official State Capital Investment Corporation of the PRC (國有資本投資公司) as designated by the SASAC. China Merchants Group is also among the Fortune Global 500 companies, and its ranking has continued to rise.

In the realm of financial services, China Merchants Group has established a "4+N" system, covering banking, securities, funds, insurance, asset management and financial leases, thereby developing a comprehensive full-service platform and a whole industrial chain. China Merchants Group owns a number of well-known listed companies, including China Merchants Bank, China Merchants Holdings

(International) Company Limited, China Merchants Energy Shipping Co., Ltd and China Merchants Shekou Industrial Zone Holdings Co., Ltd. Among them, China Merchants Bank is among the Fortune Global 500 companies.

The Guarantor, being the sole overseas securities business platform under CMS, a subsidiary of China Merchants Group, has extensive experience in serving large enterprise groups. China Merchants Group maintains a stable ownership stake in the Group and provides comprehensive support in terms of strategic guidance, financial support, risk management, market-oriented human resource management, as well as business collaboration and innovation. The Group therefore enjoys competitive advantages in capturing emerging business opportunities arising from various business initiatives within China Merchants Group, such as "Collaboration between Industrial Companies and Financial Companies" and "Collaboration between Financial Companies". The Group believes the century-old "China Merchants" brand inspires client confidence and has played a pivotal role in expanding its client base.

Successful implementation of "One CMS" strategy

The Group has enjoyed quality growth over the years, primarily attributed to its full-life cycle business coverage. The Group has successfully implemented the "One CMS" strategy across its business segments and units, creating a full life-cycle, one-stop integrated platform to offer its clients best-in-class capital market financial services. Rooted in Hong Kong and with a presence in London and Seoul, as well as benefiting from CMS Group's network in mainland China, the Group operates key business segments, including brokerage, corporate finance and capital markets, trading and investment, principal investment, asset management and commodities trading. These segments cater to a diverse range of clients across various stages of development, providing tailored services and support as follows:

- *Early-stage engagement:* The Group proactively reaches out to high growth-potential companies at their early development stage and provides funding and strategic guidance to aid and support their growth.

- *High growth stage:* The Group's structured finance team constantly innovates and develops new products to meet the needs of onshore institutional and corporate clients seeking offshore investment and provide bespoke structured finance products that suit the needs of high growth companies.

- *Stable growth stage:* The Group's corporate finance and capital markets business engages with companies that have attained relatively stable growth and provides them with various financing solutions to achieve their clients' financial and strategic goals. The Group provides underwriting and sponsoring services in debt and equity offerings and financial advisory services in M&A transactions.

- *Mature stage:* Clients at this stage are primarily listed companies or shareholders of listed companies. The Group's equity and other businesses provide various services, including secondary market-related services, listed equity and debt securities trading and market value management services. Additionally, the clients benefit from award-winning market research services.

- *Wealth accumulation stage:* The Group caters to high-net-worth individuals and corporations, providing asset allocation and management services.

This full life-cycle coverage creates enormous synergy and cross-selling opportunities within the Group, which has driven the Group's rapid growth and increased visibility in the market. Such capabilities enable the Group to provide a greater variety of products and services, improving profitability and enhancing customer loyalty.

Strong financing capabilities

The Group possesses strong financing capabilities and is able to obtain funding at competitive rates to support its business development. CMS's favourable capital injections also lower the Group's financing costs. The Group has maintained sufficient credit lines and continued to diversify its financing channels, including issuing debt securities and obtaining syndicated financings, as well as maintaining and extending relationships with reputable banks and financial institutions. In addition, the Group has established a sound governance framework and control mechanism to manage risks and challenges arising from the operating or market environment. As at 31 December 2022, the Group had credit facilities of HK$24.9 billion, of which HK$11.8 billion was not utilised.

Effective and prudent integrated risk management

The Group has developed and will continue to develop a prudent risk management system, aiming at controlling and minimising credit, market, liquidity and operational risks faced by the Group. The Group has sought to optimise its risk management system in terms of stringency, consistency and comprehensiveness. In terms of stringency, the Group has adopted a quantitative and model-based approach to risk alert and control by continuously optimising and improving risk limits and management indicators, focused on the collection and valuation management of post-investment and loan information, strengthened stress testing mechanisms, carried out risk management based on the implementation of monitoring indicators, and made reasonable recommendations for risk resource optimisation and allocation. In terms of consistency, the Group has refined the end-to-end risk control process that takes into account the depth and breadth of various businesses, enhanced risk awareness in each process stage, strengthened the whole process risk management model, and enhanced the risk allocation mechanism to ensure that all aspects of risk management are effective and efficient. In terms of comprehensiveness, the Group strives to achieve risk management for all types of its customers, businesses and assets, effectively identifying the main risks of each business line, each subsidiary and each department, and comprehensively integrating, analysing and evaluating all types of risk management information of the Group to provide the basis for its major decisions and daily operation.

The comprehensive approach to risk management demonstrates the Group's commitment to safeguarding its business and financial health. By addressing risks proactively and prudently, the Group enhances its resilience in the face of uncertainties and maintains its reputation as a trusted and reliable financial services provider.

Staff and management team with extensive knowledge and experience

The Group has a professional team dedicated to providing clients with optimal investment and financial services, who possesses extensive project-implementation and industry experience from top-tier investment banks or core regulatory affiliates. As at 31 December 2022, the Group had 360 employees in total, of whom around 94 per cent. had a bachelor's degree or above, and around 49 per cent. had a master's degree or above. The board of directors and senior management of the Guarantor have extensive experience in the financial services industry (see "*Directors and Senior Management*"). Among the Guarantor's directors and senior management, Mr. Liu Rui, the chairman and chief executive officer of the Guarantor and Mr. Lu Gonglu, a director and the chief operating officer of the Guarantor, have more than 20 years of related experience in the financial services industry. The expertise of the staff and management team enables the Group to adjust its business strategies on a timely basis based on market trends and client needs and therefore maintain its competitive advantages, laying a solid foundation for the Group's long-term sustainable growth.

BUSINESS STRATEGIES

In line with its core values, the Group strives to become a market leader in the capital market financial services industry by providing an integrated platform. The Group's strategy is not only to strengthen and develop its own business but also to align its goals with, and serve the wider goals of the CMS Group. The Group's strategies to achieve its goals are described as follows:

Achieve balanced growth

Leveraging the Group's competitive advantage in integration of investment banking and asset management, the Group will continue to carry out structural adjustments and optimisation of its operations in order to develop all business segments under an asset-light business model. The Group seeks to create a seamless experience for onshore and offshore clients and achieve a balance between domestic and international expansion. This strategy entails that the Group (i) focuses on recurring business activities that boost fee and commission income, (ii) focuses on asset-light businesses (e.g., lower capital employed in structured finance deals when acting as the arranger) and limits risk-weighted assets growth and (iii) maintains low leverage compared with the industry average of its competitors. The Group will not only focus on expansion of business volume, but also on high-quality business growth with lower leverage ratio, which will help the Group remain resilient during different economic cycles and provide a solid foundation for long-term future growth.

As a majority of the revenue derived from the Group's businesses is non-interest income, with the growth of these business segments, the proportion of the Group's revenue derived from non-interest income is expected to remain at a relatively high level, driving quality growth.

Focus on improving customers experience and servicing the economy

As a one-stop integrated platform providing comprehensive and diversified capital market financial services, the Group will continue to enhance its service platform to provide comprehensive services throughout every stage in a corporation's life cycle. The Group is also committed to broadening customer acquisition channels within and outside of the CMS Group and expanding its own customer network with product innovation and professional research capabilities. With the help of fintech, the Group will further optimise the customer service experience and expand its customer network.

Further, in response to CMS's strategic layout, the Group is dedicated to serving customer groups that are key to this strategy by providing capital market services and products to create more value for clients, and match their overseas financial product allocation needs. The Group aims to become the leading regional integrated capital market financial services provider in terms of investor coverage, product coverage and market coverage. The Group will continue to identify investment opportunities to enrich and enhance the Group's investment portfolio.

In line with the CMS Group's international strategy, the Group expanded into London and Seoul in 2013 and 2017, respectively. The Group also strives to serve clients who are seeking international opportunities in pursuit of investment diversification and/or optimise allocation of assets, and promote CMS's strategies, benefiting from its access to the CMS Group network.

Enhance the Group's product innovation ability to improve its product offering

The Group has developed rapidly in recent years and strives to maintain and enhance its leading position through innovation to meet increasing and diversifying customer demands. By building its own product system around the integration of investment banking and asset management, the Group is able to provide differentiated products to build a high barrier to enter into the relevant markets and win strategic institutional and corporate clients. The Group will strengthen distribution channels and broaden product offerings under an enhanced cross-border service model to further build its one-stop financial services platform and to drive its sustainable growth.

The Group will continuously implement the following measures to improve its product offerings:

- build products to adapt to the needs of different clients and expand its market share by taking advantage of the Group's superior investment research capabilities and through flexible structural product design;

- enhance the corporate finance and capital markets business product lines and achieve a balanced development of various financial products;

- enhance the Group's ability to accurately measure risks and returns and to better allocate resources through price discovery;

- build a flexible, professional and efficient platform for trading products by providing multiple trading formats and improving online trading systems;

- provide comprehensive financing solutions for clients in diversified ways such as private equity investment, structured financing and other financing options;

- conduct the fixed-income and debt capital market business with an integrated approach by seamlessly providing primary and secondary market products and services to issuer and investor clients;

- produce comprehensive credit research publications with in-depth credit views and strategies on macro and credit markets to support the development of the Group's corporate finance and capital markets business;

- enhance the global asset allocation management platform with a broad range of product offerings and innovative customised products available for customers with different investment needs, expectations and risk appetites;

- continue to become the only offshore business platform for CMS's investment banking business and provide high-end financial services;

- enhance the trading platform in its equities business and increase the variety of transaction types to facilitate client needs;

- strengthen innovation in transaction structure design in its structured finance business, strengthen risk-based pricing capabilities and retain competitiveness; and

- enhance the features and widen the range of services provided on its mobile application.

Enhance the Group's risk management system, internal control and IT capabilities

The Group plans to continue to enhance its transparency and management over investment, financial condition and business operations. The Group is committed to strict risk control and continual improvement of its risk-bearing abilities for the long-term stable development of its business. The Group plans to further strengthen its internal control system, perfecting the conflict avoidance mechanism between different business lines, and improve its internal control compliance and audit capabilities.

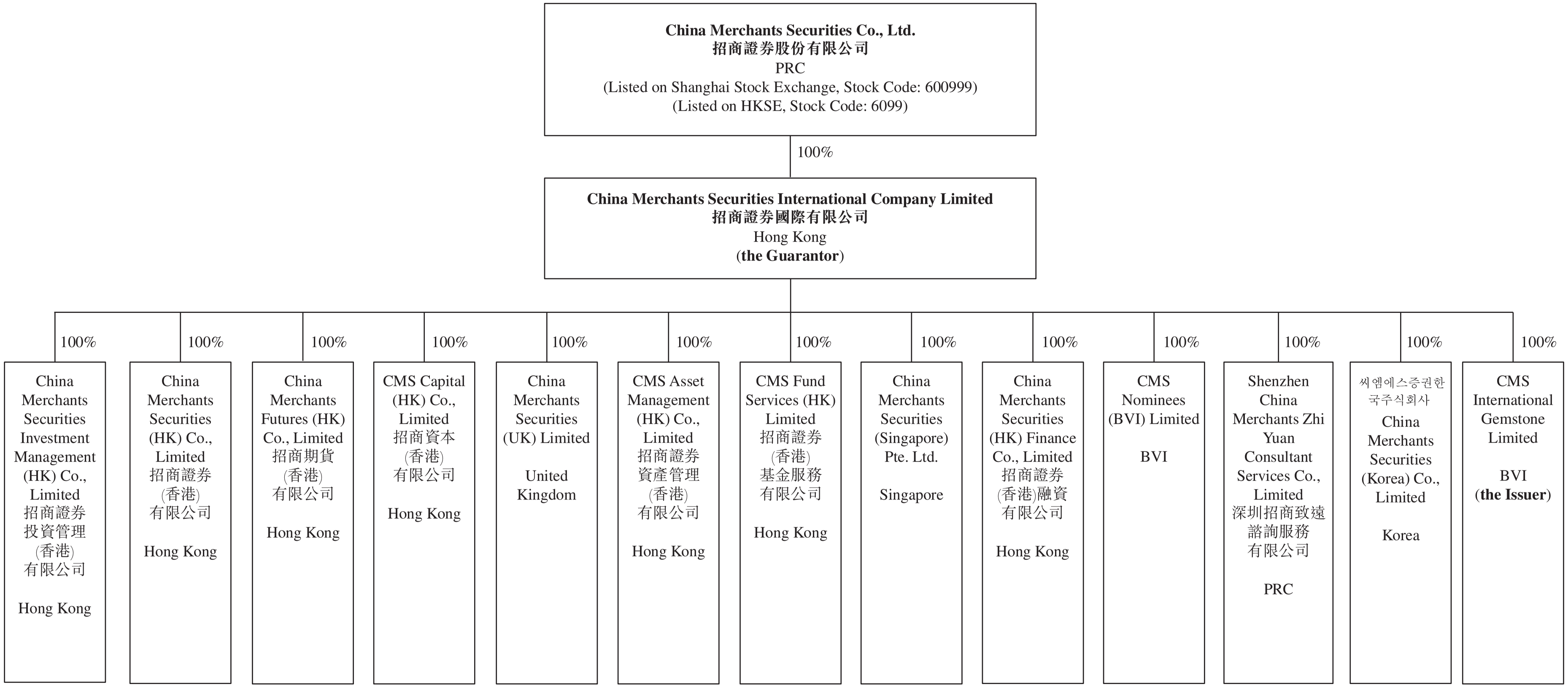
The development plan for the Group's risk management infrastructure will be forward-looking, innovative and efficient to achieve goals in respect of diversification, automation and intelligence while taking into account compliance, security and stability. According to its institutional framework for comprehensive risk management, the Group will integrate the measurement models and tools for various types of risks at the group level, build business support systems, data integration and sharing systems, and risk management systems that meet the requirements of risk management, and, over time, achieve automatic monitoring, centralised control, and prediction and early warning.

The Group has established rules and regulations for risk management. The Group will also deploy the risk management department and legal and compliance departments to lead and supervise the implementation of various internal control and compliance policies. The independent, internal audit department effectively acts as the third line of defence through its monitoring, inspection and giving of feedback to each business line. The Group strives to promptly identify and rectify internal control deficiencies and continuously improve its internal control system through risk management and operational risk control to ensure the healthy and stable growth of its business.

In addition, the Group intends to upgrade its IT system and strengthen its IT construction, so as to (i) enhance its Apps development to capture more customers from China and (ii) achieve automation, informatisation and intelligence in the business and operation management of the Group.

CORPORATE STRUCTURE

The following chart set out the simplified corporate structure of the Group and its key subsidiaries as at date of this Offering Circular:



KEY SUBSIDIARIES OF THE GUARANTOR

The Group has adopted a holding structure and carries out its business activities through wholly-owned subsidiaries. An overview of each of the Guarantor's key subsidiaries as at the date of this Offering Circular is set out below.

Name	Place of incorporation and business	Paid up issued/registered capital	Proportion of nominal value of issued capital held by the Guarantor	Principal activities
China Merchants Securities Investment Management (HK) Co., Limited	Hong Kong	HK$400,000,000	100.0 per cent.	Investments trading business
China Merchants Securities (HK) Co., Limited	Hong Kong	HK$5,500,000,000	100.0 per cent.	Securities dealing and margin financing and advisory on corporate finance
China Merchants Futures (HK) Co., Limited	Hong Kong	HK$200,000,000	100.0 per cent.	Futures contracts dealing and advising on futures contracts
CMS Capital (HK) Co., Limited	Hong Kong	HK$5,000,000	100.0 per cent.	Fund management
China Merchants Securities (UK) Limited	United Kingdom	U.S.$22,000,000	100.0 per cent.	Equity brokerage business
CMS Asset Management (HK) Co., Limited	Hong Kong	HK$10,000,000	100.0 per cent.	Asset management
CMS Fund Services (HK) Limited (formerly known as China Merchants Nominees (HK) Co., Limited)	Hong Kong	HK$10,000	100.0 per cent.	Provision of fund service
China Merchants Securities (Singapore) Pte. Ltd. . . .	Singapore	U.S.$1	100.0 per cent.	Not commenced business yet
China Merchants Securities (HK) Finance Co., Limited	Hong Kong	HK$500,000	100.0 per cent.	Investment trading business
CMS Nominees (BVI) Limited	British Virgin Islands	U.S.$1	100.0 per cent.	Holding company
Shenzhen China Merchants Zhi Yuan Consultant Services Co., Limited* (深圳招商致遠諮詢服務有限公司)	PRC	RMB3,000,000	100.0 per cent.	Consulting services
China Merchants Securities (Korea) Co., Limited* (씨엠에스증권한국주식회사)	Korea	KRW8,523,900,00	100.0 per cent.	Investment brokerage business of securities and exchange-traded derivatives

* For identification purpose only

BUSINESS ACTIVITIES

The Group generates its total revenue primarily through six principal business segments: (1) brokerage, (2) corporate finance and capital markets, (3) trading and investment, (4) principal investment, (5) asset management, and (6) commodities trading. The Group, through its subsidiaries, is licensed to undertake comprehensive regulated activities in Hong Kong and has obtained and continues to maintain the following licences from the SFC: Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management).

The table below sets out the Group's total revenue[3] by business segment for the years ended 31 December 2020, 2021 and 2022:

	For the year ended 31 December					
	2020		2021		2022	
	Amount	%	Amount	%	Amount	%
	(HKD in millions, except for percentages)					
Brokerage	791.78	50.7	996.38	43.6	793.09	75.1
Corporate finance and capital markets	134.25	8.6	100.89	4.4	20.10	1.9
Trading and investment	355.04	22.7	969.90	42.4	76.95	7.3
Principal investment	113.85	7.3	110.77	4.8	-65.35	-6.2
Asset management	12.20	0.8	13.55	0.6	18.79	1.8
Commodities trading	77.46	5.0	35.33	1.5	24.49	2.3
Bank interest and other revenue	76.87	4.9	59.52	2.6	187.97	17.8
Total revenue	**1,561.47**	**100.0**	**2,286.33**	**100.0**	**1,056.05**	**100.0**

BROKERAGE

The Group provides one-stop brokerage services to global investors. The Group's agency brokerage business adopts a full-service model focusing on research, corporate access, execution and other value-added services, which allows the Group to leverage its strengths to better drive financial performance. The services provided by the Group cover investment and wealth management of various products, including global stocks, bonds, futures, derivative products, exchange traded funds, REITs, ADRs and OTC products. The Group also provides expert advice on public and private Chinese funds allocation. For the years ended 31 December 2020, 2021 and 2022, the Group generated revenue from its brokerage business of approximately HK$791.78 million, HK$996.38 million and HK$793.09 million, respectively, representing approximately 50.7 per cent., 43.6 per cent. and 75.1 per cent. of the Group's total revenue for the corresponding periods.

The Group's services provided under its brokerage business segment include brokerage, margin financing, stock borrowing and lending and wealth management services. The Group offers multi-currency margin financing services to brokerage clients, which provides credit lines on different currencies' collateral

3 The Group's total revenue consists of revenue, interest income, other income and gains, change in fair value of financial assets and liabilities at fair value through profit or loss, net gain (loss) on disposal of financial asset at fair value through other comprehensive income, net trading gains of precious metals and change in fair value of derivative financial instruments disclosed in the consolidated statement of profit or loss and other comprehensive income.

without the need for currency exchange. In recent years, the Group has actively seized opportunities in the Hong Kong stock market and promoted its margin financing business of newly listed shares. As at 31 December 2022, the balance of margin trading of the Group amounted to HK$3.272 billion, representing a year-on-year decrease of 34.18 per cent. The Group also offers swap products, so as to meet the increasing demand for asset allocation from global investors. The return of its clients under such swaps is linked with the performance of the subject assets, including stock indexes and other securities. The Group bears credit risk, liquidity risk, market risk and operational risk under such transactions.

The Group has a solid customer base and maintains long-term relations with a number of large financial institutions. While focusing on the growing opportunities in mainland China and Hong Kong, the Group has also been expanding its customer base in the overseas markets such as Taiwan, the United Kingdom and South Korea. In particular, the Group has achieved a leading position in providing China A shares and Hong Kong H shares brokerage services to the local securities firms in South Korea. In recent years, the Group has actively developed and upgraded its products and services and diversified its distribution channels. The products recently introduced include equity swaps and structured products such as leveraged exchange traded funds and other leverage products with underlying instruments of debt securities. For example, the Group has developed cross-border (Northbound) total return swaps ("**TRS**") which are designated to cater to the investment needs of offshore clients and has co-operated with CMS Group to develop cross-border (Southbound) TRS to satisfy the investment demand from onshore clients. The Group strives to increase business volume through upgrading its trading systems and improving trading efficiency.

The Group's brokerage business has demonstrated growth in terms of scale and business size. Since 2019, the Group witnessed a substantial increase of the assets under custody, as well as the number of newly opened accounts and trading accounts for its brokerage services. According to the reports issued by the HKSE, the Guarantor ranked 41 in 2022 and ranked 36 in the first half of 2023 in terms of market share of the stock market in Hong Kong, reaching a new high in recent years. As the Group's revenues are directly affected by the level of market activity and trading volume through its trading platforms, its brokerage business is dependent upon the prevailing economic environment and general market sentiment.

CORPORATE FINANCE AND CAPITAL MARKETS

The Group provides sponsorship and underwriting services for corporate clients for their fund-raising activities in equity and debt capital markets, and also provides advisory services and financing solutions to corporate clients for their corporate transactions such as M&A and asset restructuring. For the years ended 31 December 2020, 2021 and 2022, the Group generated revenue from corporate finance and capital markets business of approximately HK$134.25 million, HK$100.89 million and HK$20.10 million, respectively, representing approximately 8.6 per cent., 4.4 per cent. and 1.9 per cent. of the Group's total revenue for the corresponding periods. The decrease in revenue for the Group's corporate finance and capital markets business in 2022 comparing to the preceding two years is primarily due to the slowdown in IPO fund raising activities in Hong Kong in 2022 resulted from adverse market conditions.

IPO Sponsorship

The Group is committed to developing the IPO sponsorship business. It primarily focuses on quality PRC companies which qualify for, and intend to obtain, listing on the main board of the HKSE, and which are expected to establish long-term business relationships with the Group. Over the years, the Group has grown to be one of the most active players in the Hong Kong IPO market, having successfully sponsored 20 IPOs from 2016 to 2022, including the listing of Meitu Inc., WuXi Biologics (Cayman) Inc., Guangzhou Rural Commercial Bank Co., Ltd., C-Mer Eye Care Holdings Limited, 51 Credit Card Inc., Ascletis Pharma Inc., Hope Education Group Co., Ltd., Innovent Biologics, Inc., Babytree Group, iDreamSky Technology Holdings Limited, China Tobacco International (HK) Company Limited, China Feihe Limited, Venus Medtech (Hangzhou) Inc. and Dongguan Rural Commercial Bank Co., Ltd, among others, and realised continued growth in the sponsorship business. The Group's performance in its sponsorship business has strengthened its position as one of the most prominent PRC-based investment banks in the Hong Kong IPO market. In 2020, the Group successfully sponsored the HK$3.8 billion IPO of Innovent Biologics, Inc., which was awarded the "Asia-Pacific IPO of the Year" by International Financing Review and "Hong Kong Equity Issue of the Year" by IFR Asia in 2018.

Equity Underwriting

For its equity underwriting business, the Group participates in IPOs and follow-on equity offerings to assist in its clients' equity financing activities. The Group conducts its equity underwriting mainly through its subsidiary, China Merchants Securities (HK) Co., Limited ("**CMSHK**"). From 2016 to 2022, the Group ranked among the top ten PRC securities firms in the Hong Kong IPO market in terms of underwriting amount. From 2016 to 2022, the Group underwrote more than 60 high-profile Hong Kong IPO projects, with a total issuance amount of more than U.S.$50 billion. For the years ended 31 December 2020, 2021 and 2022, the Group raised funds through its Hong Kong IPO underwriting business by CMSHK of approximately U.S.$713.0 million, U.S.$736.0 million and U.S.$117.6 million, respectively, with market share in the Hong Kong IPO market of approximately 1.38 per cent., 1.72 per cent. and 0.88 per cent. for the corresponding periods.

Debt Underwriting

The Group provides clients with customised multi-currency public and private debt financing solutions in the international primary capital markets. Through its extensive business experience and network, the Group has accumulated clientele including central government-owned enterprises, state-owned enterprises and private companies, covering financial institutions, local government financing vehicles, real estate companies, technology companies as well as enterprises in other industries.

The Group's debt underwriting business focuses on greater China and international bond transactions. With solid execution and rating advisory services, and a broad investor network in Hong Kong, London and Seoul, the Group is often selected to act as a global co-ordinator to provide innovative debt financing solutions for its clients. Since 2016, the Group has completed more than 130 overseas bond issuances, according to the Asia ex-Japan G3 Currency Bonds league table of Bloomberg. The Group has extensive experience in underwriting various kinds of debt products, including U.S. dollar bonds, euro bonds, overseas RMB bonds, preferred shares, convertible bonds and exchangeable bonds. From 2020 to 2022, the Group participated in bond transactions of various high-quality issuers, including but not limited to, People's Government of Shenzhen Municipality, China Merchants Securities, Huatai Securities, China National Travel Service (HK) Group Corporation, China Great Wall Capital Management Company, China Merchants Port Holdings Company Limited, China Merchants Commerce Financial Leasing Co., Ltd., Bank of Shanghai, Sinopec (Hong Kong) Limited, Beijing Capital Group, China Cinda (HK) Holdings Company Limited, Guoren Property and Casualty Insurance Co., Zhongyuan Yuzi Investment Holding Group Co., Shenzhen Expressway Company Limited, Henan Investment Group Co., Ltd, Anhui Transportation Holding Group Co., Ltd., CNCB (Hong Kong) Investment Limited, China Everbright Bank Co., Ltd., Shenwan Hongyuan (H.K.) Limited, Nanyang Commercial Bank Limited and Shandong Shipping Corporation. In the first eight months of 2023, the Group continued to facilitate in the debt financing of high-profile issuers, including China Taiping Insurance Holdings Company Limited.

The Group has gradually enlarged its debt capital markets franchise since 2019, with an increase in the number of debt capital markets transactions by approximately 16.7 per cent in 2020 and 107.1 per cent. in 2021, year on year. The Group will strive to provide the best-in-class debt underwriting services to clients, not only from China but also throughout the Asia region.

Financial advisory services on M&A transactions

The Group also provides financial advisory services on various types of M&A transactions, including, but not limited to, cross-border transactions for Chinese buyers, privatisations of Hong Kong listed companies, acquisitions of controlling stakes in Hong Kong listed companies, buy-out transactions, as well as sale of majority or minority stakes in target companies.

The Group provides "one-stop" professional services and recommendations on all aspects of M&A transactions, including project analysis and co-ordination, due diligence, negotiation and post-acquisition integration.

TRADING AND INVESTMENT

The Group's trading and investment business comprises investment in stocks of listed companies, debt securities, funds, fixed income products, derivatives and other financial instruments by the Group. The Group engages in proprietary trading and market-making activities in relation to equity, funds and fixed-income securities, alternative investment and other derivatives to generate investment income across various product classes. It also adopts advanced investment and trading strategies and techniques for mitigating investment risks and boosting returns.

For the years ended 31 December 2020, 2021 and 2022, the revenue and other income from the Group's trading and investment business amounted to approximately HK$355.04 million, HK$969.90 million and HK$76.95 million, respectively, representing approximately 22.7 per cent., 42.4 per cent. and 7.3 per cent. of the Group's total revenue for the corresponding periods. The decrease in revenue and other income under this business segment in 2022 comparing to the preceding two years is primarily because the Group has ceased to record under this business segment certain income resulted from changes in fair value of the stocks it held for its southbound TRS clients after the Group entered into an ISDA agreement with CMS in 2021. The Group's trading and investment business was also adversely affected by the diminishing market prices and valuations of the Group's investments as a result of stock and bond markets fluctuation in Hong Kong in 2022.

PRINCIPAL INVESTMENT

The Group's principal investment business provides an investment business platform for private equity investment through its proprietary capital and specialised fund vehicles. It focuses on minority equity investment in private companies in industries, including technology, new energy, healthcare and consumer. The Group's principal investing business also covers industries such as logistics, telecommunication and agriculture industries. The Group also provides financial advisory services by leveraging CMS's local network support and industry expertise. In addition, it aims to maximise investors' interests through flexible exit strategies, including, but not limited to, initial public offerings, M&A and private transactions.

Major clients of the Group's principal investment business include state-owned enterprises, multinational organisations, major market leaders in various industries and corporations with high growth potential. Benefiting from the global customer network and the comprehensive financial services offered by the CMS Group, the Group seeks to respond to the capital needs of its customers in different regions, providing impetus for the rapid growth of their businesses. The investing business team comprises individuals from leading international investment institutions with extensive investment experience. With its global outlook, the team keeps abreast of market developments, and helps its clients seize market opportunities.

The Group mainly generates revenue from its principal investment business from investment income, management fees, carried interest and financial advisory fees earned. The revenue generated by the Group for its principal investment business amounted to approximately HK$113.85 million and HK$110.77 million for the years ended 31 December 2020 and 2021, respectively, representing approximately 7.3 per cent. and 4.8 per cent. of the Group's total revenue for the corresponding periods. For the year ended 31 December 2022, the Group suffered loss for its principal investment business in the amount of approximately HK$65.35 million, representing approximately -6.2 per cent. of the Group's total revenue for the same period, primarily due to the fluctuation in market value of its listed investment projects.

ASSET MANAGEMENT

The Group provides investors with comprehensive asset management services, offering a wide range of product lines and strategies. In particular, the Group provides fund management, discretionary account management, cross-border asset management, and investment advisory services to its clients. Since 2020, the Group's asset management business has achieved growth and the revenue generated from such business amounted to approximately HK$12.20 million, HK$13.55 million and HK$18.79 million for the years ended 31 December 2020, 2021 and 2022, representing approximately 0.8 per cent., 0.6 per cent. and 1.8 per cent. of the Group's total revenue, respectively. As at 31 December 2020, 2021 and 2022, the AUM under the Group's asset management business amounted to approximately HK$2.7 billion, HK$6.0 billion and HK$7.4 billion, respectively.

Fund Management

The Group's fund management business primarily focuses on offering a wide range of public and private funds with different investment objectives and risk features, aiming to capture investment opportunities in stock and bond markets in Hong Kong, mainland China, the Asia-Pacific Region and the United States. The funds managed by the Group are designed based on the prevailing investment trends, with a focus on value investing strategies. The Group also collaborates with outstanding investment managers in mainland China to set up its funds, providing clients with multiple investment choices. In terms of internal risk management, the Group systematically manages investment risks based on the characteristics of each investment portfolio, ensuring risk control efficiency and capital appreciation of its investments.

Discretionary Account Management

The Group provides customised asset management services to institutional clients and high-net-worth individual investors. Fully appreciating clients' requirements in terms of liquidity, return and risk appetite, the Group customizes suitable investment portfolios for its clients to achieve the expected returns.

Cross-border Asset Management

Holding Qualified Foreign Investors ("**QFI**") and Stock Connect qualifications, the Group provides investors with a variety of products and services to capture investment opportunities in mainland China, including QFI public funds products and QFI targeted investment services. The Group also offers various RMB-denominated investment products, such as securities traded on the domestic stock markets, the domestic interbank bond markets and the exchange bond market of mainland China, as well as public and private funds products. The relevant investment targets encompass A-shares, government bonds, corporate bonds and domestic funds in mainland China. The Group aspires to assist its clients in accessing a broad range of investment targets, serving as their one-stop investment channel to the mainland market.

Investment Advisory

The Group offers investment advisory services to institutional investors and fund managers. These services include providing market research reports and recommendations on model portfolios regularly to the Group's clients. The products advised by the Group encompass blue chip stocks and bonds. Additionally, the Group provides comprehensive private equity incubation services to investors who are interested in overseas private equity investments, aiming to assist its clients in identifying and capitalising on offshore development opportunities.

COMMODITIES TRADING

The Group offers comprehensive commodity trading services to corporate clients, encompassing over-the-counter derivatives products, spot transactions and financing services. The commodities under trading include precious metals and energy products. The Group is a market maker for trading precious metals such as gold, silver, platinum and palladium. In 2014, China Merchants Securities Investment Management (HK) Co., Limited, a subsidiary of the Guarantor, became a founder member of the Shanghai Gold Exchange International Board. Such membership provides the Group with valuable access to the onshore spot market, enabling it to engage in arbitrage trading activities.

For the years ended 31 December 2020, 2021 and 2022, the Group generated revenue from commodities trading business of approximately HK$77.46 million, HK$35.33 million and HK$24.49 million, respectively, representing approximately 5.0 per cent., 1.5 per cent. and 2.3 per cent. of the Group's total revenue for the corresponding period.

REGULATORY REQUIREMENTS AND COMPLIANCE

The Group is subject to the regulatory regimes in Hong Kong, the United Kingdom and Korea, as well as the requirements set out by the various professional industry bodies. CMS UK holds an IFPRU 730K licence and is regulated by the Financial Conduct Authority in the UK. It can provide securities brokerage, futures and options trading services to clients.

CMS Korea is regulated by the Financial Services Commission (FSC) and its execution body, the Financial Supervisory Service. It has two licences issued by FSC, 2-1-2, a securities brokerage licence and 2-2-2, a listed derivatives brokerage licence. Both licences are solely for professional investors. CMS Korea's main activities are providing referral services to domestic professional investors for their offshore investments in listed securities and listed derivatives.

SFO and the HKSE

Due to the licensing regime of the SFC, in order to engage in certain businesses, such as corporate finance and capital markets, asset management, wealth management and equities, the relevant entities within the Group and their responsible personnel are required to obtain and hold the relevant licences from the SFC and to be in compliance with applicable regulatory requirements from time to time.

Apart from the SFO, the Group's licensed entities and their licensed personnel are required to comply with Hong Kong subsidiary legislation and regulations, codes and guidelines developed by the SFC, as well as rules and regulations introduced and administered by the HKSE and the Hong Kong Futures Exchange Limited (the "**Futures Exchange**"). Any broker-dealer that intends to operate a brokerage business for products available on Hong Kong Exchanges and Clearing Limited or which uses the trading facilities of the HKSE and/or Futures Exchange, must be admitted and registered as an Exchange Participant (as defined in the SFO) of that exchange. Becoming an Exchange Participant requires, among other things, the company to be a limited company incorporated in Hong Kong or an individual to be ordinarily resident in Hong Kong and to meet certain liquid capital requirements.

The Futures Exchange is a recognised exchange under the SFO. It operates and maintains a futures market in Hong Kong and is the regulator of Futures Exchange Participants with respect to trading matters. One of the subsidiaries of the Guarantor, China Merchants Futures (HK) Co., Limited, holds a Hong Kong Futures Exchange Futures Commission Merchant licence and is a Futures Exchange Participant.

RISK MANAGEMENT

The Group has adopted and developed its sound and tailored risk management system with reference to the CMS Group's well-developed risk management system and offshore best practices, and has established an effective risk management structure system pursuant to the relevant laws and regulatory requirements.

The key objectives of the Group's risk management framework are to achieve a reasonable balance between risk and return, limit risks to a controllable level, maximise corporate value and constantly solidify the foundation for the steady and sustainable development of the Group.

Risk Management Framework

The Group has established a well-rounded, innovative and forward-looking risk management organisational structure in accordance with business development and the need for risk management, which is aligned with its operation strategy and focuses on the departments of the Group at business levels.

Risk Governance Structure

The overall risk management-related duties are primarily performed, reviewed and monitored through various personnel and departments of the Group:

- the Board of Directors is responsible for the overall strategic management of the Group's risks, considering and approving the Group's risk appetite, risk tolerance and various risk limit indicators. It is also responsible for considering and approving the Group's capital allocation plan, and reviewing the overall risk management of the Group;

- the executive committee is responsible for supervising and examining the operations of the comprehensive risk management system of the Group;

- the risk management committee is responsible for (i) establishing an organisational structure for the risk management systems, (ii) determining risk management objectives and material risk management policies such as risk preference and risk tolerance level, and (iii) making risk control decisions and approving major risk management solutions;

- the senior management of the Group is responsible for the risk management of business operations, determining the risk control measures and formulating risk limit indicators on a regular basis with reference to the risk evaluation reports. The risk management committee established by the senior management is responsible for making ultimate risk-related decisions at the operating level and reviewing quarterly risk reports;

- the chief risk officer of the Group is responsible for establishing a comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Group to the Board of Directors. He is also responsible for providing risk management recommendations on business decisions made by the Group;

- independent departments, including risk management department, finance department, legal and compliance department and internal audit department, coordinate to manage various risks based on their respective perspectives; and

- all departments and subsidiaries of the Group are responsible for managing and supervising relevant risks directly.

Risk to the Group's Business Activities and Management Measures

Risks related to business activities of the Group mainly include credit risk, market risk, liquidity risk, operational risk, compliance risk, legal risk, IT security and reputational risk. All the risk management and controls are assigned to different departments according to their roles and responsibilities. The Group pro-actively responds to risks through effective risk management measures, which generally prevent the occurrence of significant risk events and ensure the stable development of the business operation of the Group. All trading activities of the Group are closely monitored on a real time basis through its staff and the relevant departments of the Group. Any unusual trading activities will be brought immediately to the attention of the Group.

Credit Risk

Credit risk refers to the risk of financial loss arising from the failure of a client or counterparty to meet its obligations under a transaction.

The Group has adopted the following measures to manage credit risk:

- In respect of margin financing and securities lending, securities-backed lending and other financing businesses, the Group has established a multi-level authorisation system for business management and a comprehensive risk management system covering the whole investment process through due diligence of customers, approval of credit grants, post-loan evaluation, dynamic adjustment to collaterals, mark-to-market system, mandatory liquidation and disposal on default.

- For its OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, approval of credit grant, and discount rate of securities. The Group has also implemented follow-up measures on default of customers and to monitor gearing ratios to strengthen management before, during and after transactions.

- With respect to counterparties, the Group fully considers the portfolio of the customer of each credit-related transaction, the amount of debt, the term of borrowing, the maintenance of collateral ratio and the degree of collateral concentration.

- In respect of trade receivables due from clients, individual credit evaluations are performed on all clients, including cash and margin clients. Cash clients are required to place deposits as prescribed by the Group's credit policy before execution of any purchase transactions. For margin clients, the Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to the clients and margin calls and forced liquidation will be made where necessary to recover any outstanding debts.

- With respect to the credit risk management of corporate finance and capital markets and asset management businesses, the Group has formulated credit policy guidelines, credit acceptance and exit policies for corporate and institutional clients and limit control measures.

Market Risk

Market risk refers to potential loss in asset value as a result of adverse market changes, including stock prices, interest rates, credit spreads and foreign exchange rates.

- The Group measures market risk mainly by means of limit control, diversification, marking to market, and sensitivity analyses.

- The Group monitors foreign exchange exposure.

- The Group manages the exposure to price risk by maintaining the investments with the appropriate risk level.

Liquidity Risk

The Group has implemented a robust liquidity risk management framework and related policies and procedures. Measures adopted by the Group to manage and control liquidity risk include diversifying funding sources, maintaining adequate cash and cash equivalents, monitoring internal and market liquidity indicators and regulatory limits, and conducting cash flow forecasting and stress testing. In addition, the Group has established a contingency funding plan which sets out strategies and procedures to address various emergency situations.

Operational Risk

Operational risk refers to the risks of losses resulting from failed or defective internal procedures or IT systems, human factors and external events. Operational risk can occur in all business operations and daily operations of the Group, which may eventually lead to other risks such as legal risk, compliance risk and reputational risk.

The Group has adopted the following measures to manage operational risks:

- implementing sound policies and procedures to identify, assess, control, manage and report risks under its internal control framework;

- applying operational risk loss data collection, risk and control self-assessment, and key risk indicators to identify, assess, monitor and respond to operational risks;

- clarifying the communicating, reporting and processing mechanisms for operational risk information; and

- establishing a business continuity plan to ensure business continuity in the event of sudden business disruptions.

Capital Management

The Group's primary objective in capital management is to ensure that it maintains sufficient capital to support its business and maximise shareholder value. In addition, several subsidiaries of the Group licensed by the SFC are obliged to meet the relevant liquid capital requirements as required under the Securities and Futures (Financial Resources) Rules (Cap. 571N) (the "**SF(FR)R**") of Hong Kong. To meet this regulatory requirement, the subsidiaries shall maintain a liquid capital which is not less than its required liquid capital, where liquid capital is calculated in accordance with the requirements under the SF(FR)R. The Group's strategy is to maintain a solid capital base to support the operations and business development in the long term.

EMPLOYEES

The Group had 360 employees as at 31 December 2022, around 90 per cent. of whom were based in Hong Kong. The Group has maintained good working relationships with its employees and does not foresee any difficulties in the recruitment and retention of experienced staff. To ensure the high quality of its employees and the services provided by the Group, the performance of the Group's employees is assessed using both qualitative and quantitative measures, where assessment indicators, criteria and weightings are aligned with those used by the CMS Group to ensure a streamlined and uniform approach across the CMS Group. In addition, the Group is committed to developing and nurturing the talent of its employees through the provision of appropriate training and seminars, business co-operation and staff secondment opportunities.

REGISTERED OFFICE

The registered office of the Guarantor is located at 48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong.

IT

The Group's IT department is responsible for designing, developing, operating and maintaining the computer systems of the Group. It aims to deliver secure and reliable systems to support the Group's business operations. It also maintains provision of necessary infrastructure for the business needs and development of the Group.

The Group's IT systems support transaction management, customer service, risk management, investment, accounting and internal enterprise management functions. The Group aims to maintain its information and systems security by adopting common and up-to-date information security techniques, such as firewalls and intrusion detection systems. The Group strives to enhance its customer experience and service, provide flexibility for future business needs, respond to market development trends and increase its competitiveness in the markets where it operates. For example, the Group has developed its own internet trading platform, "China Merchants Securities Hong Kong Financial and Trading Platform", with web and mobile interfaces to satisfy the needs of its wealth management clients and retail clients. This is in line with the fintech development trend in the industry in recent years. The mobile application provides market data and financial news, as well as account opening and online trading services.

INSURANCE

The Group maintains standard insurance in relation to its risk exposure arising from the nature of its business, such as financial institutions civil liability insurance, electronic equipment insurance, property all risk insurance, public liability insurance, employee compensation insurance, medical and life insurance, personal accident insurance, critical illness insurance, business travel insurance and endowment insurance. The Group's insurance coverage is provided by reputable companies with commercially reasonable limits and deductibles on coverage and complies with the statutory requirements in Hong Kong. The Group believes that its insurance coverage is sufficient for its present purposes and is consistent with coverage for its competitors in Hong Kong. The Group periodically reviews its insurance coverage to ensure that it has adequate coverage for its business.

The Securities and Futures (Insurance) Rules (Cap. 571AI) of Hong Kong ("**SFIR**") provide insurance requirements applicable to corporations licensed for certain regulated activities. Except in the case of an exemption, a corporation involved in Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts) or Type 8 (Securities Margin Financing) regulated activities is required to take out specified amounts of insurance for certain specified risks. The Group has one subsidiary, China Merchants Securities (HK) Co., Limited, which is involved in, and possesses licences to engage in, Type 1 (Dealing in Securities) regulated activities, and two subsidiaries, China Merchants Securities (HK) Co., Limited and China Merchants Futures (HK) Co., Limited, which are involved in, and possess licences to engage in, Type 2 (Dealing in Futures Contracts) regulated activities. These subsidiaries have obtained, and continue to maintain, insurance coverage that fully complies with the SFIR.

LEGAL PROCEEDINGS

As at this date of the Offering Circular, there are no litigation or arbitration proceedings against the Group which could have a material adverse effect on the Group's business, financial condition or results of operations. As at the date of this Offering Circular, the Group is not aware of any pending or threatened litigation or arbitration proceedings against it which could have a material adverse effect on the Group's business, financial condition or results of operations.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The board of directors of the Company is responsible for the overall management and operation of the Company's business and it may exercise the general powers of the Company. The Company's board of directors currently consists of six members. The members of the board of directors of the Company as at the date of this Offering Circular are as follows:

Name	Title
Mr. LIU Rui (劉鋭)	Chairman and chief executive officer
Mr. LU Gonglu (魯公路)	Director and chief operating officer
Mr. ZHANG Xing (張興)	Director and chief risk officer
Mr. WANG Jinbao (王金寶)	Director
Mr. ZHAN Guifeng (詹桂峰)	Director
Mr. LIAO Jinqiang (廖錦強)	Director

Mr. LIU Rui (劉鋭) is the chairman and the chief executive officer of the Company. Mr. Liu also serves as the deputy chief executive officer of CMS, the executive director of China Merchants Securities Capital Co., Ltd. and the chairman of China Merchants Futures Co., Ltd. Previously, Mr. Liu worked for several branches and business departments of CMS, including securities business department at Shenzhen and Beijing branches, CEO office, channel management department and OTC market department. Previously, Mr. Liu served as the deputy director of investment bank committee and the assistant to the president of CMS, the chairman and general manager of China Merchants Zhiyuan Capital Investment Co., Ltd. Mr. Liu holds a bachelor's degree in economics from Shanghai University of Finance and Economics (上海財經大學), and a master's degree in Business Administration from Huazhong University of Science and Technology (華中科技大學).

Mr. LU Gonglu (魯公路) is a director and the chief operating officer of the Company. Previously, Mr. Lu served as the economist in the capital market department in Freddie Mac, the vice president of mortgage loan and the bond trading department Credit Suisse Group AG, the member of a leading team in Beijing Institute of Securities and Futures (北京證券期貨研究院), the general manager of the national equities exchange and quotations and structured financing department of Haitong Securities Co., Ltd. (海通證券股份有限公司) and several positions in CSRC, including the member of the planning committee, the director of general office in the research centre and the head of innovation group in the research centre. In 2020, Mr. Lu served as the chief executive officer of the Company and the general manager of China Merchants Futures (HK) Co., Limited. Mr. Lu holds a bachelor's degree in probability and statistics, a master's degree in economics from Peking University (北京大學), and a doctorate degree in economics from University of California, Los Angeles.

Mr. ZHANG Xing (張興) is a director and the chief risk officer of the Company. Currently, Mr. Zhang also serves as the chief officer of risk management centre of CMS. Previously, Mr. Zhang worked for several branches and business departments of CMS, including Shennandong business department (深南東營業部) and risk management department. Mr. Zhang also served as deputy director, deputy general manager, general manager and chief officer of the risk management department, general manager of legal and compliance department. Mr. Zhang holds a bachelor's degree in financial securities from Shanghai University of Finance and Economics (上海財經大學) and a master's degree in finance from Fudan University (復旦大學).

Mr. WANG Jinbao (王金寶) is a director of the Company. Currently, Mr. Wang also serves as the director of the wealth management and institutional equities division of CMS. Previously, Mr. Wang was a teacher in the department of mathematics of Tongji University (同濟大學) before joining CMS. In CMS, Mr. Wang worked for the Macau Street branch office and head office of the Shanghai branch. Mr. Wang has also served as the director of the financial market investment division and the general manager of bond business innovation department of CMS and the general manager of Shanghai Pilot Free Trade Zone branch of CMS. Mr. Wang holds a bachelor of science degree in mathematics and a master of science degree in mathematical statistics from Fudan University (復旦大學).

Mr. ZHAN Guifeng (詹桂峰) is a director of the Company. Currently, Mr. Zhan also serves as the general manager of risk management department of CMS. Previously, Mr. Zhan served as the accountant in the Zhangzhou economic development zone branch of China Merchants Group, the certified public accountant in Shenzhen Bao An Audit Firm (深圳寶安審計師事務所), the deputy finance manager of Huaqiao City Shenzhen Bay Hotel (華僑城深圳灣大酒店) and several positions in China Merchants Securities Co., Ltd., including finance director, general manager of audit and supervision division and deputy general manager of investment banking division. Mr. Zhan holds a bachelor of management degree in finance (engineering accounting) from Changsha Jiaotong College (長沙交通學院) and a master of business administration degree from Fudan University (復旦大學).

Mr. LIAO Jinqiang (廖錦強) is a director of the Company. Currently, Mr. Liao also serves as a vice chairman of the investment banking committee of CMS. Previously, Mr. Liao served as the head of the southern district for the real estate industry business group in the investment banking department of CITIC Securities Company Limited (中信證券), the executive deputy director and deputy general manager of investment banking at the head office and co-manager of key customer service department of CMS. Mr. Liao holds a bachelor of economics degree in international finance and a master of economics degree in monetary banking from Zhongnan University of Economics and Law (中南財經政法大學).

SENIOR MANAGEMENT

The members of senior management of the Company as at the date of this Offering Circular are as follows:

Name	Title
Mr. LIU Rui (劉鋭)	Chairman and chief executive officer
Mr. LU Gonglu (魯公路)	Director and chief operating officer
Mr. ZHANG Xing (張興)	Director and chief risk officer
Mr. ZHANG Lixin (張立新)	Deputy chief executive officer
Mr. ZHANG Baojiang (張保江)	Deputy chief executive officer
Mr. LIU Jian (劉建)	Deputy chief executive officer
Mr. LIU Yuansheng (劉元生)	Chief financial officer
Mr. CHAN Chun Kwok Joe (陳振國)	Chief compliance officer

Mr. LIU Rui (劉鋭) is the chairman and the chief executive officer of the Company. See "– *Directors*."

Mr. LU Gonglu (魯公路) is a director and the chief operating officer of the Company. See "– *Directors*."

Mr. ZHANG Xing (張興) is a director and chief risk officer of the Company. See "– *Directors*."

Mr. ZHANG Lixin (張立新) is a deputy chief executive officer of the Company. Previously, Mr. Zhang served in several positions in CMS, including principal and deputy general manager of the Youyi east road office in Xi'an, general manager of the north avenue office in Xi'an and general manager of the north-western branch of CMS. Since May 2019, Mr. Zhang has been appointed as a deputy chief executive officer of the Company. Mr. Zhang holds a bachelor of economics degree in finance from Lanzhou University of Finance and Economics.

Mr. ZHANG Baojiang (張保江) is a deputy chief executive officer of the Company. Previously, Mr. Zhang served several positions in information technology centre of CMS, including assistant to general manager, deputy director, deputy general manager and general manager of system operation department of information technology centre. Mr. Zhang also served as the information technology director of China Merchants Securities International Company Limited. Mr. Zhang holds a bachelor's degree in automation control and computer sciences from Nankai University (南開大學).

Mr. LIU Jian (劉建) is a deputy chief executive officer of the Company. Previously, Mr. Liu served in several positions in CMS, including the assistant to general manager and the deputy general manager of the operations management department. Since August 2023, Mr. Liu has been appointed as a deputy chief executive officer of the Company. Mr. Liu holds a bachelor's degree in computer software from Wuhan University of Science and Technology (武漢科技大學) and a master's degree in computer software and theory from Wuhan University (武漢大學).

Mr. LIU Yuansheng (劉元生) is the chief financial officer of the Company. Mr. Liu joined China Merchants Securities Co. Ltd. as the deputy general manager of strategic development department in 2014. Previously, Mr. Liu worked for Xiangfan Railway (襄樊鐵路分局), Ping An Securities Company Limited (平安證券), Xibei Securities Company Limited (西北證券), Ping An Group Asset Operations Centre (平安集團資產營運中心), Ping An Asset Management (平安資產管理公司). In 2011, Mr. Liu served as the deputy general manager of Ping An Group Financial Planning Centre (平安集團財務企劃中心). Before assigning to the Company in 2022, Mr. Liu served as the deputy manager of strategic development department of China Merchants Securities Co. Ltd. Mr. Liu holds a bachelor's degree in engineering from Shanghai Railway Institute (上海鐵道學院), and a master's degree in economics from Zhongnan University of Economics and Law (中南財經政法大學).

Mr. CHAN Chun Kwok Joe (陳振國) is the chief compliance officer of the Company. Previously, Mr. Chan served as the assistant dealer and credit analyst of First Commercial Bank (第一商業銀行), the financial planning manager, financial services executive of HSBC, the manager of wealth management centre of International Bank of Asia (港基國際銀行), the manager of investor education and communication department, external relations department and enforcement department of SFC, the director of legal and compliance department of CITIC Securities International Co., Ltd. (中信證券國際), the chief compliance officer and the head of legal and compliance department of BOCOM International Holdings Co., Ltd. (交銀國際). Mr. Chan holds a bachelor's degree in science from The Hong Kong University of Science and Technology (香港科技大學), a bachelor's degree in banking and finance from University of London, and a master of laws degree in corporate and financial law from The University of Hong Kong (香港大學).

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.

THE BRITISH VIRGIN ISLANDS

The Issuer is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. Payments of principal, premium or interest in respect of the Notes to persons who are not resident in the British Virgin Islands are not subject to British Virgin Island tax or withholding tax.

Capital gains realised with respect to the Notes by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Notes.

All instruments relating to transactions in respect of the Notes are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer does not hold an interest in real estate in the British Virgin Islands.

There are currently no exchange control regulation in the British Virgin Islands applicable to payments the Issuer may make under the transaction documents relating to the Notes.

PRC

The following summary describes the principal PRC tax consequences of ownership and disposition of the Notes by beneficial owners who, or which, are not residents of the PRC for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "*de facto* management bodies" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside the PRC. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "*de facto* management body" of the Issuer or the Guarantor is within the territory of the PRC, the Issuer or the Guarantor may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25 per cent. for its income sourced from both within and outside the PRC. As confirmed by the Guarantor and the Issuer as at the date of this Offering Circular, each of the Guarantor and the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law.

However, there is no assurance that each of the Guarantor and the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without establishment within the PRC or whose income has no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10 per cent. on the income sourced inside the PRC, and pursuant to the Individual Income Tax Law of the PRC and its implementation regulations, any non-resident individual shall pay individual income tax at the rate of 20 per cent. on the income sourced inside the PRC, unless a preferential rate is provided by tax treaties or arrangements entered into between the country or region where the non- resident is established and the PRC, and such income tax shall be withheld by sources with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Issuer or the Guarantor is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the Issuer or the Guarantor (when discharging its obligations under the Guarantee of the Notes) may be required to withhold income tax from the payments of interest in respect of the Notes for any non-PRC enterprise Noteholder or individual Noteholder. However, despite the potential withholding of PRC tax by the Issuer or the Guarantor, the Issuer or as the case may be, the Guarantor has agreed to pay additional amounts to Noteholders so that Noteholders would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

Repayment of the principal made by the Issuer or the Guarantor will not be subject to PRC withholding tax.

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, any gain realised by the non-PRC enterprise Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10 per cent. of PRC withholding tax unless decreased or exempted by an applicable tax treaty. Further, non-PRC individual Noteholders may be subject to individual income tax at the rate of 20 per cent. on the capital gains, which may be decreased or exempted by an applicable tax treaty.

VAT

On 23 March 2016, MOF and State Taxation Administration (the "**SAT**") promulgated the Circular on Comprehensively Promoting the Pilot Programme of the Collection of Value-Added Tax to Replace Business Tax (關於全面推開營業稅改徵增值稅試點的通知) ("**Circular 36**") which confirmed that since 1 May 2016, the income derived from the provision of financial services which attracted business tax will be entirely replaced by, and subject to, VAT.

According to the Interim Regulation on the Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was introduced by the State Council on 13 December 1993 and amended by the State Council respectively on 10 November 2008, 6 February 2016 and 19 November 2017 and Circular 36, the entities and individuals providing the services within the PRC shall be subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the holders of the Notes providing loans to the Issuer or the Guarantor, which thus may be regarded as provision of financial services subject to VAT.

It is not clear from the interpretation of Circular 36 if the provision of "loans" to the Issuer or the Guarantor would be considered services provided within the PRC, and therefore could be subject to VAT. If the PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC, and consequently, the holders of the Notes shall be subject to VAT at the rate up to 6 per cent. when receiving the interest payments or Guarantee payments under the Notes or Guarantee of the Notes, as the case may be. Hence, if the Issuer or the Guarantor pays interest income to holders of the Notes who are located outside the PRC, the Issuer or the Guarantor, acting as the obligatory withholding agent in accordance with applicable law, shall withhold VAT from the payment of interest income to holders of the Notes who are located outside of the PRC. However, despite the potential withholding of PRC tax by the Issuer or the Guarantor, the Issuer or as the case may be, the Guarantor has agreed to pay additional amounts to Noteholders so that Noteholders would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and neither the Issuer nor the Guarantor has the obligation to withhold VAT. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC.

Stamp Duty

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders is maintained outside the PRC and the issuance and the sale of the Notes is made outside the PRC) of a Note.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a person other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(c) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(d) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation (other than a financial institution) by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes **provided that** either:

(a) Such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**").

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes **provided that** either:

(a) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.26 per cent. (of which 0.13 per cent. is payable by the seller and 0.13 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Specified Foreign-sourced Income

On 1 January 2023, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 (the "**Amendment Ordinance**") came into operation. Under the Amendment Ordinance, certain foreign-sourced income accrued to an MNE entity (as defined in the Amendment Ordinance) carrying on a trade, profession or business in Hong Kong is to be regarded as arising in or derived from Hong Kong and chargeable to profits tax when it is received in Hong Kong under certain circumstances.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the jurisdiction of the Issuer and the Guarantor) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment". Noteholders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream or the CMU currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that each of the Issuer and the Guarantor believes to be reliable, but none of the Issuer, the Guarantor, the Arranger or any Dealer, the Trustee or any Agent takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Guarantor, or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the CMU Members of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association, "authorised institutions" under the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) and other domestic and overseas financial institutions at the discretion of the HKMA.

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of the CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

The Dealers have, in an amended and restated dealer agreement (the "**Dealer Agreement**") dated 4 September 2023 as further amended and/or supplemented from time to time, agreed with the Issuer and the Guarantor a basis upon which they or any of them may from time to time agree to severally, and not jointly, subscribe the Notes. Any such agreement will extend to those matters stated under "*Forms of the Notes*" and "*Terms and Conditions of the Notes*". Under the terms of the Dealer Agreement, the Issuer (or in default, the Guarantor) will pay each relevant Dealer a commission as agreed between them in respect of the Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer and the Guarantor agreed to be responsible for certain of the Arranger's expenses incurred in connection with the establishment, and any future update, of the Programme and reimburse the Dealers certain of their activities in connection with the Programme. The commissions in respect of an issue of the Notes on a syndicated basis may be stated in the relevant Pricing Supplement.

Each of the Issuer and the Guarantor has jointly and severally agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

In connection with the issue of any Tranche of the Notes, the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the relevant issue date in respect of that Tranche of the Notes. However, there is no obligation on such Stabilisation Manager to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

In connection with each Series of the Notes issued under the Programme, the Dealers or certain of their affiliates may subscribe or purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer, the Guarantor or their respective subsidiaries or affiliates at the same time as the offer and sale of each Series of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Series of the Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Series of the Notes).

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Guarantor or their respective subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer, the Guarantor or their respective subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

In connection with an issue of the Notes under the Programme, the Issuer may, pursuant to the subscription agreement relating to such issue, agree to pay, through the Dealers, a commission to certain private banks based on the principal amount of the Notes purchased by the clients of such private banks. If such commission is payable, it shall be specified in the Pricing Supplement relating to such issue of the Notes.

In connection with the offer and sale of the Notes, the Issuer, the Guarantor, the Dealers and/or their respective affiliates may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes) and such orders and/or allocations of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Issuer, the Guarantor, the Dealers and/or their respective affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "*Risk Factors – Risks Relating to the Market Generally – Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity and the results of the Noteholder meetings may be severely influenced by the Guarantor or*, *as the case may be*, *a limited number of investors*, *if a substantial amount of the Notes are purchased by the Guarantor or its affiliates*, *or*, *as the case may be*, *such limited number of investors and their affiliates*"). The Issuer, the Guarantor and the Dealers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

IMPORTANT NOTICE TO CMIS (INCLUDING PRIVATE BANKS)

This notice to CMIs (including private banks) is a summary of certain obligations the SFC Code imposes on CMIs, which require the attention and cooperation of other CMIs (including private banks). Certain CMIs may also be acting as OCs for the relevant CMI Offering and are subject to additional requirements under the SFC Code. The application of these obligations will depend on the role(s) undertaken by the relevant Dealer(s) in respect of each CMI Offering.

Prospective investors who are the directors, employees or major shareholders of the Issuer, the Guarantor, a CMI or its group companies would be considered under the SFC Code as having an Association with the Issuer, the Guarantor, the CMI or the relevant group company. CMIs should specifically disclose whether their investor clients have any Association when submitting orders for the relevant Notes. In addition, private banks should take all reasonable steps to identify whether their investor clients may have any Associations with the Issuer, the Guarantor or any CMI (including its group companies) and inform the relevant Dealers accordingly.

CMIs are informed that, unless otherwise notified, the marketing and investor targeting strategy for the relevant CMI Offering includes institutional investors, sovereign wealth funds, pension funds, hedge funds, family offices and high net worth individuals, in each case, subject to the selling restrictions and any MiFID II product governance language or any UK MiFIR product governance language set out elsewhere in this Offering Circular and/or the applicable Pricing Supplement.

CMIs should ensure that orders placed are *bona fide*, are not inflated and do not constitute duplicated orders (i.e. two or more corresponding or identical orders placed via two or more CMIs). CMIs should enquire with their investor clients regarding any orders which appear unusual or irregular. CMIs should disclose the identities of all investors when submitting orders for the relevant Notes (except for omnibus orders where underlying investor information may need to be provided to any OCs when submitting orders). Failure to provide underlying investor information for omnibus orders, where required to do so, may result in that order being rejected. CMIs should not place "X-orders" into the order book.

CMIs should segregate and clearly identify their own proprietary orders (and those of their group companies, including private banks as the case may be) in the order book and book messages.

CMIs (including private banks) should not offer any rebates to prospective investors or pass on any rebates provided by the Issuer or the Guarantor. In addition, CMIs (including private banks) should not enter into arrangements which may result in prospective investors paying different prices for the relevant Notes. CMIs are informed that a private bank rebate may be payable as stated above and in the applicable Pricing Supplement, or otherwise notified to prospective investors.

The SFC Code requires that a CMI disclose complete and accurate information in a timely manner on the status of the order book and other relevant information it receives to targeted investors for them to make an informed decision. In order to do this, those Dealers in control of the order book should consider disclosing order book updates to all CMIs.

When placing an order for the relevant Notes, private banks should disclose, at the same time, if such order is placed other than on a "principal" basis (whereby it is deploying its own balance sheet for onward selling to investors). Private banks who do not provide such disclosure are hereby deemed to be placing their order on such a "principal" basis. Otherwise, such order may be considered to be an omnibus order pursuant to the SFC Code. Private banks should be aware that placing an order on a "principal" basis may require the relevant affiliated Dealer(s) (if any) to categorise it as a proprietary order and apply the "proprietary orders" requirements of the SFC Code to such order and will result in that private bank not being entitled to, and not being paid, any rebate.

In relation to omnibus orders, when submitting such orders, CMIs (including private banks) that are subject to the SFC Code should disclose underlying investor information in respect of each order constituting the relevant omnibus order (failure to provide such information may result in that order being rejected). Underlying investor information in relation to omnibus orders should consist of:

- the name of each underlying investor;
- a unique identification number for each investor;
- whether an underlying investor has any "Associations" (as used in the SFC Code);

- whether any underlying investor order is a "Proprietary Order" (as used in the SFC Code); and

- whether any underlying investor order is a duplicate order.

Underlying investor information in relation to omnibus order should be sent to the Dealers named in the relevant Pricing Supplement.

To the extent information being disclosed by CMIs and investors is personal and/or confidential in nature, CMIs (including private banks) agree and warrant: (i) to take appropriate steps to safeguard the transmission of such information to any OCs; and (ii) that they have obtained the necessary consents from the underlying investors to disclose such information to any OCs. By submitting an order and providing such information to any OCs, each CMI (including private banks) further warrants that they and the underlying investors have understood and consented to the collection, disclosure, use and transfer of such information by any OCs and/or any other third parties as may be required by the SFC Code, including to the Issuer, the Guarantor, relevant regulators and/or any other third parties as may be required by the SFC Code, for the purpose of complying with the SFC Code, during the bookbuilding process for the relevant CMI Offering. CMIs that receive such underlying investor information are reminded that such information should be used only for submitting orders in the relevant CMI Offering. The relevant Dealers may be asked to demonstrate compliance with their obligations under the SFC Code, and may request other CMIs (including private banks) to provide evidence showing compliance with the obligations above (in particular, that the necessary consents have been obtained). In such event, other CMIs (including private banks) are required to provide the relevant Dealers with such evidence within the timeline requested.

SELLING RESTRICTIONS

United States of America

The following paragraphs apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 1" applies.

The Notes and the Guarantee of the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes and the Guarantee of the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Dealers has agreed that, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes and the Guarantee of the Notes within the United States.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes and the Guarantee of the Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The following paragraphs apply in respect of any Notes the Pricing Supplement for which specifies that "Regulation S Category 2" applies.

The Notes and the Guarantee of the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes and the Guarantee of the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes and the Guarantee of the Notes comprising the relevant Tranche, as certified as provided in the Dealer Agreement, within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration, which purchases Notes or the Guarantee of the Notes from it during the distribution compliance period a confirmation or notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the Securities Act.

European Economic Area

Prohibition of Sales to EEA Retail Investors

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in Regulation (EU) 2017/1129; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Public Offer Selling Restriction under the EU Prospectus Regulation

If the Pricing Supplement in respect of any Notes does not include a legend entitled "Prohibition of Sales to EEA Retail Investors", in relation to each Member State of the European Economic Area, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(a) *Approved prospectus:* if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the EU Prospectus Regulation in that Relevant State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the EU Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or the Pricing Supplement, as applicable, and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in the EU Prospectus Regulation;

(c) *Fewer than 150 offerees:* at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers:* at any time in any other circumstances falling within Article 1(4) of the EU Prospectus Regulation.

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the EU Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the EU Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**EU Prospectus Regulation**" means Regulation (EU) 2017/1129.

United Kingdom

Prohibition of Sales to UK Retail Investors

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the UK. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

  (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

  (iii) not a qualified investor as defined in the Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

Public Offer Selling Restriction under the UK Prospectus Regulation

If the Pricing Supplement in respect of any Notes does not include a legend entitled "Prohibition of Sales to UK Retail Investors", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the UK except that it may make an offer of such Notes to the public in the UK:

(a) *Approved prospectus:* if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, **provided that** any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(b) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulations;

(c) *Fewer than 150 offerees:* at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the UK subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers:* at any time in any other circumstances falling within section 86 of the FSMA.

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other UK Regulatory Restrictions

In relation to each Tranche of Notes, each Relevant Dealer has represented, warranted and undertaken to the Issuer, the Guarantor and each other Relevant Dealer (as defined in the Dealer Agreement) (if any) that:

(a) *No deposit-taking*: in relation to any Notes having a maturity of less than one year:

  (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

  (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

    (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

    (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

  where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

(b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor.

(c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the Notes have not been offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong, Macau or Taiwan), except as permitted by the securities laws of the PRC.

Hong Kong

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the SFO, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**CWUMPO**") or which do not constitute an offer to the public within the meaning of the CWUMPO; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, in each case whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act 2001 of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

The British Virgin Islands

Notwithstanding that Part II of the Securities and Investment Business Act, 2010 (as amended) ("**SIBA**") is not, as at the date of this Offering Circular, in force, none of this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes shall be distributed to, or received by, any person in the British Virgin Islands if the distribution of any of such documents to, or receipt of any of such documents by, that person shall constitute a public offer within the meaning of the SIBA.

Each Dealer represents, warrants and agrees that it has not distributed or caused to be received by any person in the British Virgin Islands this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes in such a way as to constitute a public offer within the meaning of the SIBA.

General

These selling restrictions may be modified by the agreement of each of the Issuer and the Dealer following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of the Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. CLEARING OF THE NOTES

The Notes may be accepted for clearance through Euroclear and/or Clearstream and/or the CMU. The appropriate common code and the International Securities Identification Number or CMU Instrument Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

2. AUTHORISATIONS

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme and performance of its obligations under the Dealer Agreement, the Trust Deed and the Agency Agreement. The establishment of the Programme was authorised by a resolution of the board of directors of the Issuer passed on 24 August 2021. The update of the Programme was authorised by a resolution of the board of directors of the Issuer passed on 25 August 2023.

With respect to each Tranche of Notes, prior to the issue of any such Tranche of Notes, the Issuer will obtain all necessary consents, approvals and authorisations in connection with its entry into of the relevant documents and the performance of its obligations under such documents, including but not limited to any resolutions of the Issuer.

The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the establishment of the Programme and the giving of the Guarantee of the Notes and the performance of its obligations under the Dealer Agreement, the Guarantee of the Notes, the Trust Deed and the Agency Agreement. The establishment of the Programme and the giving of the Guarantee of the Notes was authorised by resolutions of the Guarantor passed on 20 August 2021. The update of the Programme and the giving of the Guarantee of the Notes was authorised by resolutions of the Guarantor passed on 25 August 2023.

3. NDRC REGISTRATION

With respect to any applicable Tranche of the Notes, pre-issuance registration of the Tranche of the Notes shall be completed in accordance with the NDRC Administrative Measures as set forth in the relevant Pricing Supplement. After the issuance of any applicable Tranche of the Notes, the Guarantor shall report or cause to be reported the relevant information to the NDRC within the time period prescribed in the NDRC Administrative Measures.

4. NO MATERIAL ADVERSE CHANGE

Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2022, and there has been no significant change in the financial or trading position of the Group since 31 December 2022.

5. LITIGATION

Except as disclosed in this Offering Circular, none of the Issuer, the Guarantor or any member of the Group is involved in any governmental, arbitration or legal proceedings against the Group as at the date of this Offering Circular that would have a material adverse effect on its business, financial condition and results of operation, and/or that the Issuer, or the Guarantor believes are material in the context of the Programme or the Notes to be issued thereunder nor is the Issuer, or the Guarantor aware that any such proceedings are pending or threatened.

6. AVAILABLE DOCUMENTS

Copies of the following documents will be available for inspection during normal business hours with reasonable prior written notification and satisfactory proof of holding at the principal place of business of the Trustee for the time being, which at the date of this Offering Circular is 3/F, CCB Tower, 3 Connaught Road Central, Central, Hong Kong, for so long as the Notes are capable of being issued under the Programme:

(i) copies of the Group's Audited Financial Statements;

(ii) copies of the Group's financial statements provided to the Trustee pursuant to the Conditions;

(iii) constitutional documents (or equivalent) of the Issuer and the Guarantor;

(iv) each Pricing Supplement;

(v) a copy of this Offering Circular, together with any supplement to this Offering Circular;

(vi) the Agency Agreement;

(vii) the Trust Deed (which contains the forms of the Notes in global and definitive form); and

(viii) the Programme Manual.

7. FINANCIAL STATEMENTS

The Group's Audited Financial Statements, which are included elsewhere in this Offering Circular, have been audited by Deloitte, the independent auditor of the Guarantor, as stated in its reports appearing herein.

8. LISTING

Application has been made to the HKSE for the listing of the Programme under which the Notes may be issued during the 12-month period after the date of this Offering Circular on the HKSE by way of debt issues to Professional Investors only. Listing of the Programme and the Notes on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or the Guarantor or the Group, where applicable or quality of disclosure in this document.

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CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
招商證券國際有限公司

Reports and consolidated financial statements
For the year ended 31 December 2022

CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
招商證券國際有限公司

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

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DIRECTORS' REPORT

The directors of the Company present their annual report and the audited consolidated financial statements of China Merchants Securities International Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2022.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 41 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 6.

PROPERTY AND EQUIPMENT

Details of the movements in the property and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 36 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the financial year and up to the date of this report are:

ZHAO Bin	(appointed on 19 January 2022)
WU Guangyan	(resigned on 19 January 2022)
LU Gonglu	
MA Xiaoli	(resigned on 7 June 2022)
ZHANG Xing	
LIAO Jinqiang	
WANG Jinbao	
ZHAN Guifeng	

In accordance with Article 24 of the Company's Articles of Association, all existing directors are not subject to rotation or retirement at the annual general meeting.

DIRECTORS - continued

WU Guangyan resigned on 19 January 2022 as director of the Company. WU Guangyan has confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholder of the Company.

MA Xiaoli resigned on 7 June 2022 as director of the Company. MA Xiaoli has confirmed that he has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholder of the Company.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements or contracts of significance in relation to the Company's business to which any of the Company's holding companies, subsidiaries, or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this directors' report was or is, there any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint the auditor, Messrs. Deloitte Touche Tohmatsu.

On behalf of the board

LU GONGLU
DIRECTOR

31 March 2023

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
招商證券國際有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Merchants Securities International Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 6 to 100, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

These charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTES	2022 HK$	2021 HK$
Revenue	7	509,257,684	597,341,018
Interest income	7	452,535,323	528,244,071
Other income and gains	8	38,277,586	65,050,855
Change in fair value of financial assets and liabilities at fair value through profit or loss		(1,479,795,091)	(752,835,511)
Net loss on disposal of financial asset at fair value through other comprehensive income		(34,819,654)	(74,651,013)
Net trading gains of precious metals		4,982,905	26,953,422
Change in fair value of derivative financial instruments		1,565,607,437	1,896,226,169
Brokerage fee and commission expenses		(119,584,852)	(184,794,778)
Staff costs	9	(351,452,768)	(477,416,094)
Depreciation and amortisation		(18,288,078)	(23,493,863)
Depreciation on right-of-use asset		(32,769,272)	(35,989,007)
Finance costs	10	(286,775,113)	(266,958,262)
Other operating expenses		(497,172,257)	(239,888,165)
Expected credit losses, net	11	(73,064,963)	(37,248,029)
Change in third-party interests in consolidated investment funds	43	25,625,406	5,133,237
(Loss) profit before taxation	9	(297,435,707)	1,025,674,050
Taxation	12	(6,823,638)	(149,355,779)
(Loss) profit for the year		(304,259,345)	876,318,271
Other comprehensive (expense) income for the year			
Items that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		(3,173,819)	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(5,352,708)	(6,803,146)
Fair value loss on debt instruments measured at fair value through other comprehensive income		(28,624,894)	(103,046,958)
Reclassification adjustment to profit or loss		34,819,654	74,651,013
Impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		(18,266,415)	6,932,199
Other comprehensive expense for the year, net of income tax		(20,598,182)	(28,266,892)
Total comprehensive (expense) income for the year		(324,857,527)	848,051,379

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	NOTES	2022 HK$	2021 HK$
Non-current assets			
Property and equipment	13	19,090,251	22,644,875
Right-of-use assets	14	94,718,761	121,879,780
Goodwill	15	42,764,486	42,764,486
Deferred tax asset	17	5,841,337	10,988,814
Intangible assets	16	41,915,301	38,031,650
Equity instruments at fair value through other comprehensive income	18	101,076,320	-
Statutory deposits and other receivables	16	71,511,589	73,514,616
Amounts due from the immediate holding company	19	2,829,184,332	-
		3,206,102,377	309,824,221
Current assets			
Trade receivables	20	6,875,456,133	9,085,527,065
Other receivables and prepayments		32,789,624	36,404,452
Tax recoverable		51,468,720	560,626
Financial assets at fair value through profit or loss	21	12,700,298,212	16,391,046,178
Debt instruments at fair value through other comprehensive income	22	2,186,371,917	833,969,079
Debt instruments at amortised cost	23	494,309,792	251,090,541
Other assets at fair value	28	284,330,081	127,167,093
Derivative financial assets	27	909,646,862	1,938,134,237
Bank balances and cash	24	21,159,488,128	12,776,409,188
		44,694,159,469	41,440,308,459
Current liabilities			
Trade payables	25	9,941,674,050	13,136,190,528
Payable under securities lending agreements	26	2,140,639,409	-
Bank borrowings	29	12,844,114,220	6,379,167,851
Short-term notes issued	34	39,157,230	484,169,691
Tax liabilities		70,018,707	85,578,500
Other payables and accrued charges		181,108,982	267,574,782
Financial liabilities at fair value through profit or loss	30	2,947,333,888	3,144,431,437
Derivative financial liabilities	27	881,426,924	242,032,446
Financial assets sold under repurchase agreements and other borrowings	31	4,314,895,453	3,174,186,429
Lease liabilities	33	28,863,821	31,683,782
Third-party interests in consolidated investment funds	43	1,049,860,270	99,574,540
		34,439,092,954	27,044,589,986
Net current assets		10,255,066,515	14,395,718,473
Total assets less current liabilities		13,461,168,892	14,705,542,694

	NOTES	2022 HK$	2021 HK$
Capital and reserves			
Share capital	36	6,453,627,390	6,453,627,390
Reserves		2,730,758,973	3,055,616,500
Total equity		9,184,386,363	9,509,243,890
Non-current liabilities			
Bank borrowings	29	300,139,628	1,198,067,518
Long-term note issued	35	3,904,010,042	3,902,536,450
Deferred tax liabilities	17	3,197,530	2,811,212
Lease liabilities	33	69,435,329	92,883,624
		4,276,782,529	5,196,298,804
		13,461,168,892	14,705,542,694

The consolidated financial statements on pages 6 to 100 were approved and authorised for issue by the board of directors on 31 March 2023 and are signed on its behalf by:

LU GONGLU
DIRECTOR

ZHANG XING
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital HK$	Capital reserve HK$	Investments revaluation reserve HK$	Foreign currency translation reserve HK$	Retained earnings HK$	Total HK$
At 1 January 2021	4,103,627,390	(4,800,142)	20,395,011	5,332,412	2,186,637,840	6,311,192,511
Profit for the year	-	-	-	-	876,318,271	876,318,271
Other comprehensive expense for the year	-	-	(21,463,746)	(6,803,146)	-	(28,266,892)
Total comprehensive income for the year	-	-	(21,463,746)	(6,803,146)	876,318,271	848,051,379
Ordinary shares issued	2,350,000,000	-	-	-	-	2,350,000,000
At 31 December 2021	6,453,627,390	(4,800,142)	(1,068,735)	(1,470,734)	3,062,956,111	9,509,243,890
Loss for the year	-	-	-	-	(304,259,345)	(304,259,345)
Other comprehensive expense for the year	-	-	(15,245,474)	(5,352,708)	-	(20,598,182)
Total comprehensive expense for the year	-	-	(15,245,474)	(5,352,708)	(304,259,345)	(324,857,527)
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	7,731,368	-	(7,731,368)	-
At 31 December 2022	6,453,627,390	(4,800,142)	(8,582,841)	(6,823,442)	2,750,965,398	9,184,386,363

Note: The capital reserve represented the excess of Company's interest in the net fair value of acquiree's identifiable assets and liabilities over cost as a result of the acquisition of additional interest in a subsidiary from non-controlling interests in the year 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	NOTE	2022 HK$	2021 HK$
OPERATING ACTIVITIES			
(Loss) profit before taxation		(297,435,707)	1,025,674,050
Adjustments for:			
Interest income		(452,535,323)	(528,244,071)
Interest expenses		286,775,113	266,958,262
Impairment on trade receivables		26,909,144	1,531,447
Impairment on debt instruments at fair value through other comprehensive income		(18,266,415)	6,932,199
Impairment allowance on debt instruments at amortised cost		64,422,234	28,784,383
Dividend income		(190,313,102)	(32,560,475)
Depreciation and amortisation		18,288,078	23,493,863
Depreciation of right-of-use assets		32,769,272	35,989,007
Unrealised fair value changes		1,862,288,028	(649,564,039)
Others		(3,518,375)	306,049
Operating cash flows before movements in working capital		1,329,382,947	179,300,675
Decrease in statutory deposits		12,622,151	18,594,450
Change in financial instruments at fair value through profit or loss and derivative financial instruments		455,543,281	(8,856,134,559)
Change in debt instruments at fair value through other comprehensive income		(1,346,208,078)	1,597,374,169
Change in financial assets at amortised cost		(307,641,485)	(120,718,819)
Change in other assets at fair value		(142,646,238)	339,981,744
Decrease (increase) in trade receivables		2,183,161,788	(1,062,595,612)
Increase in other receivables and prepayments		(17,874,638)	(12,564,032)
Decrease (increase) in bank balances - segregated accounts	24	1,983,270,744	(1,370,891,409)
(Decrease) increase in trade payables		(3,194,516,478)	622,444,666
Increase in payable under securities lending agreements		2,140,639,409	-
Increase (decrease) in financial assets sold under repurchase agreements		1,701,995,372	(1,956,487,634)
(Decrease) increase in other payables and accrued charges		(86,465,800)	104,557,959
Increase in net assets attributable to holders of third party interests in consolidated investment funds		950,285,730	77,226,152
Cash from (used in) operations		5,661,548,705	(10,439,912,250)
Interest received		452,909,130	527,330,621
Interest paid		(45,497,735)	(25,003,853)
Dividend received		190,313,102	32,560,475
Profits tax paid		(66,840,943)	(123,252,043)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		6,192,432,259	(10,028,277,050)

	NOTES	2022 HK$	2021 HK$
INVESTING ACTIVITIES			
Purchase of property and equipment		(8,127,994)	(6,370,438)
Purchase of intangible assets		-	(265,736)
Purchase of equity instruments at fair value through other comprehensive		(123,936,287)	-
Proceeds from disposal of equity instruments at fair value through other comprehensive income		19,686,027	-
NET CASH USED IN INVESTING ACTIVITIES		(112,378,254)	(6,636,174)
FINANCING ACTIVITIES			
Proceeds from issue of shares		-	2,350,000,000
New bank borrowings raised	42	44,063,015,132	278,001,578,005
New other borrowings raised	42	2,057,394,841	1,389,493,896
New short-term note issued	42	2,513,360,800	484,169,691
New long-term note issued	42	-	3,879,651,377
Interest paid on bank borrowings		(136,635,442)	(203,653,920)
Interest paid on other borrowings		(13,418,358)	(12,584,321)
Interest paid on short-term note		(10,386,799)	-
Interest paid on long-term note		(50,734,862)	-
Repayment of bank borrowings	42	(38,518,046,622)	(275,129,667,561)
Repayment of other borrowings	42	(2,620,652,536)	(4,719,722)
Repayment of short-term note issued	42	(2,957,827,800)	-
Repayment of lease liabilities	42	(34,419,967)	(36,440,965)
NET CASH FROM FINANCING ACTIVITIES		4,291,648,387	10,717,826,480
NET INCREASE IN CASH AND CASH EQUIVALENTS		10,371,702,392	682,913,256
EFFECT OF EXCHANGE RATE CHANGES		(5,352,708)	(6,803,146)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		2,401,165,550	1,725,055,440
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		12,767,515,234	2,401,165,550
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances - general accounts	24	12,767,515,234	2,401,156,935
Cash in hand	24	-	8,615
		12,767,515,234	2,401,165,550

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its parent company is China Merchants Securities Co., Ltd., incorporated in the People's Republic of China ("the PRC") and listed on Shanghai Stock Exchange and Hong Kong Stock Exchange and its ultimate holding company is China Merchants Group Limited, a company incorporated in the PRC and directly managed by the State-owned Assets Supervision and Administration Committee of the State Council which is controlled by the PRC government.

The Company continues to act as an investment holding company. The activities of the subsidiaries are set out in note 41 to the consolidated financial statements.

The addresses of the registered office and principal place of business are 48/F., One Exchange Square, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendment to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1	Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after a date to be determined.
[3] Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and assets, which are stated at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.1 Basis of preparation of consolidated financial statements - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Basis of consolidation - continued

When the Group has less than a majority of the voting rights on an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When the Group is an investor of a fund in which the Group also acts as a fund manager, the Group will determine whether it is a principal or an agent for the purpose of assessing whether the Group controls the relevant fund.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether the Group is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreements; and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Basis of consolidation - continued

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Acquisitions of businesses are accounted for using acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Business combinations or asset acquisitions - continued

Business combinations - continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "*Income Taxes*" and HKAS 19 "*Employee Benefits*" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment funds

The Group has invested in investment funds. The Group's percentage ownership in the investment funds can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such funds, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated Financial Statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the issuer to repurchase or redeem units in such funds for cash. These are presented as "Third-party interests in consolidated investment funds" in the consolidated statement of financial position. Where the Group does not control such funds, they are carried at fair value and classified as financial assets at fair value through profit or loss in the consolidated statement of financial position.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Revenue from contracts with customers - continued

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. The Group shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- The Group has a present right to payment for the asset and a customer is presently obliged to pay for an asset.

- The Group has transferred physical possession of the asset and the customer has obtained physical possession of an asset.

- The customer has accepted the good for service.

- Other indicators of the transfer of control of the good or service to the customer.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Revenue from contracts with customers - continued

Details are as follows:

- Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

- Handling fee income arising from brokerage business is recognised when the related services are rendered.

- Commission income of the agency custody of securities business is recognised when service are rendered.

- Placing, underwriting and certain financial advisory fees are recognised as income at point in time upon completion of the performance obligation stated in accordance with the terms of the placing or underwriting agreements or deal mandate.

- Fund and asset management fee income and other financial advisory fee income are recognised over time and is measured based on an output method determined under the asset management agreements or financial advisory agreements.

- Investment income from equity investments

  Dividend income from equity investments is recognised when the shareholder's right to receive payment has been established.

Lease

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Lease - continued

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Lease - continued

The Group as a lessee - continued

Right-of-use assets - continued

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and

- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Lease - continued

The Group as a lessee - continued

Lease liabilities - continued

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Property and equipment

Property and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Dividend income which are derived from the Group's ordinary course of business are presented as revenue.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss and included in interest income. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "revenue" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes interest earned on the financial asset and is included in the "change in fair value of financial assets and liabilities at fair value through profit or loss" line item.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets and other items which are subject to impairment under HKFRS 9 (including loan commitments). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

The Group always recognises lifetime ECL for trade receivables arising from HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(i) Significant increase in credit risk - continued

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(v) Measurement and recognition of ECL - continued

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Nature of financial instruments;
- Past-due status;
- Nature of collaterals (e.g. securities collateral, and others);
- Loan to collateral value ratio;
- Nature and size of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

- the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and
- the cash flows that the Group expects to receive if the loan is drawn down.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables from cash clients, margin clients, trade receivables from corporate finance activities and asset management activities and loan receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve included in investment revaluation reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the investment revaluation reserve in relation to accumulated loss allowance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity

Classification of debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity - continued

Financial liabilities at FVTPL - continued

A financial liability other than a financial liability held for trading may be designated as a FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss exclude any interest paid on the financial liability and are included in interest expense in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6.

Financial liabilities at amortised cost

Other financial liabilities including trade payables, payable under securities lending agreements, bank borrowings, short-term notes issued, financial assets sold under repurchase agreements and other borrowings, other payables and long-term note issued are subsequently measured at amortised cost, using the effective interest method.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are classified as "financial assets at FVTPL". Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are recognised as financial liabilities and presented as "financial assets sold under repurchase agreements" in the consolidated statement of financial position. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by a group entity and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognises in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition - continued

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Intangible assets

Intangible assets represent rights to trade on the Hong Kong Stock Exchange Limited ("HKEX"), Hong Kong Futures Exchange Limited ("HKFE") and CME Group Inc. ("CME"). Trading rights with finite useful lives that are stated at cost and amortised using the straight-line method over its estimated useful life. Trading rights with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the profit and loss when the asset is derecognised.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash.

Securities borrowing and lending

Cash collateral received under securities lending arrangements is included in trade payables in the consolidated statement of financial position. Income is accrued on a time basis, by reference to the value of stock and the number of days of lending.

Cash collateral paid under securities borrowing arrangements are included in trade receivables in the consolidated statement of financial position. Expense is accrued on a timely basis, by reference to the value of stock and the number of days of borrowing.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any.

In addition, intangible assets with infinite useful lives are tested for impairment annually, and wherever there is an indication that they may be impaired. Recoverable amount is the higher of fair values less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Physical precious metals

Physical precious metals held by the Group or borrowed from counterparty for trading purpose are recognised on the consolidated statement of financial position when the group entity becomes a party to the contractual provisions of the instrument.

Physical precious metals held by the Group is derecognised when the contractual rights to the instrument expire, or when it transfers the physical precious metals and substantially all the risks and rewards of ownership of the physical precious metals to another entity. On derecognition of physical precious metals held by the Group, the difference between the carrying amount and the sum of consideration received and receivable is recognised in profit or loss.

Physical precious metals borrowed from counterparty for trading purpose is derecognised when, and only when, the Group's obligations are discharged or cancelled. The difference between the carrying amount and the consideration paid and payable is recognised in profit or loss.

Physical precious metals held by the Group or borrowed from counterparty for trading purpose are initially measured at fair value. Physical precious metals are measured at fair value at the end of the reporting period and classified as other assets or other liabilities at fair value on the consolidated statement of financial position, with any fair value gains or loss recognised in profit or loss and is included in "net trading gains (losses) of precious metals".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should not make redundancies during specified period are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the subsidised period.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income and gains".

Income from carried interest

Income from carried interest earned based on the performance of the managed fund/entity ("carried interest") is a form of variable consideration in their contracts with customers to provide investment management services. Carried interest is earned based on fund/entity performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each entity's governing agreements. Income from carried interest will not be recognised as revenue until (a) it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, or (b) the uncertainty associated with the variable consideration is subsequently resolved. Income from carried interest is typically recognised as revenue at the later stage of the fund/entity life.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

<u>Provision of ECL for trade receivables, debt instruments at FVTOCI, and debt instruments at amortised cost</u>

The provision of ECL is sensitive to changes in estimates. The estimates would include the amount and timing of future cash flows and collateral values when determining impairment allowances. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. Details of expected credit loss are set out in note 6. The information about the Group's trade receivables, debt instruments at FVTOCI and debt instruments at amortised cost are disclosed in notes 20, 22 and 23.

Inputs, assumptions and estimation techniques

ECL of trade receivables, debt instruments at FVTOCI and debt instruments at amortised cost is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 (credit risk has increased significantly since initial recognition) or 3 (credit-impaired) as based on the Group's accounting policies. In assessing whether the credit risk of a financial asset has significantly increased, the Group considered the loan to collateral value ratio, past due days, downgrade of bond ratings as well as qualitatively and quantitatively reasonable and supportable forward-looking information available without undue cost or effort. ECL is the discounted product of expected future cash flows by using the PD, LGD and EAD, after considering the forward-looking information which are available without undue cost or effort. For credit-impaired trade receivable, the management performed individual assessment for each client by considering various factors, including the realisable value of securities or collaterals held by the Group.

Forward-looking information

The calculation of ECL considers forward-looking information through the use of publicly available economic data and forecasts and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Fair value of financial instruments

As described in note 6, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments classified as level 3 under fair value hierarchy. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of level 3 unlisted securities includes the application of some assumptions based on the facts and circumstances that existed as at 31 December 2022, not supported by observable market data. The carrying amount of the level 3 unlisted securities as at 31 December 2022 is HK$175,071,800 (2021:HK$337,195,424). Details of the assumptions used are disclosed in note 6. The directors of the Company considered that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings and lease liabilities, and equity attributable to the shareholder of the Group, comprising issued share capital and reserves as disclosed in consolidated statement of changes in equity.

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. The Group's overall strategy remains unchanged throughout the year.

For certain subsidiaries of the Group, they are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. Management monitors, on a daily basis, the subsidiaries' liquid capital to ensure it meets the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules. No non-compliance of the capital requirements imposed by the Securities and Futures (Financial Resources) Rules during the year for these subsidiaries.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2022 HK$	2021 HK$
Financial assets		
Financial assets at fair value through profit or loss	12,700,298,212	16,391,046,178
Equity instruments at FVTOCI	101,076,320	-
Debt instruments at FVTOCI	2,186,371,917	833,969,079
Other assets at fair value	284,330,081	127,167,093
Derivative financial assets	909,646,862	1,938,134,237
Financial assets at amortised cost	31,381,111,597	22,143,786,049
Financial liabilities		
Financial liabilities at fair value through profit or loss	2,947,333,888	3,144,431,437
Derivative financial liabilities	881,426,924	242,032,446
Third-party interests in consolidated investment funds	1,049,860,270	99,574,540
Financial liabilities at amortised cost	33,643,637,325	28,461,279,216

6. FINANCIAL INSTRUMENTS - continued

Offsetting of financial assets and financial liabilities

The following financial assets and financial liabilities are offset in the Group's consolidated statement of financial position; or are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group maintains accounts with the Hong Kong Securities Clearing Company Limited ("HKSCC") through which they conduct securities trading transactions and settlement on a net basis.

In presenting the amounts due from and to HKSCC (included in trade receivables or trade payables), the individual subsidiaries concerned have offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC on the same settlement date. The amounts offset and the net balances are shown as follows.

In addition, the Group has a legally enforceable right to set off the trade receivables and payables with its cash and margin clients, in the Group's securities brokerage business (the "brokerage clients") that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis, or to realise the assets and settle the liabilities simultaneously).

	Gross amounts of recognised financial assets after impairment	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position		
				Financial instruments	Collateral received	Net amount
	HK$	HK$	HK$	HK$	HK$	HK$
2022						
Trade receivable from HKSCC (note)	798,303,023	(475,963,766)	322,339,257	(1,855,130)	-	320,484,127
Trade receivable from cash clients	261,420,967	(39,431,880)	221,989,087	(219,939,376)	-	2,049,711
Trade receivable from margin clients	3,886,036,281	(199,525,898)	3,686,510,383	(286,868,242)	(3,394,809,624)	4,832,517
Debt securities under repurchase agreements	3,005,634,022	-	3,005,634,022	(2,832,068,487)	-	173,565,535
Trade receivable from over-the-counter counterparties	289,629,879	(7,110,489)	282,519,390	(87,303,607)	-	195,215,783
Derivative financial assets	959,297,368	(49,650,506)	909,646,862	(834,587,620)	-	75,059,242
	9,200,321,540	(771,682,539)	8,428,639,001	(4,262,622,462)	(3,394,809,624)	771,206,915
2021						
Trade receivable from HKSCC (note)	1,005,724,848	(704,903,267)	300,821,581	(162,665,633)	-	138,155,948
Trade receivable from cash clients	895,218,828	(148,231,168)	746,987,660	(738,017,671)	-	8,969,989
Trade receivable from margin clients	5,405,973,838	(129,984,753)	5,275,989,085	(189,522,358)	(5,080,800,749)	5,665,978
Debt securities under repurchase agreements	1,396,389,775	-	1,396,389,775	(1,130,073,115)	-	266,316,660
Trade receivable from over-the-counter counterparties	559,961,743	(172,469,642)	387,492,101	(142,826,895)	-	244,665,206
Derivative financial assets	1,954,570,573	(16,436,336)	1,938,134,237	(118,034,639)	-	1,820,099,598
	11,217,839,605	(1,172,025,166)	10,045,814,439	(2,481,140,311)	(5,080,800,749)	2,483,873,379

6. FINANCIAL INSTRUMENTS - continued

Offsetting of financial assets and financial liabilities - continued

	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position		
				Financial instruments	Collateral pledged	Net amount
	HK$	HK$	HK$	HK$	HK$	HK$
2022						
Trade payable to HKSCC	(477,818,896)	475,963,766	(1,855,130)	1,855,130	-	-
Trade payable to cash clients	(4,564,631,811)	39,431,880	(4,525,199,931)	219,939,376	-	(4,305,260,555)
Trade payable to margin clients	(4,079,386,363)	199,525,898	(3,879,860,465)	286,868,242	-	(3,592,992,223)
Financial assets sold under repurchase agreements	(2,832,068,487)	-	(2,832,068,487)	2,832,068,487	-	-
Trade payable to over-the-counter counterparties	(986,822,429)	7,110,489	(979,711,940)	126,873,207	-	(852,838,733)
Derivative financial liabilities	(931,077,430)	49,650,506	(881,426,924)	795,018,020	-	(86,408,904)
	(13,871,805,416)	771,682,539	(13,100,122,877)	4,262,622,462	-	(8,837,500,415)
2021						
Trade payable to HKSCC	(867,568,900)	704,903,267	(162,665,633)	162,665,633	-	-
Trade payable to cash clients	(5,577,564,600)	148,231,168	(5,429,333,432)	738,017,671	-	(4,691,315,761)
Trade payable to margin clients	(5,335,752,287)	129,984,753	(5,205,767,534)	189,522,358	-	(5,016,245,176)
Financial assets sold under repurchase agreements	(1,130,073,115)	-	(1,130,073,115)	1,130,073,115	-	-
Trade payable to over-the-counter counterparties	(649,564,787)	172,469,642	(477,095,145)	30,418,567	-	(446,676,578)
Derivative financial liabilities	(258,468,782)	16,436,336	(242,032,446)	196,188,257	-	(45,844,189)
	(13,818,992,471)	1,172,025,166	(12,646,967,305)	2,446,885,601	-	(10,200,081,704)

Note: Trade receivables and trade payables to HKSCC are included in trade receivables and trade payables with clearing houses in notes 20 and 25 respectively.

Risk management structure

Since its establishment, the Group has been developing an all-around, innovative and forward-looking risk management system, which is aligned with its operation strategy and focuses on its frontier departments at the business level. The structure of the risk management of the Group consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, or decision-making by the senior management and the Risk Management Committee, check-and-balance and internal controls maintained of relevant risk management departments and direct management of other departments, and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organisation structure system: the first level refers to implementation of effective controls on risk management by all departments; the second level refers to risk management and internal control measures implemented by relevant risk management departments; the third level refers to post-event supervision and evaluation by the Audit and Supervision Department.

The overall risk management duties of departments or posts under the risk management organisation structure are as follows:

(i) the Board of Directors and Risk Management Committee are responsible for considering and approving the Group's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Group's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Group's overall risk management;

6. FINANCIAL INSTRUMENTS - continued

Risk management structure - continued

(ii) the Supervisory Committee of the Group is responsible for supervising and examining the operations of the comprehensive risk management system of the Group;

(iii) the senior management comprising the president and vice presidents of the Group is responsible for the risk management of business operations, determining risk control measures and formulating risk limit indicators on a regular basis by reference to the risk evaluation reports. The Risk Management Committee set up by the senior management is the ultimate risk decision-making body at operation level. The Chief Risk Officer of the Group is responsible for establishing comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Group and providing risk management suggestion on business decisions;

(iv) the Risk Management Department is the leading department in respect of management of market, credit and operational risks of the Group. It is responsible for managing market risk and credit risk, assisting and guiding all units in performing risk management. The Capital Management Department is responsible for managing liquidity risk, and facilitating the establishment of the systems, rules and policies of liquidity risk management. Legal and Compliance Department is responsible for leading the Group's legal and compliance risk management, and assisting in the compliance director on reviewing, supervising and scrutinising compliance issues of the Group. The Administration Department together with the Risk Management Department and other relevant departments promote the management of reputation risk of the company. Internal Audit Department is responsible for monitoring the effectiveness and implementation of the Group's risk management process by audits, and responsible for initiating evaluation of entire internal control system at least once a year;

(v) All departments and wholly-owned subsidiaries of the Company are responsible for directly managing and supervising risks of their own businesses and management scopes.

Financial risk management objectives and policies

Market risk

(i) Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group is mainly exposed to the United States dollars ("USD"), Euro ("EUR") and Renminbi ("RMB").

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(i) Currency risk - continued

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2022 HK$	2021 HK$	2022 HK$	2021 HK$
USD	18,517,348,784	18,564,404,923	18,213,808,170	16,559,596,924
RMB	5,941,085,016	6,090,883,162	2,535,466,838	2,314,597,283
EUR	2,746,344	4,613,390	1,165,148	811,788
Others	238,162,377	297,278,359	78,720,843	111,708,979

Foreign currency sensitivity

The following analysis details the Group's sensitivity to a 5% (2021: 5%) changes in Hong Kong dollars against the respective foreign currencies except for USD. The 5% (2021: 5%) is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit before taxation where Hong Kong dollars weakening against the respective currency.

The management considered that the currency between HK$ and USD is pegged under linked-exchange rate system, the effect of change is not significant, accordingly, it is not included in this sensitivity analysis.

If the exchange rate of Hong Kong dollars against the respective foreign currencies of monetary items and derivative financial instruments had been 5% higher/lower:

- Loss before taxation would increase/decrease by approximately HK$178,332,000 (2021: profit before taxation would decrease/increase by HK$198,283,000) as a result of the exchange difference and change in fair value of derivative financial instruments respectively.

In opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate debt securities included in financial asset at fair value through profit or loss and fixed-rate debt instruments at FVTOCI held by the Group. The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities. Variable interest bearing financial instruments exposed to interest rate risk are mainly margin clients undertaken, balances with banks and bank borrowings carrying interest at prevailing market rates.

The Group's interest rate risk is mainly relating to the fluctuation of best lending rate arising from the Group's trade receivables, market saving interest rate arising from the Group's bank balances and Prime Rate and from the Group's bank borrowings and derivatives. The Group's exposure to interest rates on financial instruments is detailed below.

	2022 HK$	2021 HK$
Assets		
Trade receivables (exclude unsettled trade)	3,266,014,259	4,965,028,951
Derivative financial assets	27,650,742	7,565,659
Debt instruments at FVTOCI	2,186,371,917	833,969,079
Debt securities included in financial asset at fair value through profit or loss	2,138,979,617	807,928,747
Bank balances	3,440,277,028	3,926,959,577
	11,059,293,563	10,541,452,013
Liabilities		
Bank borrowings	13,144,253,848	7,577,235,369
Derivative financial liabilities	782,326	14,862,098
	13,145,036,174	7,592,097,467

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk - continued

Interest rate sensitivity

The sensitivity analysis below is determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. For both years ended 2022 and 2021, no interest rate sensitivity is prepared for the bank balances as the impact is usually not significant. A 10 basis point (2021: 10 basis point) change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

For the debt instruments held by the Group, their fair values are sensitive to interest rate movements. A 10 basis points (2021: 10 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. In accordance with the portfolio's policy of the Group, the investment team monitors the portfolio's overall interest rate sensitivity on a daily basis.

At reporting date, if interest rates had been 10 basis point (2021: 10 basis point) higher/lower and all other variables were held constant, the impact to the Group's loss/profit before taxation and other comprehensive expense/income would not be significant.

(iii) Price risk

The Group is mainly exposed to price risk through its derivative financial instruments, other assets/liabilities at fair value and financial assets and liabilities at FVTPL excluding debt instruments. The management manages this exposure by maintaining the investments with appropriate risk level. In addition, price risk was monitored by the management of the Group and will consider hedging the risk exposure should the need arise.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(iii) Price risk - continued

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to price risk at the reporting date.

If the price of equity investments and commodity price of the respective financial assets and liabilities at FVTPL and derivative financial instruments, and structured notes, bond-linked and equity-linked financial instruments issued had been 1% higher/lower:

- Loss before taxation would decrease/increase by approximately (HK$7,143,000) (2021: profit before taxation increase/decrease by approximately HK$43,018,000) as a result of the change in fair value of derivative financial instruments, other assets/liabilities at fair value and financial instruments at fair value through profit or loss excluding debt instruments.

The sensitivity analysis above indicates instantaneous change in the Group's fair value of financial instruments at fair value through profit or loss that would arise assuming that the change in price had occurred at the reporting dates and had been applied to re-measure those financial instruments held by the Group which expose the Group to price risk at the reporting dates. The analysis is performed on the same basis for the prior year.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group.

As at 31 December 2022, the carrying amounts of respective recognised financial assets as stated in the consolidated statement of financial position and the notional amount of credit default swaps as disclosure in note 27 represents the maximum credit exposure. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate impairment losses under HKFRS 9 are made. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group hold collaterals or other credit enhancements to cover its credit risks associated with receivables from margin clients from brokerage business and does not hold any collaterals or other credit enhancements to cover its credit risks associated with the remaining financial assets.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The Group's exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligation according to their contractual commitment. The Group is primarily exposed to three types of credit risk: (a) risk arising from default of customers to repay debts in businesses of margin financing and stock pledge repurchase trading; (b) risk arising from default of a counterparty to meet its payment obligation in trading of over the counter ("OTC") derivatives; (c) risk of losses arising from the default of customers in brokerage business in respect of trading of securities and other financial products, who are taken the place of to settle due to their insufficiency of funds on settlement dates.

In respect of margin financing and securities lending, securities-backed lending and other financing businesses, the Group has established a multi-level authorisation system for business management and a comprehensive risk management system covering the whole process through due diligence of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

For OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collateral and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

On the basis of credit rating of counterparties, qualification assessment on borrowers, and the quantitative management of collaterals, the Group fully considers the customer portfolio of each credit related transaction, the amount of a single debt, the term of borrowing, the maintenance of collateral ratio and the degree of collateral concentration, etc., to monitor the credit risk of the Group. The potential default losses of credit business are measured on a transaction-to-transaction basis, then the Group's overall credit risk exposure are aggregated, with stress tests and sensitivity analysis as supplement to measurement of credit risks.

The Group uses expected credit loss model to measure the expected credit losses for applicable financial assets and loan commitments. Factors considered in the assessment using the expected credit loss model mainly includes asset categories, probability of default, loss given default, exposure at default, discount rate and forward looking adjustment factors.

The Group uses the following criteria to determine significant increase in credit risks:

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC.

In respect of trade receivables due from clients, individual credit evaluations are performed on all clients including cash and margin clients. Cash clients are required to place deposits as prescribed by the Group's credit policy before execution of any purchase transactions. Receivables due from cash clients are due within the settlement period commonly adopted by the relevant market convention, which is usually within a few days from the trade date. Because of the prescribed deposit requirements and the short settlement period involved, credit risk arising from the trade receivables due from cash clients is considered to be minimal. For margin clients, the Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to its clients. Margin loans due from margin clients are repayable on demand after settlement of pending trades. Market conditions and adequacy of securities collateral of each margin account are monitored by management on a daily basis. Margin calls and forced liquidation will be made where necessary in order to recover the outstanding debts. As at 31 December 2022, the top 5 of margin clients constitute approximately 28% (2021: 16%) of trade receivables from margin clients. The total market value of securities pledged as collateral in respect of these top 5 margin clients are approximately HK$4,175,114,000 (2021: HK$2,181,942,000).

In respect of trade receivables from brokers and clearing houses, credit risks are considered to be limited as the Group normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

With respect to the credit risk management of corporate financial business and asset management business, the Company formulates credit policy guideline, and enhances credit acceptance and exit policies for corporate and institutional clients, and implements limit control measures to improve the quality of credit exposure.

In respect of trade receivables due from clients, the ECL is calculated on individual basis.

The credit risk on liquid funds which are deposited with several banks with high credit ratings is considered to be minimal.

All of the financial assets of the Group are not past due other than the trade and other receivables and debt instruments at amortised cost.

The credit risk on debt securities classified as FVTPL (included in note 21) held by the Group is limited because the Group has a policy in place of spreading the aggregate value of transactions concluded amongst approved counterparties with an appropriate credit quality. The credit ratings of its counterparties are continuously monitored by the Group and rated by well-known rating agencies.

	2022 HK$	2021 HK$
AAA	1,347,620,332	-
A	284,906,058	-
BBB	192,686,954	94,005,896
BB	-	418,091,142
Non-rated	313,766,273	295,831,709
	2,138,979,617	807,928,747

Note: The grading include the plus and minus grade of the same category.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

During the year ended 31 December 2022 and 2021, the Group mainly invested in bonds issued by corporates, financial institutions and government. ECL on debt instruments at FVTOCI and amortised cost amounting to reversal of HK$18,266,415 (2021: recognition of HK$6,932,199) and recognition of HK$64,422,234 (2021: recognition of HK$28,784,383) respectively were recognised in the profit or loss during the year ended 31 December 2022.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Debt instruments at FVTOCI/ financial assets at amortised cost
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL - not credit-impaired
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The estimated loss rates for each class of financial assets at amortised cost and debt instruments at FVTOCI are estimated based on historical default rates over the expected life of the respective class of assets and are adjusted for forward-looking information that is available without undue cost or effort, include macroeconomic data such as gross domestic product growth. The identification of internal credit risk grading for individual financial assets at amortised cost and debt instruments at FVTOCI is regularly reviewed by management to ensure relevant information about specific assets is updated.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The tables below detail the gross carrying amount of the Group's financial assets including debt instruments at FVTOCI, trade receivables from cash clients, margin clients, trade receivables from corporate finance activities and asset management activities, debt instruments at amortised cost and bank balances.

	Notes	External credit rating	Internal credit rating	Stage	2022 Gross carrying amount HK$	2021 Gross carrying amount HK$
Debt instruments at FVTOCI						
Bonds issued by financial institutions	22	A	Low risk	12-month ECL	295,873,531	109,078,492
Bonds issued by financial institutions	22	BBB	Low risk	12-month ECL	97,498,399	23,355,916
Bonds issued by financial institutions	22	Non -rated	Low risk	12-month ECL	855,389,998	-
Bonds issued by corporates	22	A	Low risk	12-month ECL	136,315,202	-
Bonds issued by corporates	22	BBB	Low risk	12-month ECL	457,914,382	324,344,050
Bonds issued by corporates	22	BB	Low risk	12-month ECL	-	186,915,431
Bonds issued by corporates	22	B	Doubtful	Lifetime ECL - not credit-impaired	-	63,141,134
Bonds issued by corporates	22	B	Low risk	12-month ECL	-	-
Bonds issued by corporates	22	Non - rated	Low risk	12-month ECL	-	127,134,056
Bonds issued by government	22	AAA	Low risk	12-month ECL	343,380,405	-
					2,186,371,917	833,969,079

	Notes	External credit rating	Internal credit rating	Stage	2022 Gross carrying amount HK$	2021 Gross carrying amount HK$
Financial assets at amortised costs						
Trade receivables	20	N/A	Low risk	12-month ECL and lifetime ECL (under simplified approach)	6,639,048,363	8,879,517,288
			Watch list - doubtful	Lifetime ECL - not credit-impaired	92,907,313	155,031,865
			Loss	Credit impaired ECL	197,639,703	78,275,859
					6,929,595,379	9,112,825,012
Debt instruments at amortised cost						
- Certificates of deposit	23	Non - rated	Low risk	12-month ECL	468,065,181	-
- Bonds issued by corporates	23	BBB	Low risk	12-month ECL	-	34,430,572
- Bonds issued by corporates	23	BB	Low risk	12-month ECL	-	129,187,685
- Bonds issued by corporates	23	B	Low risk	12-month ECL	-	-
- Bonds issued by corporates	23	Non - rated	Doubtful	Lifetime ECL - not credit-impaired	-	116,622,814
- Bonds issued by corporates	23	Non - rated	Loss	Credit impaired ECL	119,817,375	-
					587,882,556	280,241,071
Bank balances and cash	24	N/A	Low risk	12-month ECL	21,159,488,128	12,776,409,188

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The following table shows reconciliation of loss allowances that has been recognised for trade receivables from cash and margin clients.

	12m ECL HK$	Lifetime ECL (not credit-impaired) HK$	Lifetime ECL (credit-impaired) HK$	Total HK$
As at 1 January 2021	10,832,540	78,023	8,035,546	18,946,109
(Decrease) increase in ECL for the year	(7,143,819)	60,066	6,406,267	(677,486)
As at 31 December 2021	3,688,721	138,089	14,441,813	18,268,623
(Decrease) increase in ECL for the year	(515,837)	(100,107)	27,554,879	26,938,935
As at 31 December 2022	3,172,884	37,982	41,996,692	45,207,558

The following table shows reconciliation of loss allowances that has been recognised for trade receivables from corporate finance activities, asset management activities and other receivables.

	Lifetime ECL (not credit-impaired) HK$	Lifetime ECL (credit-impaired) HK$	Total HK$
As at 1 January 2021	-	6,759,195	6,759,195
Increase in ECL for the year	-	2,208,933	2,208,933
Exchange difference	-	61,196	61,196
As at 31 December 2021	-	9,029,324	9,029,324
Decrease in ECL for the year	-	(29,791)	(29,791)
Exchange difference	-	(67,845)	(67,845)
As at 31 December 2022	-	8,931,688	8,931,688

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The following table shows reconciliation of loss allowances that has been recognised for debt instruments at FVTOCI.

	12m ECL HK$	Lifetime ECL (not credit-impaired) HK$ (Note 1)	Total HK$
As at 1 January 2021	14,510,175	-	14,510,175
(Decrease) increase in ECL for the year	(13,687,146)	20,619,345	6,932,199
As at 31 December 2021	823,029	20,619,345	21,442,374
Increase (decrease) in ECL for the year	2,352,930	(20,619,345)	(18,266,415)
As at 31 December 2022	3,175,959	-	3,175,959

Note 1:

The impairment losses recognised in 2021 was due to corporate bonds originated with gross carrying amount of HK$63,141,134 as at 31 December 2021.

The impairment decreased in 2022 is due to settlement in full of the bonds.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The following table shows reconciliation of loss allowances that has been recognised for debt instruments at amortised cost.

	12m ECL HK$	Lifetime ECL (not credit-impaired) HK$ (Note 2)	Lifetime ECL (credit-impaired) HK$ (Note 2)	Total HK$
As at 1 January 2021	366,147	-	-	366,147
(Decrease) increase in ECL for the year	(109,552)	28,893,935	-	28,784,383
As at 31 December 2021	256,595	28,893,935	-	29,150,530
Increase (decrease) in ECL for the year	99,449	(28,893,935)	93,216,720	64,422,234
As at 31 December 2022	356,044	-	93,216,720	93,572,764

Note 2:

The impairment losses recognised in 2021 was due to a new unlisted bond originated with gross carrying amount of HK$116,622,814 as at 31 December 2021. The issuer has encountered financial difficulty in the year of 2021.

The issuer defaulted in the year of 2022 so the lifetime ECL was transferred to credit-impaired in 2022. The gross carrying amount of the bond is HK$119,817,375 as at 31 December 2022.

Other than disclosed above, changes in the loss allowance for trade receivables, debt instruments at FVTOCI and debt instruments at amortised cost are mainly due to advance of new clients, additions and settlement of corresponding financial assets.

Liquidity risk

To manage of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The settlement terms of trade payables arising from the business of dealing in securities and futures contracts are stated as per note 25.

All the Group's other financial liabilities, classified as current liabilities, are repayable on demand except for bank borrowings which are repayable within one year (2021: one year) after the year ended 31 December 2022.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

Other than the lease liabilities, short-term note issued, long-term note issued and bank borrowing (non-current portion) as disclosed below, the directors of the Company consider that the consolidated cash flows of the remaining financial liabilities, of which majority are repayable on demand or within one month, are not significantly different with the carrying amounts as at the end of both remaining reporting periods. In the opinion of the directors of the Company, no maturity profile is prepared.

	31 December 2022				
	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years HK$
Bank borrowings (non-current liabilities)	300,139,628	337,974,400	16,900,180	216,807,817	104,266,403
Long-term note issued	3,904,010,042	3,997,557,596	50,459,675	3,947,097,921	-
Short-term note issued	39,157,230	39,314,237	39,314,237	-	-
Lease liabilities	98,299,150	102,193,145	30,688,807	19,794,585	51,709,753

	31 December 2021				
	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years HK$
Bank borrowings (non-current liabilities)	1,198,067,518	1,237,959,905	17,641,800	1,017,521,063	202,797,042
Long-term note issued	3,902,536,450	4,050,528,094	50,492,698	50,492,698	3,949,542,698
Short-term note issued	484,169,691	485,642,008	485,642,008	-	-
Lease liabilities	124,567,406	129,957,847	33,410,993	30,036,504	66,510,350

Interest rate benchmark reform

Several of the Group's LIBOR/HIBOR bank loans will be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

As at 31 December 2022, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative, except for US dollar settings (other than the 1-week and 2-month settings) which will be ceased immediately after 30 June 2023.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Interest rate benchmark reform - continued

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Interest rate benchmark reform - continued

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to the relevant alternative benchmark rates or interest rates which are not subject to reform to the extent feasible. Otherwise, the Group ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

During the year, certain bank loans have been transitioned to SOFR or Cost of Funds. The Group accounted for the changes using the practical expedient in HKFRS 9 which allows the Group to change the basis for determining the contractual cash flows prospectively by revising the effective interest rate. In addition, for a floating rate loans that are linked to HIBOR, the Group had confirmed with the relevant counterparty HIBOR will continue to maturity.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

As at 31 December 2022 Financial instruments prior to transition	Maturity in	Carrying amounts/ notional amounts HK$	Transition progress for financial instruments
Non-derivative financial liabilities			
Bank loans linked to LIBOR	2023	1,145,571,000	Note a
Bank loans linked to HIBOR	2023 to 2025	7,240,000,000	HIBOR will continue till maturity
Derivative			
Interest Rate Swap linked to LIBOR	2023	623,440,000	Expected to transit by 2023

As at 31 December 2021 Financial instruments prior to transition	Maturity in	Carrying amounts/ notional amounts HK$	Transition progress for financial instruments
Non-derivative financial liabilities			
Bank loans linked to LIBOR	2022	2,627,959,700	Note a
Bank loans linked to LIBOR	2022	397,703,100	Note b
Bank loans linked to HIBOR	2022 to 2024	3,750,000,000	HIBOR will continue till maturity
Derivative			
Interest Rate Swap linked to LIBOR	2023 to 2024	881,965,110	Expected to transit by 2023

Note a: Contract has been renewed to include fallback clauses and the specific triggering event on which the clause is activated.

Note b: New fallback clauses are expected to be included in 2022 upon renewal.

6. FINANCIAL INSTRUMENTS - continued

Fair value

The fair values of the financial instruments at fair value through profit or loss, debt and equity instruments at FVTOCI and derivative financial instruments are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market closing price. Determination of fair value of financial assets and financial liabilities without quoted market closing price is set out in this note.

The fair values of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Other than the long-term note issued with carrying amount and fair value disclosed in note 35, the management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
2022				
Financial assets				
Financial assets at fair value through profit or loss				
- Financial assets at fair value through profit or loss	9,896,061,390	2,629,165,022	175,071,800	12,700,298,212
- Derivative financial assets	45,481,801	864,165,061	-	909,646,862
Equity instruments at FVTOCI				
- Listed equity securities	101,076,320	-	-	101,076,320
Debt instruments at FVTOCI				
- Bonds issued by corporates	-	594,229,584	-	594,229,584
- Bonds issued by financial institutions	-	1,248,761,928	-	1,248,761,928
- Bonds issued by governments	-	343,380,405	-	343,380,405
Other assets at fair value	284,330,081	-	-	284,330,081
Total	10,326,949,592	5,679,702,000	175,071,800	16,181,723,392
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Financial liabilities at fair value through profit or loss	1,064,360,367	1,882,973,521	-	2,947,333,888
- Derivative financial liabilities	41,633,438	839,793,486	-	881,426,924
Total	1,105,993,805	2,722,767,007	-	3,828,760,812

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
2021				
Financial assets				
Financial assets at fair value through profit or loss				
- Financial assets at fair value through profit or loss	10,397,889,913	5,655,960,841	337,195,424	16,391,046,178
- Derivative financial assets	106,049,137	1,832,085,100	-	1,938,134,237
Debt instruments at FVTOCI				
- Bonds issued by corporates	-	701,534,671	-	701,534,671
- Bonds issued by financial institutions	-	132,434,408	-	132,434,408
Other assets at fair value	127,167,093	-	-	127,167,093
Total	10,631,106,143	8,322,015,020	337,195,424	19,290,316,587
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Financial liabilities at fair value through profit or loss	468,638,305	2,675,793,132	-	3,144,431,437
- Derivative financial liabilities	169,972,417	72,060,029	-	242,032,446
Total	638,610,722	2,747,853,161	-	3,386,463,883

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

	Financial assets/ financial liabilities	Fair value as at 2022	Fair value as at 2021	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
1)	Financial assets (liabilities) at fair value through profit or loss - listed equity securities	Listed in Hong Kong: HK$2,669,347,090 (HK$808,860,361) Listed outside Hong Kong: HK$6,624,890,569 (HK$236,233,468)	Listed in Hong Kong: HK$2,684,804,410 (HK$467,121,419) Listed outside Hong Kong: HK$7,446,755,661 (HK$1,516,886)	Level 1	Quoted closing prices in an active market	N/A
2)	Financial assets (liabilities) at fair value through profit or loss - listed fund investments	Listed in Hong Kong: HK$146,573,311 Listed outside Hong Kong: HK$455,250,420 (HK$19,266,538)	Listed in Hong Kong: HK$99,197,466 Listed outside Hong Kong: HK$167,132,376	Level 1	Quoted closing prices in an active market	N/A
3)	Financial assets at fair value through profit or loss - Unlisted funds	HK$510,214,923	HK$4,826,081,302	Level 2	Measured at fair value based on the net asset value reported by the fund manager	N/A
4)	Financial assets at fair value through profit or loss - Unlisted funds	Nil	HK$23,973,802	Level 3	Recent transaction price	N/A
5)	Financial assets at fair value through profit or loss - Unlisted bonds or trade over-the-counter	HK$2,118,950,099	HK$756,999,356	Level 2	Measured at fair value based on quoted price	N/A
6)	Financial assets at fair value through profit or loss - Unlisted bonds or trade over-the-counter	HK$ 20,029,518	HK$50,929,391	Level 3	Measured at comparable bonds with quoted price	Selection of comparable bonds
7)	Financial assets at fair value through profit or loss - Unlisted equity securities	HK$155,042,282	HK$262,292,231	Level 3	Backsolve method, guideline companies method and option pricing method	2022: Lack of market discount: 12%-13% (2021: 4.4%-11.9%) Risk-free rate: 2.35%-4.17% (2021: 1.02%-1.24%) Volatility: 41.7%-64.1% (2021: 46.4%-51.7%)

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

	Financial assets/ financial liabilities	Fair value as at 2022	Fair value as at 2021	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
8)	Financial (liabilities) at FVTPL - Loco London gold	Nil	(HK$137,483,224)	Level 2	Measured at fair value based on quoted price observable from LMBA Gold Price	N/A
9)	Financial assets (liabilities) at FVTPL - Structured notes, bond-linked and equity-linked financial instruments	Nil (HK$1,882,973,521)	HK$72,880,183 (HK$2,538,309,908)	Level 2	Calculated from underlying price observable from the market	N/A
10)	Derivative financial assets (liabilities) - Commodity future contracts	HK$17,894,614 (HK$32,992,877)	HK$64,099,486 (HK$164,637,861)	Level 1	Quoted prices in an active market	N/A
11)	Derivative financial assets (liabilities) - Index future contracts	HK$8,251,809 (HK$5,696,362)	HK$39,077,575 (HK$3,887,838)	Level 1	Quoted closing prices in an active market	N/A
12)	Derivative financial assets (liabilities) - Commodity swap contracts	HK$76,322,616 (HK$95,927,466)	HK$87,859,555 (HK$21,356,501)	Level 2	Calculated from underlying price observable from the market	N/A
13)	Derivative financial assets (liabilities) - Foreign exchange contracts	HK$7,839,410 (HK$111,232)	HK$1,862,916 (HK$650,208)	Level 1	Quoted closing prices in an active market	N/A
14)	Derivative financial assets (liabilities) - Foreign exchange contracts	HK$26,897,338 (HK$17,855,929)	Nil	Level 2	Measured at fair value based on quoted price	N/A
15)	Derivative financial assets (liabilities) - Interest rate swap	HK$27,650,742 (HK$782,326)	HK$7,565,659 (HK$14,862,098)	Level 2	Measured at fair value based on quoted price	N/A
16)	Derivative financial assets (liabilities) - Commodity spot contracts	HK$1,497,385 (HK$10,709,697)	HK$4,708,250 (HK$4,081,013)	Level 2	Measured at fair value based on quoted price	N/A
17)	Derivative financial assets - Credit default swap	HK$572,136	Nil	Level 2	Measured at fair value based on quoted price	N/A
18)	Derivative financial assets (liabilities) - Equity swaps	HK$41,673,831 (HK$40,272,844)	HK$9,404,751 (HK$29,940,147)	Level 2	Measured at fair value based on quoted price	N/A

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

	Financial assets/ financial liabilities	Fair value as at 2022	Fair value as at 2021	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
19)	Derivative financial assets (liabilities) - Equity options	HK$6,290,000 (HK$791,200)	HK$1,009,160 (HK$796,510)	Level 1	Quoted closing prices in an active market	N/A
20)	Derivative financial (liabilities) - Equity options	(HK$3,700,158)	(HK$1,820,270)	Level 2	Measured at fair value based on quoted price	N/A
21)	Derivative financial assets (liabilities) - Portfolio Swap	HK$673,491,484 (HK$648,008,719)	HK$1,722,546,885	Level 2	Calculated from underlying price observable from the market	N/A
22)	Derivative financial assets (liabilities) - Debt futures	HK$5,205,968 (HK$2,041,767)	Nil	Level 1	Quoted closing prices in an active market	N/A
23)	Derivative financial assets (liabilities) - Foreign exchange swaps	HK$16,059,529 (HK$22,536,347)	Nil	Level 2	Measured at fair value based on quoted price	N/A
24)	Debt instruments at FVTOCI - Bonds issued by financial institutions	HK$1,248,761,928	HK$132,434,408	Level 2	Measured at fair value based on quoted price	N/A
25)	Debt instruments at FVTOCI - Bonds issued by corporates	HK$594,229,584	HK$701,534,671	Level 2	Measured at fair value based on quoted price	N/A
26)	Debt instruments at FVTOCI - Bonds issued by governments	HK$343,380,405	Nil	Level 2	Measured at fair value based on quoted price	N/A
27)	Equity instruments at FVTOCI - Listed equity securities	HK$101,076,320	Nil	Level 1	Quoted closing prices in an active market	N/A
28)	Other assets at fair value	HK$284,330,081	HK$127,167,093	Level 1	Quoted closing prices from LMBA precious metal price	N/A

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period.

Reconciliation of Level 3 fair value measurements of financial assets:

	Unlisted securities HK$
At 1 January 2021	272,809,703
Fair value gains	15,943,621
Purchased	216,763,400
Disposals	(53,588,264)
Transfer to level 1	(114,733,036)
At 31 December 2021	337,195,424
Fair value losses	(33,057,380)
Purchased	58,440,000
Disposals	(23,973,802)
Transfer to level 1	(163,532,442)
At 31 December 2022	175,071,800

The above total (losses) gains for the year ended 31 December 2022 recognised in profit or loss of HK$33,057,380 (2021: HK$15,943,621) are included in change in fair value of financial assets and liabilities at fair value through profit or loss.

For fair value measurement at Level 3, changing one or more of the inputs to the reasonably possible alternative assumptions would not change the fair value significantly.

Other than the transfer from Level 3 to Level 1 upon listing of the equity investments, there was no other transfers between Level 2 and Level 3, and no transfers between Level 1 and Level 2 for the years ended 31 December 2022 and 2021.

7. REVENUE AND INTEREST INCOME

	2022 HK$	2021 HK$
Revenue from contracts with customers		
Commission from:		
- dealing in securities and futures contracts	267,937,065	438,958,427
- placing and underwriting	7,213,358	85,937,099
Financial advisory income	38,525,097	28,292,131
Fund and asset management fees income	5,033,503	11,592,886
Fund administration fees income	235,559	-
Dividends income	190,313,102	32,560,475
	509,257,684	597,341,018

For the year ended 31 December 2022, included in the financial advisory income an amount of HK$12,890,187 (2021: HK$14,634,769) was recognised at point in time and HK$25,634,910 (2021: HK$13,657,362) was recognised over time.

	2022 HK$	2021 HK$
Interest income from:		
- clients	244,169,096	406,887,361
- financial institutions	167,976,277	32,164,487
- brokers	4,335,808	2,465,854
- over-the-counter counterparties	4,884,403	5,139,297
- debt instruments at amortised cost	8,167,685	9,075,444
- debt instruments at FVTOCI	23,002,054	72,511,628
	452,535,323	528,244,071

8. OTHER INCOME AND GAINS

	2022 HK$	2021 HK$
Handling fees income	18,380,274	28,907,740
Net exchange gain	-	5,447,727
Government grants	5,349,366	176,799
Others	14,547,946	30,518,589
	38,277,586	65,050,855

During the current year, included in the amount, the Group recognised government grants of HK$4,800,000 in respect of the Employment Support Scheme provided by the Hong Kong government.

9. (LOSS) PROFIT BEFORE TAXATION

	2022 HK$	2021 HK$
(Loss) profit before taxation has been arrived at after charging:		
Auditor's remuneration	2,694,931	2,578,664
Depreciation of right-of-use assets	32,769,272	35,989,007
Information technology maintenance	61,280,130	59,121,110
Directors' remuneration		
- fees	-	-
- other emoluments	11,176,717	12,491,389
- contributions to mandatory provident fund	218,101	257,282
Other staff costs		
- salaries, bonus and allowances	317,207,537	445,402,693
- contributions to mandatory provident fund	22,850,413	19,264,730

10. FINANCE COSTS

	2022 HK$	2021 HK$
Interest on bank borrowings	158,685,411	203,653,920
Interest on a client account	1,018,996	1,155,829
Interest to brokers	20,875,779	4,544,390
Interest on financial assets sold under repurchase agreements and other borrowings	38,992,665	30,950,264
Interest on lease liabilities	2,487,358	2,831,095
Interest on short-term notes	9,841,338	937,691
Interest on long-term note	54,873,566	22,885,073
	286,775,113	266,958,262

11. EXPECTED CREDIT LOSSES, NET

	2022 HK$	2021 HK$
Recognition (reversal) of expected credit losses on trade receivables from cash and margin clients	26,938,935	(677,486)
(Reversal) recognition of expected credit losses on trade receivables arising from corporate finance activities, asset management activities and other receivables	(29,791)	2,208,933
(Reversal) recognition of expected credit losses on debt instruments at FVTOCI	(18,266,415)	6,932,199
Expected credit losses on debt instruments at amortised cost	64,422,234	28,784,383
	73,064,963	37,248,029

12. TAXATION

	2022 HK$	2021 HK$
Current tax		
Provision for the year	2,128,311	154,444,944
Over provision in prior years	(791,828)	(1,633,646)
	1,336,483	152,811,298
Deferred tax (see note 17)		
Current year	5,487,155	(3,455,519)
Tax charge for the year	6,823,638	149,355,779

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax ("EIT") and Implementation Regulation of the EIT Law, the tax rate of subsidiary of the Company is 25% for both years.

Under the Corporation Tax Act of the United Kingdom, the Corporation Tax is calculated at 19% (2021: 19%), of the estimated assessable profits of subsidiary of the Company for both years.

Under the Corporation Tax Act of Republic of Korea, the Corporation Tax is calculated at 22% (2021: 22%), of the estimated assessable profits of subsidiary if it is more than KRW200,000,000 and not exceed KRW20,000,000,000.

The tax charge for the both years can be reconciled to the (loss) profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 HK$	2021 HK$
(Loss) profit before taxation	(297,435,707)	1,025,674,050
Tax at income tax rate of 16.5% (2021:16.5%)	(49,076,892)	169,236,220
Tax effect of expense that are not deductible	57,013,904	14,121,102
Tax effect of income that are not taxable	(53,126,323)	(39,183,201)
Overprovision in respect of prior years	(791,828)	(1,633,646)
Utilisation of tax losses previously not recognised	(2,129)	(1,240,398)
Tax effect of temporary difference not recognised	220,442	761,913
Effect of different tax rates of subsidiaries operating in other jurisdiction	(803,137)	748,277
Tax effect of the tax losses not recognised	56,396,138	8,081,930
Others	(3,006,537)	(1,536,418)
Tax charge for the year	6,823,638	149,355,779

12. TAXATION - continued

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$447,323,000 (2021: HK$120,668,000) available for offset against future profits.

Other than an amount of HK$3 million (2021: nil) as at 31 December 2022, no deferred tax asset has been recognised in respect of remaining estimated tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$3,580,390 (2021: HK$10,968,102). No deferred tax assets have been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

13. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$	Furniture, fixtures and office equipment HK$	Computer equipment HK$	Motor vehicles HK$	Total HK$
COST					
At 1 January 2021	34,872,831	6,151,357	103,824,771	1,387,755	146,236,714
Additions	-	29,920	6,340,518	-	6,370,438
Disposal	-	-	-	-	-
Eliminated on write-off	(972,907)	(2,882,272)	(61,956,743)	-	(65,811,922)
Exchange difference	15,961	(51,082)	(108,135)	-	(143,256)
At 31 December 2021	33,915,885	3,247,923	48,100,411	1,387,755	86,651,974
Additions	-	28,875	8,099,119	-	8,127,994
Disposal	-	-	-	-	-
Eliminated on write-off	-	-	-	-	-
Exchange difference	(1,789)	(26,201)	(64,811)	-	(92,801)
At 31 December 2022	33,914,096	3,250,597	56,134,719	1,387,755	94,687,167
DEPRECIATION AND AMORTISATION					
At 1 January 2021	16,682,452	3,567,912	90,713,762	1,334,838	112,298,964
Provided for the year	6,067,311	439,400	11,087,108	52,917	17,646,736
Disposal	-	-	-	-	-
Eliminated on write-off	(972,907)	(2,882,272)	(61,956,743)	-	(65,811,922)
Exchange difference	14,214	(30,759)	(110,134)	-	(126,679)
At 31 December 2021	21,791,070	1,094,281	39,733,993	1,387,755	64,007,099
Provided for the year	5,000,508	588,603	6,086,084	-	11,675,195
Disposal	-	-	-	-	-
Eliminated on write-off	-	-	-	-	-
Exchange difference	(1,820)	(20,682)	(62,876)	-	(85,378)
At 31 December 2022	26,789,758	1,662,202	45,757,201	1,387,755	75,596,916
CARRYING VALUES					
At 31 December 2022	7,124,338	1,588,395	10,377,518	-	19,090,251
At 31 December 2021	12,124,815	2,153,642	8,366,418	-	22,644,875

13. PROPERTY AND EQUIPMENT - continued

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	20% - 60%
Computer equipment	20% - 33.3%
Motor vehicles	20%

14. RIGHT-OF-USE ASSETS

	Office premises HK$	Motor vehicles HK$	Total HK$
As at 31 December 2022			
Carrying amount	94,548,862	169,899	94,718,761
As at 31 December 2021			
Carrying amount	121,630,950	248,830	121,879,780
For the year ended 31 December 2022			
Depreciation charge	32,754,079	15,193	32,769,272
For the year ended 31 December 2021			
Depreciation charge	35,972,737	16,270	35,989,007

	Year ended 31.12.2022 HK$	Year ended 31.12.2021 HK$
Expense relating to short-term leases	469,092	583,351
Total cash outflow for leases	34,419,967	36,440,965
Additions to right-of-use assets	5,664,353	39,300,638

For both years, the Group leases various offices and motor vehicles for its operations. Lease contracts are entered into for fixed term of 2 years to 6 years (2021: 2 years to 6 years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for motor vehicles and recognise as the short-term lease expense.

15. GOODWILL

	HK$
COST AND CARRYING VALUE	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	42,764,486

For the purpose of impairment testing, goodwill has been allocated to a single cash generating unit ("CGU"), representing securities and futures dealing. During the year ended 31 December 2022, management of the Group determines that there are no material impairments (2021: nil) as the recoverable amount of the CGU containing goodwill exceeds its carrying amount.

The basis of the recoverable amounts of the CGU and their major underlying assumptions are as follows:

The recoverable amounts of this CGU are determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates and expected turnover and direct costs during the period. Management estimates discount rates using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU. The discount rates are made with reference to prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited. Turnover and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares a 3-year cash flow forecast derived from the most recent financial information and financial budget approved by management of the Group and the weighted average cost of capital is 6.53% (2021: 5.6%) that the Group uses to discount the cash flow forecast.

16. INTANGIBLE ASSETS, STATUTORY DEPOSITS AND OTHER RECEIVABLES

Intangible assets

	Trading right of HKEX, HKFE HK$	Trading right of CME HK$	Software HK$	Total HK$
COST				
At 1 January 2021	1,700,000	20,401,549	6,992,397	29,093,946
Additions	-	-	265,736	265,736
Transfer from other receivable	-	-	25,241,935	25,241,935
At 31 December 2021	1,700,000	20,401,549	32,500,068	54,601,617
Transfer from other receivable	-	-	10,496,534	10,496,534
At 31 December 2022	1,700,000	20,401,549	42,996,602	65,098,151
AMORTISATION AND IMPAIRMENT				
At 1 January 2021	1,700,000	7,782,637	1,240,203	10,722,840
Amortisation	-	-	5,847,127	5,847,127
Impairment loss recognised	-	-	-	-
At 31 December 2021	1,700,000	7,782,637	7,087,330	16,569,967
Amortisation	-	-	6,612,883	6,612,883
Impairment loss recognised	-	-	-	-
At 31 December 2022	1,700,000	7,782,637	13,700,213	23,182,850
CARRYING VALUES				
At 31 December 2022	-	12,618,912	29,296,389	41,915,301
At 31 December 2021	-	12,618,912	25,412,738	38,031,650

The above intangible assets, other than the trading rights with CME, have finite useful lives. Trading rights with HKEX and HKFE and software are amortised on a straight-line basis over 10 years and 5 years respectively.

CME trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives. No impairment loss is recognised during the year ended 31 December 2022 and 2021 based on the fair value less cost to sell of the CME trading rights.

16. INTANGIBLE ASSETS, STATUTORY DEPOSITS AND OTHER RECEIVABLES - continued

Statutory deposits and other receivables

	2022 HK$	2021 HK$
SEHK Options Clearing House Limited	3,846,421	2,324,832
Hong Kong Securities Clearing Company Limited	43,829,344	56,004,751
Stock Exchange of Hong Kong Limited	800,000	800,000
Chicago Metal Exchange ("CME")	-	-
Hong Kong Futures Exchange	2,859,894	4,662,452
Shanghai Gold Exchange	1,791,172	1,956,947
Other receivables	18,384,758	7,765,634
	71,511,589	73,514,616

17. DEFERRED TAXATION

The following is the analysis of the deferred tax asset (liabilities), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2022 HK$	2021 HK$
Deferred tax assets	6,371,130	11,620,238
Deferred tax liabilities	(3,727,323)	(3,442,636)
	2,643,807	8,177,602

The following is the deferred tax asset (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Difference between depreciation and tax allowance HK$	ECL provision HK$	Tax loss HK$	Others HK$	Total HK$
At 1 January 2021	82,663	4,254,836	-	421,687	4,759,186
Exchange difference	(4,293)	-	-	(32,810)	(37,103)
Credit (debit) to profit or loss for the year (note 12)	(1,687,430)	5,091,691	-	51,258	3,455,519
At 31 December 2021	(1,609,060)	9,346,527	-	440,135	8,177,602
Exchange difference	(739)	(31,112)	(1,059)	(13,730)	(46,640)
Credit (debit) to profit or loss for the year (note 12)	(576,919)	(7,866,680)	3,235,120	(278,676)	(5,487,155)
At 31 December 2022	(2,186,718)	1,448,735	3,234,061	147,729	2,643,807

18. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("EQUITY INSTRUMENTS AT FVTOCI")

	2022 HK$	2021 HK$
Equity securities (note)		
Listed in Hong Kong	101,076,320	-

Note: The above listed equity investments represent ordinary shares of entities listed in Hong Kong. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

19. AMOUNTS DUE FROM THE IMMEDIATE HOLDING COMPANY

The amounts as at 31 December 2022 represent the unpaid amount upon termination of the portfolio swap arrangement entered between the Group and its parent company in March 2022.

The amounts are unsecured, interest free and repayable on demand. The directors of the Company expect the amount to be settled over one year.

20. TRADE RECEIVABLES

	2022 HK$	2021 HK$
Trade receivables arising from the business of dealing in securities, futures, corporate finance, asset management and others:		
Cash clients	225,890,523	750,884,516
Margin clients	3,727,816,505	5,290,360,852
OTC counterparties	282,519,390	387,492,101
Clearing houses	566,834,701	499,507,759
Brokers	2,049,352,142	2,041,911,206
Trade receivables from corporate finance activities	8,409,244	67,211,152
Trade receivables from asset management activities	2,609,269	9,063,437
Other trade receivables	66,163,605	66,393,989
Less: Impairment allowance on cash and margin clients	(45,207,558)	(18,268,623)
Less: Impairment allowance on corporate finance activities, asset management activities and other receivables	(8,931,688)	(9,029,324)
	6,875,456,133	9,085,527,065

The normal settlement terms of trade receivables arising from the business of dealing in securities are normally a few days after trade date.

20. TRADE RECEIVABLES - continued

Included in the trade receivables other than corporate finance activities, with a carrying amount of HK$58,527,187 (2021: HK$25,732,189) which are past due at the reporting date for which the directors of the Company considered them as recoverable since the amounts are either fully secured by collateral pledged by the customers or subsequently settled, thus the expected credit losses made in the consolidated financial statement is considered as sufficient.

The trade receivables other than receivables from corporate finance activities which are past due but not credit impaired at the end of respective reporting period, the aging analysis is as follows:

	2022 HK$	2021 HK$
0 - 30 days	50,612,133	14,931,511
Over 30 days	7,915,054	10,800,678
	58,527,187	25,732,189

Among the trade receivables from corporate finance activities, with a carrying amount of HK$8,409,244 (2021: HK$7,831,115) which are past due at the reporting date for which the directors of the Company considered HK$897,211 (2021: HK$1,121,476) as recoverable since the counterparties are financially sounded listed issuers or amounts are subsequently settled. Out of the past due balances, HK$7,512,033 (2021: HK$6,709,639) has been past due 1 year or more and is fully impaired.

The trade receivables from corporate finance activities which are past due at the end of respective reporting period, the aging analysis is as follows:

	2022 HK$	2021 HK$
0 - 30 days	103,835	179,356
31 days - 1 year	793,376	942,120
Over 1 year	7,512,033	6,709,639
	8,409,244	7,831,115

Margin loans due from margin clients are current and repayable on demand for those margin clients subjected to margin calls. Margin clients are required to pledge securities collateral to the Group in order to obtain margin loans for securities trading. At 31 December 2022, the total market value of securities pledged as collateral in respect of margin clients are approximately HK$14,245,337,000 (2021: HK$20,788,873,000). Interest is charged on margin clients at prime rate basis plus a spread and the Group is allowed to repledge the collateral from margin clients. As at 31 December 2022, no client securities from margin client was repledged (2021: nil).

The normal settlement terms of trade receivables from OTC counterparties depend on the settlement terms of derivative contracts, varying from 2 to 14 days after trade date. There is collateral collection arrangement when there is a mark to market loss or subject to other margin requirement for the underlying derivative contracts.

20. TRADE RECEIVABLES - continued

Trade receivables from clearing houses represent pending trades arising from the business of dealing in securities and deposit paid for futures contracts execution, which are normally due within a few days after the trade date in accordance with the settlement requirements in respective markets.

Trade receivables arising from brokers are required to be settled on settlement date determined under the relevant market practices.

The gross carrying amount of trade receivables as at 31 December 2022 and 2021 is disclosed by stage in note 6, along with the details of ECL assessment.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK$	2021 HK$
Equity securities		
Listed in Hong Kong	2,669,347,090	2,684,804,410
Listed outside Hong Kong	6,624,890,569	7,446,755,661
Unlisted	155,042,282	262,292,231
	9,449,279,941	10,393,852,302
Fund investments		
Listed in Hong Kong	146,573,311	99,197,466
Listed outside Hong Kong	455,250,420	167,132,376
Unlisted	510,214,923	4,850,055,104
	1,112,038,654	5,116,384,946
Debt securities		
Unlisted and trade over-the-counter	2,138,979,617	807,928,747
	2,138,979,617	807,928,747
Others		
Structured notes	-	72,880,183
	12,700,298,212	16,391,046,178

Included in the financial assets at fair value through profit or loss, a total amount of HK$3,470,772,251 (2021: HK$5,080,002,590) of equity securities, placed with external brokers, are pledged for margin financing.

As at 31 December 2022 and 2021, the financial assets at fair value through profit or loss are measured at fair value and the valuation details are disclosed in note 6.

22. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 HK$	2021 HK$
Bonds issued by financial institutions	1,248,761,928	132,434,408
Bonds issued by corporates	594,229,584	701,534,671
Bonds issued by governments	343,380,405	-
	2,186,371,917	833,969,079

Bonds issued by financial institutions bear interest at a range from 0% to 5.39% (2021: 1% to 1.25%) per annum with maturity from year 2023 to year 2025 (2021: from year 2022 to year 2024). Bonds issued by corporates bear interest at a range from 2% to 4.63% (2021: 2.3% to 7.5%) per annum with maturity from year 2023 to year 2024 (2021: from year 2022 to year 2023). Bonds issued by governments bear interest at a range from 3% to 4.5% (2021: Nil) per annum with maturity from year 2024 to year 2025 (2021: Nil).

These bonds are held by the Group within a business model whose objective is both to collect their contractual cash flows which are solely payments of principal and interest on the principal amount outstanding and to sell these financial assets. Hence, the investments in above bonds are classified as at FVTOCI.

Details of impairment assessment are set out in note 6.

23. DEBT INSTRUMENTS AT AMORTISED COST

	2022 HK$	2021 HK$
Certificate of deposit	468,065,181	-
Bonds issued by corporates	119,817,375	280,241,071
Less: impairment	(93,572,764)	(29,150,530)
	494,309,792	251,090,541
Analysis as:		
Current	494,309,792	251,090,541

As at 31 December 2022, certificate of deposit bear interest at a range from 0% to 5.4% (2021: Nil) per annum with maturity in year 2023.

A bond issued by a corporate bear interest of 5% per annum with maturity in year 2022, which has defaulted in 2022 (2021: bonds issued by corporates bear interest from 3.88% to 7.13% per annum with maturity in year 2022).

Details of impairment assessment are set out in note 6.

24. BANK BALANCES AND CASH

	2022 HK$	2021 HK$
General accounts		
Bank balances		
- general accounts	12,767,515,234	2,401,156,935
Cash in hand	-	8,615
Cash and cash equivalents	12,767,515,234	2,401,165,550
Segregated accounts		
Bank balances		
- segregated accounts, including term deposits with banks (note)	8,391,972,894	10,375,243,638

Note: The bank balances include current accounts, saving accounts and term deposits at market interest rates. From the Group's ordinary course of business, it receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients' monies are maintained in segregated bank accounts. The Group has recognised the corresponding account payables to respective clients as the Group does not have a currently enforceable right to offset those payables with the deposits placed.

Details of impairment assessment are set out in note 6.

25. TRADE PAYABLES

	2022 HK$	2021 HK$
Trade payables arising from the business of dealing in securities, futures, corporate finance and others:		
Cash clients	4,525,199,931	5,429,333,432
Margin clients	3,879,860,465	5,205,767,534
Clearing houses	1,855,130	162,665,633
Brokers	523,252,964	1,835,740,745
Trade payable to over-the-counter counterparties	979,711,940	477,095,145
Others	31,793,620	25,588,039
	9,941,674,050	13,136,190,528

The trade payables arising from the business of dealing in securities are required to be settled on settlement date determined under the relevant market practices. The trade payables to certain margin and cash clients arising from the business of dealing in securities bear variable interest at commercial rates, and are repayable on demand subsequent to settlement date.

25. TRADE PAYABLES - continued

Trade payable to clients arising from the business of dealing in futures contracts are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options positions. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. The trade payables are non-interest bearing.

Trade payables arising from the brokers and over-the-counter counterparties are required to be settled on settlement date determined under the relevant market practices.

As at 31 December 2022, trade payables amounting to HK$8,391,972,894 (2021: HK$10,375,243,638) were payable to clients in respect of the segregated bank balances received and held for clients in the course of conducting regulated activities. The Group currently does not have an enforceable right to offset these payables with the deposits placed.

26. PAYABLE UNDER SECURITIES LENDING AGREEMENTS

	2022 HK$	2021 HK$
Cash collateral on securities lent	2,140,639,409	-

Cash collateral received under the zero-fee charged securities lending agreement bear interest rates at a range from 1.99% to 5.30% per annum and are repayable upon expiry of relevant securities lending agreements and the relevant stocks lent are returned by the borrower. The Group is still exposed to substantially all the credit risks, market risks and rewards of those securities lent with carrying amount of HK$2,498,369,265 (classified as financial assets at fair value through profit or loss) as at 31 December 2022. These securities are not derecognised from the consolidated financial statements because the Group retains substantially all the risks and rewards of these securities.

27. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The Group enters into certain derivatives contracts for the purpose of proprietary trading activities. The nature and the fair values of derivative instruments held by the Group are set out in the following tables.

	2022		2021	
	Assets HK$	Liabilities HK$	Assets HK$	Liabilities HK$
Commodity future contracts	17,894,614	32,992,877	64,099,486	164,637,861
Commodity swap contracts	76,322,616	95,927,466	87,859,555	21,356,501
Commodity spot contracts	1,497,385	10,709,697	4,708,250	4,081,013
Index future contracts	8,251,809	5,696,362	39,077,575	3,887,838
Foreign exchange contracts	34,736,748	17,967,161	1,862,916	650,208
Equity options	6,290,000	4,491,358	1,009,160	2,616,780
Credit default swaps	572,136	-	-	-
Interest rate swap	27,650,742	782,326	7,565,659	14,862,098
Equity swaps	41,673,831	40,272,844	9,404,751	29,940,147
Debt futures	5,205,968	2,041,767	-	-
Foreign exchange swaps	16,059,529	22,536,347	-	-
Portfolio Swap (note)	673,491,484	648,008,719	1,722,546,885	-
Total	909,646,862	881,426,924	1,938,134,237	242,032,446

The notional amounts of derivative financial instruments are as follows:

	2022 HK$	2021 HK$
Commodity future contracts	1,401,425,500	6,184,417,596
Commodity swap contracts	4,885,086,470	4,633,931,793
Commodity spot contracts	924,607,810	1,412,770,190
Index future contracts	2,169,151,767	1,669,046,617
Foreign exchange contracts	3,299,359,194	1,050,949,474
Equity options	132,849,079	45,680,908
Credit default swaps	38,965,000	-
Interest rate swap	3,225,761,174	8,709,753,760
Equity swaps	2,238,891,263	472,927,804
Debt futures	1,361,440,662	-
Foreign exchange swaps	1,590,473,370	-
Portfolio Swap (note)	6,126,266,268	7,808,608,960
	27,394,277,557	31,988,087,102

27. DERIVATIVE FINANCIAL ASSETS/LIABILITIES - continued

Note: During the year ended 31 December 2021, the Group entered into a total return swap arrangement with its parent company which effectively linked to the performance of a portfolio of listed equity securities and future contracts. The Group also held the underlying listed equity securities and future contracts, as measured at fair value through profit or loss, to eliminate the market risk. The arrangement was terminated in March 2022, and the Group entered into two total return swap arrangements denominated in HK$ and USD with its parent company which effectively linked to the performance of a portfolio of listed equity securities and future contracts. The Group also held the underlying listed equity securities and future contracts, as measured at fair value through profit or loss, to eliminate the market risk.

28. OTHER ASSETS AT FAIR VALUE

	2022 HK$	2021 HK$
Other assets		
Physical precious metal, at fair value	284,330,081	127,167,093

The other assets at fair value represent physical precious metal owned by the Group at the end of reporting period. The fair value is based on the quoted commodity market prices.

29. BANK BORROWINGS

	2022 HK$	2021 HK$
Within one year	12,844,114,220	6,379,167,851
After one year but within five years	300,139,628	1,198,067,518
	13,144,253,848	7,577,235,369
Amounts shown under current liabilities	12,844,114,220	6,379,167,851
Amounts shown under non-current liabilities	300,139,628	1,198,067,518
	13,144,253,848	7,577,235,369

As at 31 December 2022, the Group's bank borrowings bear interest rates at a range of 1.85% to 6.27% (2021: 0.89% to 1.71%).

30. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022 HK$	2021 HK$
Equity securities		
Listed in Hong Kong	808,860,361	467,121,419
Listed outside Hong Kong	236,233,468	1,516,886
	1,045,093,829	468,638,305
Fund investments		
Listed outside Hong Kong	19,266,538	-
Others		
Structured notes, bond-linked and equity-linked financial instruments issued	1,882,973,521	2,538,309,908
Loco London gold	-	137,483,224
	1,882,973,521	2,675,793,132
	2,947,333,888	3,144,431,437

Included in financial liabilities at fair value through profit or loss are financial liabilities designated at FVTPL are structured notes, bond-linked and equity-linked financial instruments issued amounting to total HK$1,882,973,521 (2021: HK$2,538,309,908) issued by the Group. The risk of economic exposure of these financial products is primarily hedged by certain financial instruments held by the Group classified as financial assets at FVTPL. The Group managed relevant assets and liabilities on a pair basis and such relevant liabilities are valued with direct reference to its hedging assets.

As at 31 December 2022 and 2021, the financial liabilities at fair value through profit or loss are measured at fair value and the valuation details are disclosed in note 6.

31. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS AND OTHER BORROWINGS

	31 December 2022 HK$	31 December 2021 HK$
Financial assets sold under repurchase agreements		
Analysed by collateral type:		
Debt securities	2,832,068,487	1,130,073,115
Analysed by market:		
Trade over-the-counter	2,832,068,487	1,130,073,115
Analysed for reporting purposes:		
Current	2,832,068,487	1,130,073,115

31. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS AND OTHER BORROWINGS - continued

Sales and repurchase agreements are transactions in which the Group sells a debt security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities are not derecognised from the consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 31 December 2022, the Group entered into repurchase agreements with financial institutions to sell debt securities recognised as financial assets at fair value through profit or loss with carrying amount of HK$1,810,693,570 (31 December 2021: HK$680,004,642), as debt instruments at fair value through other comprehensive income with carrying amount of HK$1,194,940,452 (31 December 2021: HK$594,520,468) and as debt instruments at amortised cost with carrying amount of HK$Nil (31 December 2021: HK$121,864,665) which subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

Other borrowings

As at 31 December 2022, the Group has an outstanding borrowing amounting to HK$1,483 million (2021: HK$2,044 million) from a financial institution with an interest rate of 5.75% - 5.97% per annum and a maturity date within one to three months (2021: 1.30% - 1.35% per annum and a maturity date within one to two months).

32. TRANSFER OF FINANCIAL ASSETS

	Carrying amount of pledged assets		Related liabilities (note)	
	2022	2021	2022	2021
	HK$	HK$	HK$	HK$
Financial assets				
Debt instruments:				
at fair value through profit or loss	1,810,693,570	680,004,642	1,753,442,471	535,113,796
at FVTOCI	1,194,940,452	594,520,468	1,078,626,016	497,056,571
at amortised cost	-	121,864,665	-	97,902,748
	3,005,634,022	1,396,389,775	2,832,068,487	1,130,073,115

Note: The related liabilities of those pledged debt securities are financial assets sold under repurchase agreements disclosed in note 31.

33. LEASE LIABILITIES

	31 December 2022 HK$	31 December 2021 HK$
Within one year	28,863,821	31,683,782
Within a period of more than one year but not more than two years	18,700,379	28,401,630
Within a period of more than two years but not more than five years	50,734,950	64,481,994
	98,299,150	124,567,406
Less: Amount due for settlement within 12 months shown under current liabilities	(28,863,821)	(31,683,782)
Amount due for settlement after 12 months shown under non-current liabilities	69,435,329	92,883,624

The weighted average incremental borrowing rates applied to lease liabilities range from 1.63% to 6.24% (2021: from 1.68% to 3.5%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	TWD HK$	GBP HK$	KOR HK$
As at 31 December 2022	183,617	4,197,020	507,330
As at 31 December 2021	404,460	-	2,776,653

34. SHORT-TERM NOTES ISSUED

Name	As at 1 January 2022	Issuance/ interest accrued	Redemption/ interest paid	As at 31 December 2022
Principal of structure notes	483,432,000	2,513,360,800	(2,957,827,800)	38,965,000
Interest accrued	737,691	9,841,338	(10,386,799)	192,230
Total	484,169,691	2,523,202,138	(2,968,214,599)	39,157,230

34. SHORT-TERM NOTES ISSUED - continued

Name	As at 1 January 2021	Issuance/ interest accrued	As at 31 December 2021
Principals of structure notes	-	483,432,000	483,432,000
Interest accrued	-	737,691	737,691
Total	-	484,169,691	484,169,691

During the year, China Merchants Securities Investment Management (HK) Co., Limited, a subsidiary of the Group issued short-term notes of US$232 million and HK$693 million (2021: US$12 million and HK$390 million). The note is unsecured, interest-bearing at 4.8% per annum (2021: 0.74% to 1.2% per annum) and repayable in 2023 (2021: repayable in 2022). The note amounting HK$39,157,230 (2021: HK$383,758,597) is guaranteed by China Merchants Securities International Company Limited. The note is carried at amortised cost.

35. LONG-TERM NOTE ISSUED

	2022 HK$	2021 HK$
Long-term notes issued		
- Non current	3,904,010,042	3,902,536,450

On 16 September 2021, CMS International Gemstone Limited, a subsidiary of the Group issued long-term notes of US$500,000,000. The notes are unsecured, guaranteed by China Merchants Securities International Company Limited, interest-bearing at 1.295% per annum and repayable on 16 September 2024. The notes are carried at amortised cost.

As at 31 December 2022, fair value of the long-term note issued is amounted to HK$3,612,289,290 (2021: HK$3,831,381,987).

36. SHARE CAPITAL

	Number of shares	Amount HK$
Issued and fully paid:		
At 1 January 2021	4,103,627,390	4,103,627,390
Shares issued (note)	2,350,000,000	2,350,000,000
At 31 December 2021, 1 January 2022 and 31 December 2022	6,453,627,390	6,453,627,390

Note: The new shares issued rank pari passu in all respects with the existing shares.

37. INVESTMENTS REVALUATION RESERVE

	HK$
At 1 January 2021	20,395,011
Fair value loss on investments in debt instruments at FVTOCI	(103,046,958)
Reclassification to profit or loss	74,651,013
ECL on debt instruments at FVTOCI	6,932,199
At 31 December 2021	(1,068,735)
Fair value loss on investments in debt instruments at FVTOCI	(28,624,894)
Reclassification to profit or loss	34,819,654
Fair value loss on investments in equity investments at FVTOCI	(3,173,819)
Disposal of investments in equity instruments at FVTOCI	7,731,368
ECL on debt instruments at FVTOCI	(18,266,415)
At 31 December 2022	(8,582,841)

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of debt/equity instruments at FVTOCI that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those debt instruments at FVTOCI are disposed of or are determined to be impaired. Gains and losses arising from revaluation of equity instruments at FVTOCI will not be reclassified to profit or loss in subsequent periods.

38. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2022 and 2021, the Company issued financial guarantees to banks in respect of banking facilities granted to its subsidiaries. Bank borrowings of HK$455,860,000 (2021: HK$500,000,000) have been drawn down by a subsidiary and recognised in the consolidated statement of financial position as liabilities.

39. CAPITAL COMMITMENTS

In accordance with an investment agreement signed between the Group and an investment fund, the Group committed to make a capital contribution of US$10,000,000 (2021: US$10,000,000) into the investment fund. As at 31 December 2022, the Group has made capital contribution of US$7,650,201 (2021: US$7,650,201).

40. RELATED PARTY TRANSACTIONS

The Group itself is part of a larger group of companies under China Merchants Group Limited and its subsidiaries (hereinafter collectively referred to as the "CM Group") which is controlled by the PRC government.

Apart from the transactions with the CM Group disclosed below, the Group may have businesses with other government-related entities. The directors of the Company are of the opinion that such transactions with other state-controlled entities are not individually or collectively significant to the Group's operations.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions and balances between the Group and other related parties are disclosed below.

40. RELATED PARTY TRANSACTIONS - continued

During both current and prior years, the Group entered into the following transactions with its related parties that are within CM Group:

	2022 HK$	2021 HK$
Interest expense paid for bank borrowings from the CM Group that act as an authorised institution	4,956,385	9,021,150
Interest income from bank deposit from the CM Group that act as an authorised institution	5,340,831	1,664,381
Placing and underwriting commission income from CM Group	13,240	3,632,509
Financial advisory income from the CM Group	1,052,711	8,553,900
Commission expense paid to CM Group	8,431	37,595
Interest income from CM Group	25,414	19,796
Gain in fair value of derivative financial instruments from the immediate holding company	1,132,120,212	1,722,546,885

Other than disclosed elsewhere, at the end of the reporting period, the Group has the following balances with its related parties.

	2022 HK$	2021 HK$
Trade receivable from the immediate holding company that act as a broker	297,737,246	307,142,428
Trade receivables from corporate finance activities from the immediate holding company	-	48,364,000
Trade receivables from CM Group that act as a broker	215,712,028	17,252,171
Trade payable to the immediate holding company that act as a broker	-	1,489,602
Interest receivable for bank balances - segregated account deposited with the CM Group that act as an authorised institution	1,026,726	74,949
Bank balances - general account deposited with the associated entity of the CM Group that act as an authorised institution	99,739,290	2,251,013
Bank balances - segregated account deposited with the CM Group that act as an authorised institution	451,728,515	419,329,494
Bank borrowing from the CM Group that act as an authorised institution	455,860,000	500,000,000
Interest payable for bank borrowing from the CM Group that act as an authorised institution	1,831,124	188,004
Derivative financial assets from the immediate holding company	673,491,484	1,722,546,885
Derivative financial liabilities to the immediate holding company	648,008,719	-

Compensation of key management personnel

During the years ended 31 December 2022 and 2021, the compensation of key management personnel is disclosed in note 9.

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2022 HK$	2021 HK$
Non-current assets		
Investments in subsidiaries and controlled structured entities	6,412,603,783	6,412,603,783
Property and equipment	12,311,525	12,594,885
Other receivable	7,119,046	-
Right-of-use assets	89,936,477	119,224,584
Deferred tax asset	1,532,807	1,809,737
Intangible assets	2,483,511	1,799,167
	6,525,987,149	6,548,032,156
Current assets		
Trade receivables	348,872	372,444
Loan to subsidiary	100,000,000	100,000,000
Amounts due from subsidiaries	10,758,810,903	10,997,774,414
Other receivable and prepayment	17,412,995	18,452,610
Tax recoverable	1,644,291	-
Bank balances	6,592,548,524	997,664,957
	17,470,765,585	12,114,264,425
Current liabilities		
Other payables and accrued charges	77,652,053	168,679,428
Amounts due to subsidiaries	1,572,338,056	1,359,070,385
Bank borrowings	11,072,521,014	4,828,463,787
Loan from subsidiary	23,621,615	62,745,709
Lease liabilities	27,561,981	28,971,256
Tax liabilities	-	2,205,745
	12,773,694,719	6,450,136,310
Net current assets	4,697,070,866	5,664,128,115
Total assets less current liabilities	11,223,058,015	12,212,160,271
Capital and reserve		
Share capital	6,453,627,390	6,453,627,390
Reserves	600,845,679	567,494,052
	7,054,473,069	7,021,121,442
Non-current liabilities		
Bank borrowings	200,000,000	1,198,067,518
Loan from subsidiary	3,902,735,744	3,900,556,275
Lease liabilities	65,849,202	92,415,036
	4,168,584,946	5,191,038,829
	11,223,058,015	12,212,160,271

Approved and authorised for issue by the board of directors on 31 March 2023 and are signed on its behalf by:

LU GONGLU
DIRECTOR

ZHANG XING
DIRECTOR

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

	Retained earnings HK$
At 1 January 2021	549,065,959
Profit for the year	18,428,093
At 31 December 2021	567,494,052
Profit for the year	33,351,627
At 31 December 2022	600,845,679

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2022 Directly	2022 Indirectly	2021 Directly	2021 Indirectly	Principal activities
China Merchants Securities (HK) Co., Limited	Hong Kong	Ordinary	HK$5,500,000,000	100%	-	100%	-	Securities dealing and margin financing and advisory on corporate finance
China Merchants Futures (HK) Co., Limited	Hong Kong	Ordinary	HK$200,000,000	100%	-	100%	-	Futures contracts dealing and advising on futures contracts
CMS Fund Services (HK) Limited	Hong Kong	Ordinary	HK$10,000	100%	-	100%	-	Provision of fund services
China Merchants Securities Investment Management (HK) Co., Limited	Hong Kong	Ordinary	HK$400,000,000	100%	-	100%	-	Proprietary trading and lending
CMS Capital (HK) Co., Limited	Hong Kong	Ordinary	HK$5,000,000	100%	-	100%	-	Fund management
CMS Asset Management (HK) Co., Limited	Hong Kong	Ordinary	HK$10,000,000	100%	-	100%	-	Asset management
China Merchants Securities (HK) Finance Co., Limited	Hong Kong	Ordinary	HK$500,000	100%	-	100%	-	Money lending
China Merchants Securities (UK) Co., Limited	United Kingdom	Ordinary	US$22,000,000	100%	-	100%	-	Futures contracts dealing
China Merchants Securities (Singapore) Pte. Ltd.	Singapore	Ordinary	US$1	100%	-	100%	-	Futures contracts dealing

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2022 Directly	2022 Indirectly	2021 Directly	2021 Indirectly	Principal activities
深圳招商致遠咨詢服務有限公司	PRC	Ordinary	RMB3,000,000	100%	-	100%	-	Consulting services
CMS Hong Kong Multi Income Fund	Hong Kong	Participating shares	HK$62,151,086	-	19.11%	-	19.02%	Investment fund
CMS Stable Income Fund SP	Cayman Islands	Class I shares	US$1,837,000	-	19.65%	-	-	Investment fund
CMS Money Market Fund	Cayman Islands	Class I shares	HK$250,000,000	-	21.81%	-	-	Investment fund
China Merchants Securities (Korea) Co., Ltd.	Republic of Korea	Ordinary	KRW 8,523,900,000	100%	-	100%	-	Advisory on corporate finance
CMS Technology Limited Partnership	Cayman Islands	Participating shares	US$11,650,558	-	97.06%	-	97.09%	Investment fund
CMS Agri-Consumer Fund, L.P.	Cayman Islands	Contributed capital	US$16,141,767	-	43.48%	-	43.48%	Investment fund
Humble Easy Limited	British Virgin Island	Class A shares Class B shares	US$1 US$4,920,000	-	98.4%	-	98.4%	Investment in unlisted equities
Bliss Moment Limited	British Virgin Island	Class A shares Class B shares	US$1 US$25,000,000	-	100%	-	100%	Investment in unlisted equities
Mega Vantage Development Limited	British Virgin Island	ordinary shares	US$7,500,000	-	100%	-	100%	Investment in unlisted equities
CMS International Gemstone Limited	British Virgin Island	Ordinary	US$1	100%	-	100%	-	Issued of long-term note
CMS China Opportunities Fund SP	Cayman Islands	Class B shares	US$12,899,890	-	100%	-	100%	Investment fund

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2022 Directly	2022 Indirectly	2021 Directly	2021 Indirectly	Principal activities
China Opportunities Ltd	British Virgin Island	Ordinary	US$12,749,889	-	100%	-	100%	Investment in funds
CMS Chongyang China Equity Fund SP	Cayman Islands	Class B shares	US$4,249,963	-	-	-	100%	Investment fund
CMS Yuance China Equity Fund SP	Cayman Islands	Class B shares	US$4,249,963	-	-	-	89.37%	Investment fund
CMS Wideview China Equity Fund SP	Cayman Islands	Class A shares	US$459,085	-	-	-	100%	Investment fund
		Class B shares	US$4,249,963	-	-	-	100%	Investment fund
九坤策略精选 41 号私募证券投资基金	PRC	Contributed capital	RMB54,067,296	-	91.90%	-	95.90%	Investment fund
聚宽定制十五号私募证券投资基金	PRC	Contributed capital	RMB70,018,084	-	79.06%	-	70.97%	Investment fund
凤翔美元中国私募证券投资基金	PRC	Contributed capital	RMB42,027,000	-	100%	-	100%	Investment fund
苴锐 111 号私募证券投资基金	PRC	Contributed capital	RMB63,941,000	-	-	-	100%	Investment fund
卓识伟业五号私募证券投资基金	PRC	Contributed capital	RMB169,675,000	-	100%	-	100%	Investment fund
高熵海丰元盛 1 号私募固定收益投资基金	PRC	Contributed capital	RMB60,000,000	-	100%	-	100%	Investment fund
高熵鹏利元盛 1 号私募固定收益投资基金	PRC	Contributed capital	RMB50,000,000	-	100%	-	100%	Investment fund

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company				Principal activities
				2022		2021		
				Directly	Indirectly	Directly	Indirectly	
沣京稳健六期私募证券投资基金	PRC	Contributed capital	RMB35,000,000	-	100%	-	100%	Investment fund
招商资管智远君选 FOF23 号单一资产管理计划	PRC	Contributed capital	RMB10,000,000	-	-	-	100%	Investment fund
北天星二号私募证券投资基金	PRC	Contributed capital	RMB13,000,000	-	85.80%	-	85.80%	Investment fund
基研投美好生活 1 号私募证券投资基金	PRC	Contributed capital	RMB51,174,604	-	93.35%	-	94.54%	Investment fund
基研投价值增长 1 号私募证券投资基金	PRC	Contributed capital	RMB141,141,906	-	98.09%	-	91.46%	Investment fund
高熵海蓝元盛私募固定收益投资基金	PRC	Contributed capital	RMB10,120,770	-	91.02%	-	96.78%	Investment fund
复胜盛业三号私募证券投资基金	PRC	Contributed capital	RMB252,044,126	-	91.82%	-	99%	Investment fund
复胜步步高五号私募证券投资基金	PRC	Contributed capital	RMB98,482,354	-	99%	-	99%	Investment fund
金溍中证 500 量化精选 3 号私募证券投资基金	PRC	Contributed capital	RMB10,645,896	-	100%	-	100%	Investment fund

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company				Principal activities
				2022		2021		
				Directly	Indirectly	Directly	Indirectly	
中信期货价值精粹5号单一资产管理计划	PRC	Contributed capital	RMB133,000,000	-	100%	-	100%	Investment fund
Hwabao China Growth Fund SP	Cayman Islands	Class A shares	HK$50,000,000	-	-	-	100%	Investment fund
天谷磐石进取十一号私募证券投资基金	PRC	Contributed capital	RMB49,833,355	-	100%	-	100%	Investment fund
卓识专享三十号私募证券投资基金	PRC	Contributed capital	RMB30,565,957	-	100%	-	100%	Investment fund
珺容九华中性7号私募证券投资基金	PRC	Contributed capital	RMB1,049,200	-	-	-	100%	Investment fund
佳期招垦私募证券投资基金十六期	PRC	Contributed capital	RMB730,470,564	-	100%	-	100%	Investment fund
嘉恳兴丰18号私募证券投资基金	PRC	Contributed capital	RMB4,170,300	-	-	-	100%	Investment fund
裕锦6号私募证券投资基金	PRC	Contributed capital	RMB57,694,547	-	99.74%	-	-	Investment fund
沣沛致享3号私募证券投资基金	PRC	Contributed capital	RMB31,493,540	-	100%	-	-	Investment fund
靖戈奥太娜量化3号私募证券投资基金	PRC	Contributed capital	RMB4,374,199	-	100%	-	-	Investment fund
石智长征私募证券投资基金	PRC	Contributed capital	RMB9,941,108	-	92.60%	-	-	Investment fund

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2022 Directly	2022 Indirectly	2021 Directly	2021 Indirectly	Principal activities
复胜正能量 98 号私募证券投资基金	PRC	Contributed capital	RMB9,546,700	-	100%	-	-	Investment fund
佳期招星私募证券投资基金二十期	PRC	Contributed capital	RMB644,223,725	-	100%	-	-	Investment fund
佳期招星私募证券投资基金二十一期	PRC	Contributed capital	RMB205,240,240	-	100%	-	-	Investment fund
乾上泉中性策略一号私募证券投资基金	PRC	Contributed capital	RMB39,947,996	-	100%	-	-	Investment fund
铭珈未来 5 号私募证券投资基金	PRC	Contributed capital	RMB44,892,458	-	100%	-	-	Investment fund
黑曜 D 私募证券投资基金	PRC	Contributed capital	RMB53,541,000	-	83.59%	-	-	Investment fund
珪宝智投 1 号私募证券投资基金	PRC	Contributed capital	RMB24,114,071	-	96.02%	-	-	Investment fund
象上天阶二号私募证券投资基金	PRC	Contributed capital	RMB22,593,254	-	100%	-	-	Investment fund
象上天阶五号私募证券投资基金	PRC	Contributed capital	RMB6,660,715	-	100%	-	-	Investment fund

The above table lists the subsidiaries and controlled structured entities of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries and controlled structured entities would, in the opinion of the directors, result in particulars of excessive length.

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Other borrowings HK$	Lease liabilities HK$	Bank borrowings HK$	Long-term note issued HK$	Short-term note issued HK$	Total HK$
At 1 January 2022	2,044,113,314	124,567,406	7,577,235,369	3,902,536,450	484,169,691	14,132,622,230
Cash changes:						
New bank and other borrowings raised	2,057,394,841	-	44,063,015,132	-	-	46,120,409,973
New short-term note issued	-	-	-	-	2,513,360,800	2,513,360,800
Repayment of bank and other borrowings	(2,620,652,536)	-	(38,518,046,622)	-	-	(41,138,699,158)
Repayment of short-term note issued	-	-	-	-	(2,957,827,800)	(2,957,827,800)
Repayment of lease liabilities	-	(34,419,967)	-	-	-	(34,419,967)
Interest paid on bank and other borrowings	(13,418,358)	-	(136,635,442)	-	-	(150,053,800)
Interest paid on short-term note issued	-	-	-	-	(10,386,799)	(10,386,799)
Interest paid on long-term note issued	-	-	-	(50,734,862)	-	(50,734,862)
Non-cash changes:						
Finance cost on bank and other borrowings	15,389,705	-	158,685,411	-	-	174,075,116
Finance cost on lease liabilities	-	2,487,358	-	-	-	2,487,358
Finance cost on short-term note issued	-	-	-	-	9,841,338	9,841,338
Finance cost on long-term note issued	-	-	-	54,873,566	-	54,873,566
New lease entered	-	5,718,059	-	-	-	5,718,059
Lease modified	-	(53,706)	-	-	-	(53,706)
Exchange difference	-	-	-	(2,665,112)	-	(2,665,112)
At 31 December 2022	1,482,826,966	98,299,150	13,144,253,848	3,904,010,042	39,157,230	18,668,547,236
At 1 January 2021	659,339,140	118,876,638	4,705,324,925	-	-	5,483,540,703
Cash changes:						
New bank and other borrowings raised	1,389,493,896	-	278,001,578,005	-	-	279,391,071,901
New short-term note issued	-	-	-	-	484,169,691	484,169,691
New long-term note issued	-	-	-	3,879,651,377	-	3,879,651,377
Repayment of bank and other borrowings	(4,719,722)	-	(275,129,667,561)	-	-	(275,134,387,283)
Repayment of lease liabilities	-	(36,440,965)	-	-	-	(36,440,965)
Interest paid on bank and other borrowings	(12,584,321)	-	(203,653,920)	-	-	(216,238,241)
Non-cash changes:						
Finance cost on bank and other borrowings	12,584,321	-	203,653,920	-	-	216,238,241
Finance cost on lease liabilities	-	2,831,095	-	-	-	2,831,095
Finance cost on long-term note issued	-	-	-	22,885,073	-	22,885,073
New lease entered	-	871,077	-	-	-	871,077
Lease modified	-	38,429,561	-	-	-	38,429,561
At 31 December 2021	2,044,113,314	124,567,406	7,577,235,369	3,902,536,450	484,169,691	14,132,622,230

43. INTERESTS IN CONSOLIDATED AND UNCONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including investment funds. For the investment funds where the Group involves as manager and also as investor, and for the investment funds where the third parties act as the investment managers or investment advisors, the Group assesses whether the combination of funds it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that it indicates that the Group is a principal. During the year ended 31 December 2022, (loss) profit contributed by the consolidated investment funds were (HK$287,965,702 loss) (2021: HK$32,467,150 profit).

As at 31 December 2022, the total assets and total liabilities of the consolidated investment funds, were HK$5,289,457,295 and HK$329,933,570 (2021: HK$2,065,323,410 and HK$54,116,947) respectively. Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

For the year ended 31 December 2022, interests held by third-party unit holders/shareholders of HK$25,625,406 (2021: HK$5,133,237) in consolidated structured entities are presented as "change in third-party interests in consolidated investment funds" in the consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK$1,049,860,270 (2021: HK$99,574,540) as at 31 December 2022 are presented as "third-party interests in consolidated investment funds" in the consolidated statement of financial position.

A wholly owned subsidiary of the Company, CMS Asset Management (HK) Co., Limited, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 "Disclosure of interests in other entities". The directors of the Company are of the opinion that the investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds which is not able to exercise control over their operation and has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

CMS Asset Management (HK) Co., Limited receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2022 is HK$2,609,269 (2021: HK$9,063,437) (included in trade receivables) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022 is HK$5,033,503 (2021: HK$11,592,886).

43. INTERESTS IN CONSOLIDATED AND UNCONSOLIDATED STRUCTURED ENTITIES - continued

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

Maximum exposure to loss

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

Financial support

The Group has not provided financial support to any of its unconsolidated structured entities during the years ended 31 December 2022 and 2021, and has no contractual obligations or current intention of providing financial support in the future.

Other information

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
招商證券國際有限公司

Reports and consolidated financial statements
For the year ended 31 December 2021

CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
招商證券國際有限公司

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS	PAGE(S)

DIRECTORS' REPORT

The directors of the Company present their annual report and the audited consolidated financial statements of China Merchants Securities International Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITY

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 are set out in the consolidated statement of profit or loss and other comprehensive income on page 6.

The directors of the Company do not recommend the payment of a final dividend and propose that the profit for the year be retained (2020: nil).

PROPERTY AND EQUIPMENT

Details of the movements in the property and equipment of the Group during the year are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 33 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the financial year and up to the date of this report are:

ZHAO Bin	(appointed on 19 January 2022)
WU Guangyan	(resigned on 19 January 2022)
LU Gonglu	
MA Xiaoli	
ZHANG Xing	
LIAO Jinqiang	
WANG Jinbao	
ZHAN Guifeng	

In accordance with Article 24 of the Company's Articles of Association, all existing directors are not subject to rotation or retirement at the annual general meeting.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS

No transactions, arrangements or contracts of significance in relation to the Company's business to which any of the Company's holding companies, subsidiaries, or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISIONS

At no time during the financial year and up to the date of this directors' report was or is, there any permitted indemnity provision being in force for the benefit of any of the directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint the auditor, Messrs. Deloitte Touche Tohmatsu.

On behalf of the board

LU GONGLU
DIRECTOR

19 April 2022

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED
招商證券國際有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Merchants Securities International Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 6 to 98, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

These charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements - continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 April 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	2021 HK$	2020 HK$
Revenue	7	597,341,018	556,941,968
Interest income	7	528,244,071	454,823,727
Other income and gains	8	65,050,855	109,587,652
Change in fair value of financial assets and liabilities at fair value through profit or loss		(752,835,511)	319,059,751
Net (loss) gain on disposal of financial asset at fair value through other comprehensive income		(74,651,013)	1,376,431
Net trading gains of precious metals		26,953,422	81,042,014
Change in fair value of derivative financial instruments		1,896,226,169	38,636,314
Brokerage fee and commission expenses		(184,794,778)	(144,080,875)
Staff costs	9	(477,416,094)	(358,918,007)
Depreciation and amortisation		(23,493,863)	(23,116,210)
Depreciation on right-of-use asset		(35,989,007)	(37,142,337)
Finance costs	10	(266,958,262)	(209,466,407)
Other operating expenses		(239,888,165)	(192,333,205)
Expected credit losses, net	11	(37,248,029)	(11,592,659)
Impairment allowance on intangible assets		-	(18,991)
Change in third-party interests in consolidated investment funds	40	5,133,237	(4,903,717)
Profit before taxation	9	1,025,674,050	579,895,449
Taxation	12	(149,355,779)	(74,129,890)
Profit for the year		876,318,271	505,765,559
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(6,803,146)	3,684,538
Fair value (loss) gain on debt instruments measured at fair value through other comprehensive income		(103,046,958)	7,804,767
Reclassification adjustment to profit or loss		74,651,013	(1,376,431)
Impairment loss for debt instruments at fair value through other comprehensive income included in profit or loss		6,932,199	12,061,101
Other comprehensive (expense) income for the year, net of income tax		(28,266,892)	22,173,975
Total comprehensive income for the year		848,051,379	527,939,534

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	NOTES	2021 HK$	2020 HK$
Non-current assets			
Property and equipment	13	22,644,875	33,937,750
Right-of-use assets	14	121,879,780	118,820,518
Goodwill	15	42,764,486	42,764,486
Deferred tax asset	17	10,988,814	4,759,186
Intangible assets	16	38,031,650	18,371,106
Statutory deposits and other receivables	16	73,514,616	110,127,097
		309,824,221	328,780,143
Current assets			
Trade receivables	18	9,085,527,065	8,024,462,900
Other receivables and prepayments		36,404,452	30,150,874
Tax recoverable		560,626	411,807
Financial assets at fair value through profit or loss	19	16,391,046,178	7,000,826,021
Debt instruments at fair value through other comprehensive income	20	833,969,079	2,459,739,193
Debt instruments at amortised cost	21	251,090,541	159,156,105
Other assets at fair value	25	127,167,093	473,090,605
Derivative financial assets	24	1,938,134,237	39,417,929
Bank balances and cash	22	12,776,409,188	10,729,407,669
		41,440,308,459	28,916,663,103
Current liabilities			
Trade payables	23	13,136,190,528	12,513,745,862
Bank borrowings	26	6,379,167,851	4,208,256,494
Short-term notes issued	31	484,169,691	-
Tax liabilities		85,578,500	55,870,426
Other payables and accrued charges		267,574,782	163,016,823
Financial liabilities at fair value through profit or loss	27	3,144,431,437	1,570,585,417
Derivative financial liabilities	24	242,032,446	38,582,367
Financial assets sold under repurchase agreements and other borrowings	28	3,174,186,429	3,745,899,889
Lease liabilities	30	31,683,782	36,050,456
Third-party interests in consolidated investment funds	40	99,574,540	22,348,388
		27,044,589,986	22,354,356,122
Net current assets		14,395,718,473	6,562,306,981
Total assets less current liabilities		14,705,542,694	6,891,087,124

	NOTES	2021 HK$	2020 HK$
Capital and reserves			
Share capital	33	6,453,627,390	4,103,627,390
Reserves		3,055,616,500	2,207,565,121
Total equity		9,509,243,890	6,311,192,511
Non-current liabilities			
Bank borrowings	26	1,198,067,518	497,068,431
Long-term note issued	32	3,902,536,450	-
Deferred tax liabilities	17	2,811,212	-
Lease liabilities	30	92,883,624	82,826,182
		5,196,298,804	579,894,613
		14,705,542,694	6,891,087,124

The consolidated financial statements on pages 6 to 98 were approved and authorised for issue by the board of directors on 19 April 2022 and are signed on its behalf by:

LU GONGLU
DIRECTOR

MA XIAOLI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital HK$	Capital reserve HK$	Investments revaluation reserve HK$	Foreign currency translation reserve HK$	Retained earnings HK$	Total HK$
At 1 January 2020	4,103,627,390	(4,800,142)	1,905,574	1,647,874	1,680,872,281	5,783,252,977
Profit for the year	-	-	-	-	505,765,559	505,765,559
Other comprehensive income for the year	-	-	18,489,437	3,684,538	-	22,173,975
Total comprehensive income for the year	-	-	18,489,437	3,684,538	505,765,559	527,939,534
At 31 December 2020	4,103,627,390	(4,800,142)	20,395,011	5,332,412	2,186,637,840	6,311,192,511
Profit for the year	-	-	-	-	876,318,271	876,318,271
Other comprehensive expense for the year	-	-	(21,463,746)	(6,803,146)	-	(28,266,892)
Total comprehensive income for the year	-	-	(21,463,746)	(6,803,146)	876,318,271	848,051,379
Ordinary shares issued	2,350,000,000	-	-	-	-	2,350,000,000
At 31 December 2021	6,453,627,390	(4,800,142)	(1,068,735)	(1,470,734)	3,062,956,111	9,509,243,890

Note: The capital reserve represented the excess of Company's interest in the net fair value of acquiree's identifiable assets and liabilities over cost as a result of the acquisition of additional interest in a subsidiary from non-controlling interests in the year 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 HK$	2020 HK$
OPERATING ACTIVITIES			
Profit before taxation		1,025,674,050	579,895,449
Adjustments for:			
Interest income		(528,244,071)	(454,823,727)
Interest expenses		266,958,262	209,466,407
Impairment on trade receivables		1,531,447	1,537,749
Impairment on intangible assets		-	18,991
Impairment on loan receivables		-	(2,372,338)
Impairment on debt instruments at fair value through other comprehensive income		6,932,199	12,061,101
Impairment allowance on debt instruments at amortised cost		28,784,383	366,147
Dividend income		(32,560,475)	(6,376,187)
Depreciation and amortisation		23,493,863	23,116,210
Depreciation of right-of-use assets		35,989,007	37,142,337
Unrealised fair value changes		(649,564,039)	(95,433,608)
Others		306,049	(358,187)
Operating cash flows before movements in working capital		179,300,675	304,240,344
Decrease in statutory deposits		18,594,450	13,257,099
Change in financial instruments at fair value through profit or loss		(8,855,466,064)	1,246,719,172
Change in financial assets at fair value through other comprehensive income		1,597,374,169	(2,126,770,706)
Change in financial assets at amortised cost		(120,718,819)	(159,522,252)
Change in other assets/liabilities at fair value		339,981,744	136,418,465
Decrease in loan receivables		-	107,979,863
Increase in trade receivables		(1,062,595,612)	(275,220,165)
(Increase) decrease in other receivables and prepayments		(12,564,032)	13,278,583
Increase in bank balances - segregated accounts	22	(1,370,891,409)	(1,261,229,894)
Increase in trade payables		622,444,666	1,708,197,528
Change in derivative financial instruments		(668,495)	29,566,079
Decrease in financial assets sold under repurchase agreements		(1,956,487,634)	(211,300,845)
Increase in other payables and accrued charges		104,557,959	10,511,708
Increase in net assets attributable to holders of third party interests in consolidated investment funds		77,226,152	3,139,662
Cash used in operations		(10,439,912,250)	(460,735,359)
Interest received		527,330,621	455,468,449
Interest paid		(25,003,853)	(55,479,364)
Dividend received		32,560,475	6,376,187
Profits tax paid		(123,252,043)	(39,845,030)
NET CASH USED IN OPERATING ACTIVITIES		(10,028,277,050)	(94,215,117)

	NOTES	2021 HK$	2020 HK$
INVESTING ACTIVITY			
Purchase of property and equipment		(6,370,438)	(1,965,394)
Purchase of intangible assets		(265,736)	(6,992,397)
NET CASH USED IN INVESTING ACTIVITIES		(6,636,174)	(8,957,791)
FINANCING ACTIVITIES			
Proceeds from issue of shares		2,350,000,000	-
New bank borrowings raised	39	278,001,578,005	256,658,156,395
New other borrowings raised	39	1,389,493,896	659,339,140
New short-term note issued	39	484,169,691	-
New long-term note issued	39	3,879,651,377	-
Interest paid on bank borrowings		(203,653,920)	(156,018,288)
Interest paid on other borrowings		(12,584,321)	-
Repayment of bank borrowings	39	(275,129,667,561)	(256,962,938,602)
Repayment of other borrowings	39	(4,719,722)	-
Repayment of lease liabilities	39	(36,440,965)	(39,321,698)
NET CASH FROM FINANCING ACTIVITIES		10,717,826,480	159,216,947
NET INCREASE IN CASH AND CASH EQUIVALENTS		682,913,256	56,044,039
EFFECT OF EXCHANGE RATE CHANGES		(6,803,146)	3,684,538
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,725,055,440	1,665,326,863
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		2,401,165,550	1,725,055,440
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances - general accounts	22	2,401,156,935	1,725,027,066
Cash in hand	22	8,615	28,374
		2,401,165,550	1,725,055,440

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its parent company is China Merchants Securities Co., Ltd., incorporated in the People's Republic of China ("the PRC") and listed on Shanghai Stock Exchange and Hong Kong Stock Exchange and its ultimate holding company is China Merchants Group Limited, a company incorporated in the PRC and directly managed by the State-owned Assets Supervision and Administration Committee of the State Council which is controlled by the PRC government.

The Company continues to act as an investment holding company. The activities of the subsidiaries are set out in note 38 to the consolidated financial statements.

The addresses of the registered office and principal place of business are 48/F., One Exchange Square, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

Amendments to HKFRSs that are mandatorily effective for the current year - continued

2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform - Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 Financial Instruments: Disclosures ("HKFRS 7").

As at 1 January 2021, the Group has several financial liabilities, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of financial liabilities are shown at their carrying amounts.

	HKD Hong Kong Interbank Offered Rate ("HIBOR") HK$	USD London Interbank Offered Rate ("LIBOR") HK$
Financial liabilities		
Bank loans linked to LIBOR	-	852,786,000
Bank loans linked to HIBOR	3,280,000,000	-

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank loans measured at amortised cost. Additional disclosures as required by HKFRS 7 are set out in note 6.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and the related Amendments[3]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[3]
Amendments to HKAS 8	Definition of Accounting Estimates[3]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020[2]

[1] Effective for annual periods beginning on or after 1 April 2021.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after 1 January 2023.
[4] Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and assets, which are stated at fair values as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with HKFRS 16.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights on an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

When the Group is an investor of a fund in which the Group also acts as a fund manager, the Group will determine whether it is a principal or an agent for the purpose of assessing whether the Group controls the relevant fund.

An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority. In determining whether the Group is an agent to the fund, the Group would assess:

- the scope of its decision-making authority over the investee;
- the rights held by other parties;
- the remuneration to which it is entitled in accordance with the remuneration agreements; and
- the decision maker's exposure to variability of returns from other interests that it holds in the investee.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Basis of consolidation - continued

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Business combinations or asset acquisitions

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Business combinations

Acquisitions of businesses are accounted for using acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in October 2010).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Business combinations or asset acquisitions - continued

Business combinations - continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "*Income Taxes*" and HKAS 19 "*Employee Benefits*" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*" are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a gain on bargain purchase.

Non-controlling interests, unless as required by another standards, are measured at acquisition-date fair value except for non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured either at fair value or at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets on a transaction-by-transaction basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment funds

The Group has invested in investment funds. The Group's percentage ownership in the investment funds can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such funds, with control determined based on an analysis of the guidance in HKFRS 10, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the issuer to repurchase or redeem units in such funds for cash. These are presented as "Third-party interests in consolidated investment funds" in the consolidated statement of financial position. Where the Group does not control such funds, they are carried at fair value and classified as financial assets at fair value through profit or loss in the consolidated statement of financial position.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Revenue from contracts with customers - continued

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. The Group shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- The Group has a present right to payment for the asset and a customer is presently obliged to pay for an asset.
- The Group has transferred physical possession of the asset and the customer has obtained physical possession of an asset.
- The customer has accepted the good for service.
- Other indicators of the transfer of control of the good or service to the customer.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Revenue from contracts with customers - continued

Details are as follows:

- Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.

- Handling fee income arising from brokerage business is recognised when the related services are rendered.

- Commission income of the agency custody of securities business is recognised when service are rendered.

- Placing, underwriting and certain financial advisory fees are recognised as income at point in time upon completion of the performance obligation stated in accordance with the terms of the placing or underwriting agreements or deal mandate.

- Fund and asset management fee income and other financial advisory fee income are recognised over time and is measured based on an output method determined under the asset management agreements or financial advisory agreements.

- Investment income from equity investments

  Dividend income from equity investments is recognised when the shareholder's right to receive payment has been established.

Lease

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed. As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Lease - continued

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of motor vehicles that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Lease - continued

The Group as a lessee - continued

Right-of-use assets - continued

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Lease - continued

The Group as a lessee - continued

Lease liabilities - continued

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Property and equipment

Property and equipment are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Dividend income which are derived from the Group's ordinary course of business are presented as revenue.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss and included in interest income. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes interest earned on the financial asset and is included in the "change in fair value of financial assets and liabilities at fair value through profit or loss" line item.

Impairment of financial assets subject to impairment assessment under HKFRS 9

The Group recognises a loss allowance for expected credit losses ("ECL") on financial assets and other items which are subject to impairment under HKFRS 9 (including loan commitments). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables arising from HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(i) Significant increase in credit risk - continued

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets subject to impairment assessment under HKFRS 9 - continued

(v) Measurement and recognition of ECL - continued

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Nature of financial instruments;
- Past-due status;
- Nature of collaterals (e.g. securities collateral, and others);
- Loan to collateral value ratio;
- Nature and size of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For undrawn loan commitments, the loss allowances are the present value of the difference between:

- the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan; and
- the cash flows that the Group expects to receive if the loan is drawn down.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables from cash clients, margin clients, trade receivables from corporate finance activities and asset management activities and loan receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve included in investment revaluation reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the investment revaluation reserve in relation to accumulated loss allowance.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity

Classification of debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Financial liabilities and equity - continued

Financial liabilities at FVTPL - continued

A financial liability other than a financial liability held for trading may be designated as a FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss exclude any interest paid on the financial liability and are included in interest expense in the statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6.

Financial liabilities at amortised cost

Other financial liabilities including trade payables, bank borrowings, short-term notes issued, financial assets sold under repurchase agreements and other borrowings, other payables and long-term note issued are subsequently measured at amortised cost, using the effective interest method.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Repurchase agreements

Financial assets sold under repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are classified as "financial assets at FVTPL". Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are recognised as financial liabilities and presented as "financial assets sold under repurchase agreements" in the consolidated statement of financial position. Repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by a group entity and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognises in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Financial instruments - continued

Derecognition - continued

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Intangible assets

Intangible assets represent rights to trade on the Hong Kong Stock Exchange Limited ("HKEX"), Hong Kong Futures Exchange Limited ("HKFE") and CME Group Inc. ("CME"). Trading rights with finite useful lives that are stated at cost and amortised using the straight-line method over its estimated useful life. Trading rights with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment loss (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gain or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the profit and loss when the asset is derecognised.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash.

Securities borrowing and lending

Cash collateral received under securities lending arrangements is included in trade payables in the consolidated statement of financial position. Income is accrued on a time basis, by reference to the value of stock and the number of days of lending.

Cash collateral paid under securities borrowing arrangements are included in trade receivables in the consolidated statement of financial position. Expense is accrued on a timely basis, by reference to the value of stock and the number of days of borrowing.

Impairment losses on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any.

In addition, intangible assets with infinite useful lives are tested for impairment annually, and wherever there is an indication that they may be impaired. Recoverable amount is the higher of fair values less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Physical precious metals

Physical precious metals held by the Group or borrowed from counterparty for trading purpose are recognised on the consolidated statement of financial position when the group entity becomes a party to the contractual provisions of the instrument.

Physical precious metals held by the Group is derecognised when the contractual rights to the instrument expire, or when it transfers the physical precious metals and substantially all the risks and rewards of ownership of the physical precious metals to another entity. On derecognition of physical precious metals held by the Group, the difference between the carrying amount and the sum of consideration received and receivable is recognised in profit or loss.

Physical precious metals borrowed from counterparty for trading purpose is derecognised when, and only when, the Group's obligations are discharged or cancelled. The difference between the carrying amount and the consideration paid and payable is recognised in profit or loss.

Physical precious metals held by the Group or borrowed from counterparty for trading purpose are initially measured at fair value. Physical precious metals are measured at fair value at the end of the reporting period and classified as other assets or other liabilities at fair value on the consolidated statement of financial position, with any fair value gains or loss recognised in profit or loss and is included in "net trading gains (losses) of precious metals".

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES - continued

3.2 Significant accounting policies - continued

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should not make redundancies during specified period are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the subsidised period.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income and gains".

Income from carried interest

Income from carried interest earned based on the performance of the managed fund/entity ("carried interest") is a form of variable consideration in their contracts with customers to provide investment management services. Carried interest is earned based on fund/entity performance during the period, subject to the achievement of minimum return levels, or high water marks, in accordance with the respective terms set out in each entity's governing agreements. Income from carried interest will not be recognised as revenue until (a) it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, or (b) the uncertainty associated with the variable consideration is subsequently resolved. Income from carried interest is typically recognised as revenue at the later stage of the fund/entity life.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade receivables, debt instruments at FVTOCI, and debt instruments at amortised cost

The provision of ECL is sensitive to changes in estimates. The estimates would include the amount and timing of future cash flows and collateral values when determining impairment allowances. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. Details of expected credit loss are set out in note 6. The information about the Company's trade receivables, debt instruments at FVTOCI and debt instruments at amortised cost are disclosed in notes 18, 20 and 21.

Inputs, assumptions and estimation techniques

ECL of trade receivables, debt instruments at FVTOCI and debt instruments at amortised cost is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 (credit risk has increased significantly since initial recognition) or 3 (credit-impaired) as based on the Group's accounting policies. In assessing whether the credit risk of a financial asset has significantly increased, the Group considered the loan to collateral value ratio, past due days, downgrade of bond ratings as well as qualitatively and quantitatively reasonable and supportable forward-looking information available without undue cost or effort. ECL is the discounted product of expected future cash flows by using the PD, LGD and EAD, after considering the forward-looking information which are available without undue cost or effort. For credit-impaired trade receivable, the management performed individual assessment for each client by considering various factors, including the realisable value of securities or collaterals held by the Group.

Forward-looking information

The calculation of ECL considers forward-looking information through the use of publicly available economic data and forecasts and management judgement to reflect the qualitative factors and through the use of multiple probability weighted scenarios.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Fair value of financial instruments

As described in note 6, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments classified as level 3 under fair value hierarchy. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of level 3 unlisted securities includes the application of some assumptions based on the facts and circumstances that existed as at 31 December 2021, not supported by observable market data. The carrying amount of the level 3 unlisted securities as at 31 December 2021 is HK$337,195,424 (2020:HK$272,809,703). Details of the assumptions used are disclosed in note 6. The directors of the Company considered that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to the shareholder through the optimisation of equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings and lease liabilities, and equity attributable to the shareholder of the Group, comprising issued share capital and reserves as disclosed in consolidated statement of changes in equity.

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with capital. The Group's overall strategy remains unchanged throughout the year.

For certain subsidiaries of the Group, they are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of the SFC. Management monitors, on a daily basis, the subsidiaries' liquid capital to ensure it meets the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules. No non-compliance of the capital requirements imposed by the Securities and Futures (Financial Resources) Rules during the year for these subsidiaries.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2021 HK$	2020 HK$
Financial assets		
Financial assets at fair value through profit or loss	16,391,046,178	7,000,826,021
Debt instruments at FVTOCI	833,969,079	2,459,739,193
Other assets at fair value	127,167,093	473,090,605
Derivative financial assets	1,938,134,237	39,417,929
Financial assets at amortised cost	22,143,786,049	18,935,205,885
Financial liabilities		
Financial liabilities at fair value through profit or loss	3,144,431,437	1,570,585,417
Other liabilities at fair value	-	-
Derivative financial liabilities	242,032,446	38,582,367
Third-party interests in consolidated investment funds	99,574,540	22,348,388
Financial liabilities at amortised cost	28,461,279,216	21,143,464,161

6. FINANCIAL INSTRUMENTS - continued

Offsetting of financial assets and financial liabilities

The following financial assets and financial liabilities are offset in the Group's consolidated statement of financial position; or are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group maintains accounts with the Hong Kong Securities Clearing Company Limited ("HKSCC") through which they conduct securities trading transactions and settlement on a net basis.

In presenting the amounts due from and to HKSCC (included in trade receivables or trade payables), the individual subsidiaries concerned have offset the gross amount of the accounts receivable from and the gross amount of the accounts payable to HKSCC on the same settlement date. The amounts offset and the net balances are shown as follows.

In addition, the Group has a legally enforceable right to set off the trade receivables and payables with its cash and margin clients, in the Group's securities brokerage business (the "brokerage clients") that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis, or to realise the assets and settle the liabilities simultaneously).

	Gross amounts of recognised financial assets after impairment	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amount not offset in the consolidated statement of financial position		
				Financial instruments	Collateral received	Net amount
	HK$	HK$	HK$	HK$	HK$	HK$
2021						
Trade receivable from HKSCC (note)	1,005,724,848	(704,903,267)	300,821,581	(162,665,633)	-	138,155,948
Trade receivable from cash clients	895,218,828	(148,231,168)	746,987,660	(738,017,671)	-	8,969,989
Trade receivable from margin clients	5,405,973,838	(129,984,753)	5,275,989,085	(189,522,358)	(5,080,800,749)	5,665,978
Debt securities under repurchase agreements	1,396,389,775	-	1,396,389,775	(1,130,073,115)	-	266,316,660
Trade receivable from over-the-counter counterparties	559,961,743	(172,469,642)	387,492,101	(142,826,895)	-	244,665,206
Derivative financial assets	1,954,570,573	(16,436,336)	1,938,134,237	(118,034,639)	-	1,820,099,598
	11,217,839,605	(1,172,025,166)	10,045,814,439	(2,481,140,311)	(5,080,800,749)	2,483,873,379
2020						
Trade receivable from HKSCC (note)	1,584,591,903	(1,065,152,012)	519,439,891	(52,405,127)	-	467,034,764
Trade receivable from cash clients	1,312,988,381	(1,020,229,216)	292,759,165	(290,354,504)	-	2,404,661
Trade receivable from margin clients	6,404,842,532	(631,388,968)	5,773,453,564	(342,205,075)	(5,431,205,085)	43,404
Debt securities under repurchase agreements	3,696,930,047	-	3,696,930,047	(3,086,560,749)	-	610,369,298
Trade receivable from over-the-counter counterparties	277,565,145	(182,922,326)	94,642,819	(34,879,840)	-	59,762,979
Derivative financial assets	55,113,440	(15,695,511)	39,417,929	(37,058,798)	-	2,359,131
	13,332,031,448	(2,915,388,033)	10,416,643,415	(3,843,464,093)	(5,431,205,085)	1,141,974,237

6. FINANCIAL INSTRUMENTS - continued

Offsetting of financial assets and financial liabilities - continued

	Gross amounts of recognised financial liabilities HK$	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$	Related amount not offset in the consolidated statement of financial position: Financial instruments HK$	Collateral pledged HK$	Net amount HK$
2021						
Trade payable to HKSCC	(867,568,900)	704,903,267	(162,665,633)	162,665,633	-	-
Trade payable to cash clients	(5,614,591,349)	148,231,168	(5,466,360,181)	738,017,671	-	(4,728,342,510)
Trade payable to margin clients	(5,714,931,112)	129,984,753	(5,584,946,359)	189,522,358	-	(5,395,424,001)
Financial assets sold under repurchase agreements	(1,130,073,115)	-	(1,130,073,115)	1,130,073,115	-	-
Trade payable to over-the-counter counterparties	(649,564,787)	172,469,642	(477,095,145)	30,418,567	-	(446,676,578)
Derivative financial liabilities	(258,468,782)	16,436,336	(242,032,446)	196,188,257	-	(45,844,189)
	(14,235,198,045)	1,172,025,166	(13,063,172,879)	2,446,885,601	-	(10,616,287,278)
2020						
Trade payable to HKSCC	(1,117,557,139)	1,065,152,012	(52,405,127)	52,405,127	-	-
Trade payable to cash clients	(5,409,283,295)	1,020,229,216	(4,389,054,079)	290,354,504	-	(4,098,699,575)
Trade payable to margin clients	(5,872,033,444)	631,388,968	(5,240,644,476)	342,205,075	-	(4,898,439,401)
Financial assets sold under repurchase agreements	(3,086,560,749)	-	(3,086,560,749)	3,086,560,749	-	-
Trade payable to over-the-counter counterparties	(1,093,164,435)	182,922,326	(910,242,109)	55,161,137	-	(855,080,972)
Derivative financial liabilities	(54,277,878)	15,695,511	(38,582,367)	38,550,407	-	(31,960)
	(16,632,876,940)	2,915,388,033	(13,717,488,907)	3,865,236,999	-	(9,852,251,908)

Note: Trade receivables and trade payables to HKSCC are included in trade receivables and trade payables with clearing houses in notes 18 and 23 respectively.

Risk management structure

Since its establishment, the Group has been developing an all-around, innovative and forward-looking risk management system, which is aligned with its operation strategy and focuses on its frontier departments at the business level. The structure of the risk management of the Group consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, or decision-making by the senior management and the Risk Management Committee, check-and-balance and internal controls maintained of relevant risk management departments and direct management of other departments, and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organisation structure system: the first level refers to implementation of effective controls on risk management by all departments; the second level refers to risk management and internal control measures implemented by relevant risk management departments; the third level refers to post-event supervision and evaluation by the Audit and Supervision Department.

The overall risk management duties of departments or posts under the risk management organisation structure are as follows:

(i) the Board of Directors and Risk Management Committee are responsible for considering and approving the Group's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Group's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Group's overall risk management;

6. FINANCIAL INSTRUMENTS - continued

Risk management structure - continued

(ii) the Supervisory Committee of the Group is responsible for supervising and examining the operations of the comprehensive risk management system of the Group;

(iii) the senior management comprising the president and vice presidents of the Group is responsible for the risk management of business operations, determining risk control measures and formulating risk limit indicators on a regular basis by reference to the risk evaluation reports. The Risk Management Committee set up by the senior management is the ultimate risk decision-making body at operation level. The Chief Risk Officer of the Group is responsible for establishing comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Group and providing risk management suggestion on business decisions;

(iv) the Risk Management Department is the leading department in respect of management of market, credit and operational risks of the Group. It is responsible for managing market risk and credit risk, assisting and guiding all units in performing risk management. The Capital Management Department is responsible for managing liquidity risk, and facilitating the establishment of the systems, rules and policies of liquidity risk management. Legal and Compliance Department is responsible for leading the Group's legal and compliance risk management, and assisting in the compliance director on reviewing, supervising and scrutinising compliance issues of the Group. The Administration Department together with the Risk Management Department and other relevant departments promote the management of reputation risk of the company. Internal Audit Department is responsible for monitoring the effectiveness and implementation of the Group's risk management process by audits, and responsible for initiating evaluation of entire internal control system at least once a year;

(v) All departments and wholly-owned subsidiaries of the Company are responsible for directly managing and supervising risks of their own businesses and management scopes.

Financial risk management objectives and policies

Market risk

(i) Currency risk

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Group is mainly exposed to the United States dollars ("USD"), Euro ("EUR") and Renminbi ("RMB").

The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(i) Currency risk - continued

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Assets		Liabilities	
	2021 HK$	2020 HK$	2021 HK$	2020 HK$
USD	18,564,404,923	13,451,191,400	16,559,596,924	9,927,212,871
RMB	6,090,883,162	2,232,430,771	2,314,597,283	1,191,815,425
EUR	4,613,390	5,306,424	811,788	187,404
Others	297,278,359	205,022,218	111,708,979	26,304,251

Foreign currency sensitivity

The following analysis details the Group's sensitivity to a 5% (2020: 5%) changes in Hong Kong dollars against the respective foreign currencies except for USD. The 5% (2020: 5%) is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit before taxation where Hong Kong dollars weakening against the respective currency.

The management considered that the currency between HK$ and USD is pegged under linked-exchange rate system, the effect of change is not significant, accordingly, it is not included in this sensitivity analysis.

If the exchange rate of Hong Kong dollars against the respective foreign currencies of monetary items and derivative financial instruments had been 5% higher/lower:

- Profit before taxation would decrease/increase by approximately HK$198,283,000 (2020: HK$61,223,000) as a result of the exchange difference and change in fair value of derivative financial instruments respectively.

In opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate debt securities included in financial asset at fair value through profit or loss and fixed-rate debt instruments at FVTOCI held by the Group. The Group is exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets and liabilities. Variable interest bearing financial instruments exposed to interest rate risk are mainly margin clients undertaken, balances with banks and bank borrowings carrying interest at prevailing market rates.

The Group's interest rate risk is mainly relating to the fluctuation of best lending rate arising from the Group's trade receivables, market saving interest rate arising from the Group's bank balances and Prime Rate, London Interbank Offered Rate ("LIBOR") and from the Group's bank borrowings and derivatives. The Group's exposure to interest rates on financial instruments is detailed below.

	2021 HK$	2020 HK$
Assets		
Trade receivables (exclude unsettled trade)	4,965,028,951	4,626,375,578
Derivative financial assets	7,565,659	-
Debt instruments at FVTOCI	833,969,079	2,459,739,193
Debt securities included in financial asset at fair value through profit or loss	807,928,747	1,652,276,880
Bank balances	3,926,959,577	3,107,316,881
	10,541,452,013	11,845,708,532
Liabilities		
Bank borrowings	7,577,235,369	4,705,324,925
Derivative financial liabilities	14,862,098	156,325
	7,592,097,467	4,705,481,250

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(ii) Interest rate risk - continued

Interest rate sensitivity

The sensitivity analysis below is determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. For both years ended 2021 and 2020, in view of the current market saving interest rate for bank balances is low, no interest rate sensitivity is prepared for the bank balances as the impact is not significant. A 10 basis point (2020: 10 basis point) change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

For the debt instruments held by the Group, their fair values are sensitive to interest rate movements. A 10 basis points (2020: 10 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. In accordance with the portfolio's policy of the Group, the investment team monitors the portfolio's overall interest rate sensitivity on a daily basis.

At reporting date, if interest rates had been 10 basis point (2020: 10 basis point) higher/lower and all other variables were held constant, the impact to the Group's profit before taxation and other comprehensive income would not be significant.

(iii) Price risk

The Group is exposed to price risk through its derivative financial instruments, other assets/liabilities at fair value and financial assets and liabilities at FVTPL excluding debt instruments. The management manages this exposure by maintaining the investments with appropriate risk level. In addition, price risk was monitored by the management of the Group and will consider hedging the risk exposure should the need arise.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Market risk - continued

(iii) Price risk - continued

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to price risk at the reporting date, the analysis exclude the assets and liabilities which are measured at cost.

If the price of equity investments held and commodity price of the respective financial assets and liabilities at FVTPL and derivative financial instruments had been 1% higher/lower:

- Profit before taxation would increase/decrease by approximately HK$43,018,000 (2020: increase/decrease by approximately HK$37,868,800) as a result of the change in fair value of derivative financial instruments, other assets/liabilities at fair value and financial instruments at fair value through profit or loss excluding debt instruments.

The sensitivity analysis above indicates instantaneous change in the Group's fair value of financial instruments at fair value through profit or loss that would arise assuming that the change in price had occurred at the reporting dates and had been applied to re-measure those financial instruments held by the Group which expose the Group to price risk at the reporting dates. The analysis is performed on the same basis for the prior year.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group.

As at 31 December 2021, the carrying amounts of respective recognised financial assets as stated in the consolidated statement of financial position and the notional amount of credit default swaps as disclosure in note 24 represents the maximum credit exposure. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate impairment losses under HKFRS 9 are made. In this regard, the directors consider that the Group's credit risk is significantly reduced. The Group hold collaterals or other credit enhancements to cover its credit risks associated with receivables from margin clients from brokerage business and does not hold any collaterals or other credit enhancements to cover its credit risks associated with the remaining financial assets.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The Group's exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligation according to their contractual commitment. The Group is primarily exposed to three types of credit risk: (a) risk arising from default of customers to repay debts in businesses of margin financing and stock pledge repurchase trading; (b) risk arising from default of a counterparty to meet its payment obligation in trading of over the counter ("OTC") derivatives; (c) risk of losses arising from the default of customers in brokerage business in respect of trading of securities and other financial products, who are taken the place of to settle due to their insufficiency of funds on settlement dates.

In respect of margin financing and securities lending, securities-backed lending and other financing businesses, the Group has established a multi-level authorisation system for business management and a comprehensive risk management system covering the whole process through due diligence of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

For OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collateral and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

On the basis of credit rating of counterparties, qualification assessment on borrowers, and the quantitative management of collaterals, the Group fully considers the customer portfolio of each credit related transaction, the amount of a single debt, the term of borrowing, the maintenance of collateral ratio and the degree of collateral concentration, etc., to monitor the credit risk of the Group. The potential default losses of credit business are measured on a transaction-to-transaction basis, then the Group's overall credit risk exposure are aggregated, with stress tests and sensitivity analysis as supplement to measurement of credit risks.

The Group uses expected credit loss model to measure the expected credit losses for applicable financial assets and loan commitments. Factors considered in the assessment using the expected credit loss model mainly includes asset categories, probability of default, loss given default, exposure at default, discount rate and forward looking adjustment factors.

The Group uses the following criteria to determine significant increase in credit risks:

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC.

In respect of trade receivables due from clients, individual credit evaluations are performed on all clients including cash and margin clients. Cash clients are required to place deposits as prescribed by the Group's credit policy before execution of any purchase transactions. Receivables due from cash clients are due within the settlement period commonly adopted by the relevant market convention, which is usually within a few days from the trade date. Because of the prescribed deposit requirements and the short settlement period involved, credit risk arising from the trade receivables due from cash clients is considered to be minimal. For margin clients, the Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to its clients. Margin loans due from margin clients are repayable on demand after settlement of pending trades. Market conditions and adequacy of securities collateral of each margin account are monitored by management on a daily basis. Margin calls and forced liquidation will be made where necessary in order to recover the outstanding debts. As at 31 December 2021, the top 5 of margin clients constitute approximately 16% (2020: 21%) of trade receivables from margin clients. The total market value of securities pledged as collateral in respect of these top 5 margin clients are approximately HK$2,181,942,000 (2020: HK$3,296,432,000).

In respect of trade receivables from brokers and clearing houses, credit risks are considered to be limited as the Group normally enters into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

With respect to the credit risk management of corporate financial business and asset management business, the Company formulates credit policy guideline, and enhances credit acceptance and exit policies for corporate and institutional clients, and implements limit control measures to improve the quality of credit exposure.

In respect of trade receivables due from clients, the ECL is calculated on individual basis.

The credit risk on liquid funds which are deposited with several banks with high credit ratings is considered to be minimal.

All of the financial assets of the Group are not past due other than the trade and other receivables. The credit quality of trade receivables of the Group is included in note 18 to the consolidated financial statements.

The credit risk on debt securities classified as FVTPL (included in note 19) held by the Group is limited because the Group has a documented policy in place of spreading the aggregate value of transactions concluded amongst approved counterparties with an appropriate credit quality. The credit ratings of its counterparties are continuously monitored by the Group and rated by well-known rating agencies.

	2021 HK$	2020 HK$
AA	-	7,040,762
A	-	32,079,328
BBB	94,005,896	655,827,954
BB	418,091,142	690,241,293
B	-	181,238,725
CCC	-	-
Non-rated	295,831,709	85,848,818
	807,928,747	1,652,276,880

Note: The grading include the plus and minus grade of the same category.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

During the year ended 31 December 2021 and 2020, the Group mainly invested in bonds issued by PRC corporates. ECL on debt instruments at FVTOCI and amortised cost amounting to HK$6,932,199 (2020: HK$12,061,101) and HK$28,784,383 (2020: HK$366,147) was recognised in the profit or loss during the year ended 31 December 2021.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Debt instruments at FVTOCI/ financial assets at amortised cost
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL - not credit-impaired
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The estimated loss rates for each class of financial assets at amortised cost and debt instruments at FVTOCI are estimated based on historical default rates over the expected life of the respective class of assets and are adjusted for forward-looking information that is available without undue cost or effort, include macroeconomic data such as gross domestic product growth in Hong Kong. The identification of internal credit risk grading for individual financial assets at amortised cost and debt instruments at FVTOCI is regularly reviewed by management to ensure relevant information about specific assets is updated.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The tables below detail the gross carrying amount of the Group's financial assets including debt instruments at FVTOCI, trade receivables from cash clients, margin clients, trade receivables from corporate finance activities and asset management activities, debt instruments at amortised cost and bank balances.

	Notes	External credit rating	Internal credit rating	Stage	2021 Gross carrying amount HK$	2020 Gross carrying amount HK$
Debt instruments at FVTOCI						
Bonds issued by financial institutions	20	A	Low risk	12-month ECL	109,078,492	244,912,419
Bonds issued by financial institutions	20	BBB	Low risk	12-month ECL	23,355,916	-
Bonds issued by corporates	20	A	Low risk	12-month ECL	-	43,321,588
Bonds issued by corporates	20	BBB	Low risk	12-month ECL	324,344,050	779,833,191
Bonds issued by corporates	20	BB	Low risk	12-month ECL	186,915,431	759,400,574
Bonds issued by corporates	20	B	Doubtful	Lifetime ECL - not credit-impaired	63,141,134	-
Bonds issued by corporates	20	B	Low risk	12-month ECL	-	559,098,685
Bonds issued by corporates	20	Non - rated	Low risk	12-month ECL	127,134,056	73,172,736
					833,969,079	2,459,739,193

	Notes	External credit rating	Internal credit rating	Stage	2021 Gross carrying amount HK$	2020 Gross carrying amount HK$
Financial assets at amortised costs						
Trade receivables	18	N/A	Low risk	12-month ECL and lifetime ECL (under simplified approach)	8,879,517,288	7,982,305,984
			Watch list - doubtful	Lifetime ECL - not credit-impaired	155,031,865	41,878,775
			Loss	Credit impaired ECL	78,275,859	25,983,445
					9,112,825,012	8,050,168,204
Debt instruments at amortised cost						
- Bonds issued by corporates	21	BBB	Low risk	12-month ECL	34,430,572	23,275,949
- Bonds issued by corporates	21	BB	Low risk	12-month ECL	129,187,685	55,726,347
- Bonds issued by corporates	21	B	Low risk	12-month ECL	-	80,519,956
- Bonds issued by corporates	21	Non - rated	Doubtful	Lifetime ECL - not credit-impaired	116,622,814	-
					280,241,071	159,522,252
Bank balances and cash	22	N/A	Low risk	12-month ECL	12,776,409,188	10,729,407,669

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The following table shows reconciliation of loss allowances that has been recognised for trade receivables from cash and margin clients.

	12m ECL HK$	Lifetime ECL (not credit-impaired) HK$	Lifetime ECL (credit-impaired) HK$	Total HK$
As at 1 January 2020	3,863,906	6,846	12,597,763	16,468,515
Increase (decrease) in ECL for the year	6,968,634	71,177	(4,562,217)	2,477,594
As at 31 December 2020	10,832,540	78,023	8,035,546	18,946,109
(Decrease) increase in ECL for the year	(7,143,819)	60,066	6,406,267	(677,486)
As at 31 December 2021	3,688,721	138,089	14,441,813	18,268,623

The following table shows reconciliation of loss allowances that has been recognised for trade receivables from corporate finance activities, asset management activities and other receivables.

	Lifetime ECL (not credit-impaired) HK$	Lifetime ECL (credit-impaired) HK$	Total HK$
As at 1 January 2020	-	7,722,951	7,722,951
Decrease in ECL for the year	-	(939,845)	(939,845)
Exchange difference	-	(23,911)	(23,911)
As at 31 December 2020	-	6,759,195	6,759,195
Increase in ECL for the year	-	2,208,933	2,208,933
Exchange difference	-	61,196	61,196
As at 31 December 2021	-	9,029,324	9,029,324

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The following table shows reconciliation of loss allowances that has been recognised for loan receivables and commitments.

	12m ECL HK$	Total HK$
As at 1 January 2020	2,372,338	2,372,338
Decrease in ECL for the year	(2,372,338)	(2,372,338)
As at 31 December 2020 and 2021	-	-

The following table shows reconciliation of loss allowances that has been recognised for debt instruments at FVTOCI.

	12m ECL HK$	Lifetime ECL (not credit-impaired) HK$ (Note 1)	Total HK$
As at 1 January 2020	2,449,074	-	2,449,074
Increase in ECL for the year	12,061,101	-	12,061,101
As at 31 December 2020	14,510,175	-	14,510,175
(Decrease) increase in ECL for the year	(13,687,146)	20,619,345	6,932,199
As at 31 December 2021	823,029	20,619,345	21,442,374

Note 1:

The impairment losses recognised was due to new corporate bonds originated with gross carrying amount of HK$63,141,134 during the year. The bonds have encountered significant drop of the market value.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Credit risk - continued

The following table shows reconciliation of loss allowances that has been recognised for debt instruments at amortised cost.

	12m ECL HK$	Lifetime ECL (not credit-impaired) HK$ (Note 2)	Total HK$
As at 1 January 2020	-	-	-
Increase in ECL for the year	366,147	-	366,147
As at 31 December 2020	366,147	-	366,147
(Decrease) increase in ECL for the year	(109,552)	28,893,935	28,784,383
As at 31 December 2021	256,595	28,893,935	29,150,530

Note 2:

The impairment losses recognised was due to a new unlisted bond originated with gross carrying amount of HK$116,622,814 during the year. The issuer has encountered significantly increased financial difficulty.

Other than disclosed above, changes in the loss allowance for trade receivables, debt instruments at FVTOCI and debt instruments at amortised cost are mainly due to advance of new clients, additions and settlement of corresponding financial assets.

Liquidity risk

To manage of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The settlement terms of trade payables arising from the business of dealing in securities and futures contracts are stated as per note 23.

All the Group's other financial liabilities, classified as current liabilities, are repayable on demand except for bank borrowings which are repayable within one year (2020: one year) after the year ended 31 December 2021.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Liquidity risk - continued

As at 31 December 2021, lease liabilities amounting to HK$31,683,782 (2020: HK$36,050,456) are due for settlement within 1 year and HK$92,883,624 (2020: HK$82,826,182) are due for settlement after 1 year.

Other than the long-term note issued and bank borrowing (non-current portion) as disclosed below, the directors of the Company consider that the consolidated cash flows of the financial liabilities are not significantly different with the carrying amounts as at the end of both reporting periods. In the opinion of the directors of the Company, no maturity profile is prepared.

	31 December 2021				
	Carrying amount HK$	Total contractual undiscounted cash flow HK$	Within 1 year or on demand HK$	More than 1 year but less than 2 years HK$	More than 2 years HK$
Bank borrowings (non-current liabilities)	1,198,067,518	1,237,959,905	17,641,800	1,017,521,063	202,797,042
Long-term note Issued	3,902,536,450	4,050,528,094	50,492,698	50,492,698	3,949,542,698
Short-term note Issued	484,169,691	485,642,008	485,642,008	-	-

Interest rate benchmark reform

As listed in note 26, several of the Group's LIBOR/HIBOR bank loans will be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

LIBOR

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Interest rate benchmark reform - continued

(i) Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Litigation risk

If no agreement is reached to implement the interest rate benchmark reform on contracts which have not been transitioned to the relevant alternative benchmark rates (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

Interest rate basis risk

Interest rate basis risk may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

Interest rate benchmark reform - continued

(ii) Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to the relevant alternative benchmark rates or interest rates which are not subject to reform to the extent feasible. Otherwise, the Group ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

During the year, majority of contracts which are linked to LIBOR have been renewed to include fallback clauses and the specific triggering event on which the clause is activated. For the remaining contracts which are linked to LIBOR will be renewed to included fallback clauses. In addition, for a floating rate loans that are linked to HIBOR, the Group had confirmed with the relevant counterparty HIBOR will continue to maturity.

The following table shows the total amounts of outstanding contracts and the progress in completing the transition to alternative benchmark rates as at 31 December 2021. The amounts of financial liabilities are shown at their carrying amounts and derivatives are shown at their notional amounts.

Financial instruments prior to transition	Maturity in	Carrying amounts/ notional amounts HK$	Hedge accounting	Transition progress for financial instruments
Non-derivative financial liabilities				
Bank loans linked to LIBOR	2022	2,627,959,700	NA	Note a
Bank loans linked to LIBOR	2022	397,703,100	NA	Note b
Bank loans linked to HIBOR	2022 to 2024	3,750,000,000	NA	HIBOR will continue till maturity
Derivative				
Interest Rate Swap	2023 to 2024	881,965,110	NA	Expected to transit by 2023

Note a: Contract has been renewed to include fallback clauses and the specific triggering event on which the clause is activated.

Note b: New fallback clauses are expected to be included in 2022 upon renewal.

6. FINANCIAL INSTRUMENTS - continued

Fair value

The fair values of the financial instruments at fair value through profit or loss, debt instruments at FVTOCI and derivative financial instruments are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market closing price. Determination of fair value of financial assets and financial liabilities without quoted market closing price is set out in this note.

The fair values of other financial assets and other financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statements of financial position approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
2021				
Financial assets				
Financial assets at fair value through profit or loss				
- Financial assets at fair value through profit or loss	10,397,889,913	5,655,960,841	337,195,424	16,391,046,178
- Derivative financial assets	106,049,137	1,832,085,100	-	1,938,134,237
Debt instruments at FVTOCI				
- Bonds issued by corporates	-	701,534,671	-	701,534,671
- Bonds issued by financial institutions	-	132,434,408	-	132,434,408
Other assets at fair value	127,167,093	-	-	127,167,093
Total	10,631,106,143	8,322,015,020	337,195,424	19,290,316,587
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Financial liabilities at fair value through profit or loss	468,638,305	2,675,793,132	-	3,144,431,437
- Derivative financial liabilities	169,972,417	72,060,029	-	242,032,446
Total	638,610,722	2,747,853,161	-	3,386,463,883

	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
2020				
Financial assets				
Financial assets at fair value through profit or loss				
- Financial assets at fair value through profit or loss	3,561,756,377	3,166,259,941	272,809,703	7,000,826,021
- Derivative financial assets	985,565	38,432,364	-	39,417,929
Debt instruments at FVTOCI				
- Bonds issued by corporates	-	2,214,826,774	-	2,214,826,774
- Bonds issued by financial institutions	-	244,912,419	-	244,912,419
Other assets at fair value	473,090,605	-	-	473,090,605
Total	4,035,832,547	5,664,431,498	272,809,703	9,973,073,748
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Financial liabilities at fair value through profit or loss	410,732,074	1,159,853,343	-	1,570,585,417
- Derivative financial liabilities	20,332,885	18,249,482	-	38,582,367
Total	431,064,959	1,178,102,825	-	1,609,167,784

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

	Financial assets/ financial liabilities	Fair value as at 2021	Fair value as at 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
1)	Financial assets (liabilities) at fair value through profit or loss - listed equity securities	Listed in Hong Kong: HK$2,684,804,410 (HK$467,121,419) Listed outside Hong Kong: HK$7,446,755,661 (HK$1,516,886)	Listed in Hong Kong: HK$691,925,817 (HK$410,732,074) Listed outside Hong Kong: HK$2,772,960,826 (nil)	Level 1	Quoted closing prices in an active market	N/A
2)	Financial assets at fair value through profit or loss - listed fund investments	Listed in Hong Kong: HK$99,197,466 Listed outside Hong Kong: HK$167,132,376	Listed in Hong Kong: HK$75,806,680 Listed outside Hong Kong: HK$17,026,282	Level 1	Quoted closing prices in an active market	N/A
3)	Financial assets at fair value through profit or loss - listed debt securities	Listed in Hong Kong: Nil	Listed in Hong Kong: HK$4,036,772	Level 1	Quoted closing prices in an active market	N/A
4)	Financial assets at fair value through profit or loss - Unlisted funds	HK$4,826,081,302	HK$1,518,019,833	Level 2	Measured at fair value based on the net asset value reported by the fund manager	N/A
5)	Financial assets at fair value through profit or loss - Unlisted funds	HK$23,973,802	Nil	Level 3	Recent transaction price	N/A
6)	Financial assets at fair value through profit or loss - Unlisted bonds trade over-the-counter	HK$756,999,356	HK$1,648,240,108	Level 2	Measured at fair value based on quoted price	N/A
7)	Financial assets at fair value through profit or loss - Unlisted bonds trade over-the-counter	HK$50,929,391	Nil	Level 3	Measured at comparable bonds with quoted price	Selection of comparable bonds

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

	Financial assets/ financial liabilities	Fair value as at 2021	Fair value as at 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
8)	Financial assets at fair value through profit or loss - Unlisted equity securities	HK$262,292,231	HK$272,809,703	Level 3	Backsolve method, guideline companies method and option pricing method (2020: Backsolve method, price to sales ratio, and recent transaction price)	2021: Lack of market discount: 4.4%-11.9% (2020: 16%-20%) Risk-free rate: 1.02%-1.24% (2020: 0.18%) Volatility: 46.4%-51.7% (2020: 47.2%-74.17%)
9)	Financial (liabilities) at FVTPL - Loco London gold	(HK$137,483,224)	(HK$423,399,085)	Level 2	Measured at fair value based on quoted price observable from LMBA Gold Price	N/A
10)	Financial assets (liabilities) at FVTPL - Structured notes and equity-linked financial instruments	HK$72,880,183 (HK$2,538,309,908)	Nil (HK$736,454,258)	Level 2	Calculated from underlying price observable from the market	N/A
11)	Derivative financial assets (liabilities) - Commodity future contracts	HK$64,099,486 (HK$164,637,861)	HK$238,315 (HK$18,465,143)	Level 1	Quoted prices in an active market	N/A
12)	Derivative financial assets (liabilities) - Index future contracts	HK$39,077,575 (HK$3,887,838)	HK$747,250 (HK$1,805,364)	Level 1	Quoted closing prices in an active market	N/A
13)	Derivative financial assets (liabilities) - Commodity swap contracts	HK$87,859,555 (HK$21,356,501)	HK$9,476,545 (HK$3,382,304)	Level 2	Calculated from underlying price observable from the market	N/A
14)	Derivative financial assets (liabilities) - Foreign exchange contracts	HK$1,862,916 (HK$650,208)	Nil (HK$62,378)	Level 1	Quoted closing prices in an active market	N/A
15)	Derivative financial assets (liabilities) - Interest rate swap	HK$7,565,659 (HK$14,862,098)	Nil (HK$156,325)	Level 2	Measured at fair value based on quoted price	N/A

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

	Financial assets/ financial liabilities	Fair value as at 2021	Fair value as at 2020	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
16)	Derivative financial assets (liabilities) - Commodity spot contracts	HK$4,708,250 (HK$4,081,013)	HK$10,238,030 (HK$14,263,293)	Level 2	Measured at fair value based on quoted price	N/A
17)	Derivative financial (liabilities) - Credit default swap	Nil	(HK$423,804)	Level 2	Measured at fair value based on quoted price	N/A
18)	Derivative financial assets (liabilities) - Equity swaps	HK$9,404,751 (HK$29,940,147)	HK$18,717,789 (HK$23,756)	Level 2	Measured at fair value based on quoted price	N/A
19)	Derivative financial assets (liabilities) - Equity options	HK$1,009,160 (HK$796,510)	Nil Nil	Level 1	Quoted closing prices in an active market	N/A
20)	Derivative financial (liabilities) - Equity options	(HK$1,820,270)	Nil	Level 2	Measured at fair value based on quoted price	N/A
21)	Derivative financial assets - Portfolio Swap	HK$1,722,546,885	Nil	Level 2	Calculated from underlying price observable from the market	N/A
22)	Debt instruments at FVTOCI - Bonds issued by financial institutions	HK$132,434,408	HK$244,912,419	Level 2	Measured at fair value based on quoted price	N/A
23)	Debt instruments at FVTOCI - Bonds issued by corporates	HK$701,534,671	HK$2,214,826,774	Level 2	Measured at fair value based on quoted price	N/A
24)	Other assets at fair value	HK$127,167,093	HK$473,090,605	Level 1	Quoted closing prices from LMBA precious metal price	N/A

6. FINANCIAL INSTRUMENTS - continued

Fair value - continued

Fair value measurements recognised in the consolidated statement of financial position - continued

For financial instruments measured at fair value on a recurring basis, the Group determines whether transfer has occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group performs the valuation of financial instruments required for financial reporting purposes, including Level 3 fair values, at the end of each reporting period.

Reconciliation of Level 3 fair value measurements of financial assets:

	Unlisted securities HK$
At 1 January 2020	377,295,747
Fair value loss	(96,124,157)
Purchases	116,265,000
Disposals	(124,626,887)
At 31 December 2020	272,809,703
Fair value gains	15,943,621
Purchased	216,763,400
Disposals	(53,588,264)
Transfer to level 1	(114,733,036)
At 31 December 2021 (audited)	337,195,424

The above total gains/(loss) for the year ended 31 December 2021 recognised in profit or loss of HK$15,943,621 (2020: HK$96,124,157) are included in change in fair value of financial assets and liabilities at fair value through profit or loss which are unrealised.

For fair value measurement at Level 3, changing one or more of the inputs to the reasonably possible alternative assumptions would not change the fair value significantly.

Other than the transfer from Level 3 to Level 1 upon listing of the equity investments, there was no other transfers between Level 2 and Level 3, and no transfers between Level 1 and Level 2 for the years ended 31 December 2021 and 2020.

7. REVENUE AND INTEREST INCOME

	2021 HK$	2020 HK$
Revenue from contracts with customers		
Commission from:		
- dealing in securities and futures contracts	438,958,427	395,171,875
- placing and underwriting	85,937,099	117,591,222
Financial advisory income	28,292,131	30,049,467
Fund and asset management fees income	11,592,886	7,753,217
Dividends income	32,560,475	6,376,187
	597,341,018	556,941,968

For the year ended 31 December 2021, included in the financial advisory income an amount of HK$14,634,769 (2020: HK$15,538,888) was recognised at point in time and HK$13,657,362 (2020: HK$14,510,579) was recognised over time.

	2021 HK$	2020 HK$
Interest income from:		
- clients	406,887,361	322,201,058
- financial institutions	32,164,487	73,352,879
- brokers	2,465,854	5,197,114
- loan receivables	-	1,296,438
- over-the-counter counterparties	5,139,297	7,932,981
- debt instruments at amortised cost	9,075,444	3,156,025
- debt instruments at FVTOCI	72,511,628	41,687,232
	528,244,071	454,823,727

8. OTHER INCOME AND GAINS

	2021 HK$	2020 HK$
Handling fees income	28,907,740	30,188,141
Net exchange gain	5,447,727	14,073,137
Government grants	176,799	18,241,746
Income from carried interest as general partner of investment entities	-	30,695,717
Others	30,518,589	16,388,911
	65,050,855	109,587,652

During the current year, the Group recognised government grants of HK$176,799 in respect of the Reimbursement of Maternity Leave Pay Scheme provided by the Hong Kong government.

In 2020, the Group recognised government grants of HK$18,241,746 in respect of the Employment Support Scheme provided by the Hong Kong government. The whole amount of Covid-19-related subsidies received are used for the payment of employees salaries.

9. PROFIT BEFORE TAXATION

	2021 HK$	2020 HK$
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	2,578,664	1,435,183
Depreciation of right-of-use assets	35,989,007	37,142,337
Information technology maintenance	59,121,110	66,875,283
Directors' remuneration		
- fees	-	-
- other emoluments	12,491,389	12,870,218
- contributions to mandatory provident fund	257,282	199,117
Other staff costs		
- salaries, bonus and allowances	445,402,693	325,430,072
- contributions to mandatory provident fund	19,264,730	20,418,600

10. FINANCE COSTS

	2021 HK$	2020 HK$
Interest on bank borrowings	203,653,920	149,946,901
Interest on a client account	1,155,829	1,163,414
Interest to brokers	4,544,390	17,397,418
Interest on financial assets sold under repurchase agreements and other borrowings	30,950,264	36,918,532
Interest on lease liabilities	2,831,095	4,040,142
Interest on short-term notes	937,691	-
Interest on long-term note	22,885,073	-
	266,958,262	209,466,407

11. EXPECTED CREDIT LOSSES, NET

	2021 HK$	2020 HK$
(Reversal) recognition of expected credit losses on trade receivables from cash and margin clients	(677,486)	2,477,594
Recognition (reversal) of expected credit losses on trade receivables arising from corporate finance activities, asset management activities and other receivables	2,208,933	(939,845)
Reversal of expected credit losses on loan receivables and commitments	-	(2,372,338)
Expected credit losses on debt instruments at FVTOCI	6,932,199	12,061,101
Expected credit losses on debt instruments at amortised cost	28,784,383	366,147
	37,248,029	11,592,659

12. TAXATION

	2021 HK$	2020 HK$
Current tax		
Provision for the year	154,444,944	83,380,657
Over provision in prior years	(1,633,646)	(3,122,480)
	152,811,298	80,258,177
Deferred tax (see note 17)		
Current year	(3,455,519)	(6,128,287)
Tax charge for the year	149,355,779	74,129,890

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax ("EIT") and Implementation Regulation of the EIT Law, the tax rate of subsidiary of the Company is 25% for both years.

Under the Corporation Tax Act of the United Kingdom, the Corporation Tax is calculated at 19% (2020: 19%), of the estimated assessable profits of subsidiary of the Company for both years.

Under the Corporation Tax Act of Republic of Korea, the Corporation Tax is calculated at 22%, of the estimated assessable profits of subsidiary if it is more than KRW200,000,000 and not exceed KRW20,000,000,000.

The tax charge for the both years can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 HK$	2020 HK$
Profit before taxation	1,025,674,050	579,895,449
Tax at income tax rate of 16.5% (2020:16.5%)	169,236,220	95,682,749
Tax effect of expense that are not deductible	14,121,102	9,541,718
Tax effect of income that are not taxable	(39,183,201)	(26,577,135)
Overprovision in respect of prior years	(1,633,646)	(3,122,480)
Utilisation of tax losses previously not recognised	(1,240,398)	(287,725)
Tax effect of temporary difference not recognised	761,913	(2,336,822)
Effect of different tax rates of a subsidiaries operating in other jurisdiction	748,277	1,326,511
Tax effect of the tax losses not recognised	8,081,930	1,411,099
Others	(1,536,418)	(1,508,025)
Tax charge for the year	149,355,779	74,129,890

12. TAXATION - continued

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK$120,668,000 (2020: HK$88,038,000) available for offset against future profits.

No deferred tax asset has been recognised in respect of estimated tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK$10,968,102 (2020: HK$7,415,000). No deferred tax assets have been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

13. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$	Furniture, fixtures and office equipment HK$	Computer equipment HK$	Motor vehicles HK$	Total HK$
COST					
At 1 January 2020	34,885,179	5,905,840	104,462,268	1,387,755	146,641,042
Additions		347,036	1,618,358	-	1,965,394
Disposal	-	-	-	-	-
Eliminated on write-off	-	(134,337)	(2,323,753)	-	(2,458,090)
Exchange difference	(12,348)	32,818	67,898	-	88,368
At 31 December 2020	34,872,831	6,151,357	103,824,771	1,387,755	146,236,714
Additions	-	29,920	6,340,518	-	6,370,438
Disposal	-	-	-	-	-
Eliminated on write-off	(972,907)	(2,882,272)	(61,956,743)	-	(65,811,922)
Exchange difference	15,961	(51,082)	(108,135)	-	(143,256)
At 31 December 2021	33,915,885	3,247,923	48,100,411	1,387,755	86,651,974
DEPRECIATION AND AMORTISATION					
At 1 January 2020	10,678,563	3,150,050	77,767,926	1,207,838	92,804,377
Provided for the year	6,011,284	532,672	15,205,051	127,000	21,876,007
Disposal	-	-	-	-	-
Eliminated on write-off	-	(132,573)	(2,323,753)	-	(2,456,326)
Exchange difference	(7,395)	17,763	64,538	-	74,906
At 31 December 2020	16,682,452	3,567,912	90,713,762	1,334,838	112,298,964
Provided for the year	6,067,311	439,400	11,087,108	52,917	17,646,736
Disposal	-	-	-	-	-
Eliminated on write-off	(972,907)	(2,882,272)	(61,956,743)	-	(65,811,922)
Exchange difference	14,214	(30,759)	(110,134)	-	(126,679)
At 31 December 2021	21,791,070	1,094,281	39,733,993	1,387,755	64,007,099
CARRYING VALUES					
At 31 December 2021	12,124,815	2,153,642	8,366,418	-	22,644,875
At 31 December 2020	18,190,379	2,583,445	13,111,009	52,917	33,937,750

13. PROPERTY AND EQUIPMENT - continued

The above items of property and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	20% - 60%
Computer equipment	20% - 33.3%
Motor vehicles	20%

14. RIGHT-OF-USE ASSETS

	Office premises HK$	Motor vehicles HK$	Total HK$
As at 31 December 2021			
Carrying amount	121,630,950	248,830	121,879,780
As at 31 December 2020			
Carrying amount	118,754,522	65,996	118,820,518
For the year ended 31 December 2021			
Depreciation charge	35,972,737	16,270	35,989,007
For the year ended 31 December 2020			
Depreciation charge	37,046,132	96,205	37,142,337

	Year ended 31.12.2021 HK$	Year ended 31.12.2020 HK$
Expense relating to short-term leases	583,351	546,107
Total cash outflow for leases	36,440,965	39,321,698
Additions to right-of-use assets	39,300,638	17,944,535

For both years, the Group leases various offices and motor vehicles for its operations. Lease contracts are entered into for fixed term of 2 years to 6 years (2020: 13 months to 6 years), but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for motor vehicles and recognise as the short-term lease expense.

15. GOODWILL

	HK$
COST AND CARRYING VALUE	
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	42,764,486

For the purpose of impairment testing, goodwill has been allocated to a single cash generating unit ("CGU"), representing securities and futures dealing. During the year ended 31 December 2021, management of the Group determines that there are no material impairments (2020: nil) as the recoverable amount of the CGU containing goodwill exceeds its carrying amount.

The basis of the recoverable amounts of the CGU and their major underlying assumptions are as follows:

The recoverable amounts of this CGU are determined from value in use calculation. The key assumptions for the value in use calculation are those regarding the discount rates and expected turnover and direct costs during the period. Management estimates discount rates using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU. The discount rates are made with reference to prime rate quoted by the Hong Kong and Shanghai Banking Corporation Limited. Turnover and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares a 3-year cash flow forecast derived from the most recent financial information and financial budget approved by management of the Group and discount rate of 14% (2020: 14%).

16. INTANGIBLE ASSETS, STATUTORY DEPOSITS AND OTHER RECEIVABLES

Intangible assets

	Trading right of HKEX, HKFE HK$	Trading right of CME HK$	Software HK$	Total HK$
COST				
As at 1 January 2020	1,700,000	20,401,549	-	22,101,549
Additions	-	-	6,992,397	6,992,397
At 31 December 2020	1,700,000	20,401,549	6,992,397	29,093,946
Additions	-	-	265,736	265,736
Transfer from other receivable	-	-	25,241,935	25,241,935
At 31 December 2021	1,700,000	20,401,549	32,500,068	54,601,617
AMORTISATION AND IMPAIRMENT				
At 1 January 2020	1,700,000	7,763,646	-	9,463,646
Amortisation	-	-	1,240,203	1,240,203
Impairment loss recognised	-	18,991	-	18,991
At 31 December 2020	1,700,000	7,782,637	1,240,203	10,722,840
Amortisation	-	-	5,847,127	5,847,127
Impairment loss recognised	-	-	-	-
At 31 December 2021	1,700,000	7,782,637	7,087,330	16,569,967
CARRYING VALUES				
At 31 December 2021	-	12,618,912	25,412,738	38,031,650
At 31 December 2020	-	12,618,912	5,752,194	18,371,106

The above intangible assets, other than the trading rights with CME, have finite useful lives. Trading rights with HKEX and HKFE and software are amortised on a straight-line basis over 10 years and 5 years respectively.

CME trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives. No impairment loss is recognised during the year ended 31 December 2021 (2020: recognition of impairment loss for HK$18,991) based on the fair value less cost to sell of the CME trading rights.

16. INTANGIBLE ASSETS, STATUTORY DEPOSITS AND OTHER RECEIVABLES - continued

Statutory deposits and other receivables

	2021 HK$	2020 HK$
SEHK Options Clearing House Limited	2,324,832	1,836,025
Hong Kong Securities Clearing Company Limited	56,004,751	58,924,857
Stock Exchange of Hong Kong Limited	800,000	800,000
Chicago Metal Exchange ("CME")	-	3,876,300
Hong Kong Futures Exchange	4,662,452	1,500,000
Shanghai Gold Exchange	1,956,947	1,901,050
London Metal Exchange ("LME")	-	7,752,600
Intercontinental Exchange ("ICE")	-	7,752,600
Other receivables	7,765,634	25,783,665
	73,514,616	110,127,097

17. DEFERRED TAXATION

The following is the analysis of the deferred tax asset (liabilities), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity, for financial reporting purposes:

	2021 HK$	2020 HK$
Deferred tax assets	11,620,238	5,975,528
Deferred tax liabilities	(3,442,636)	(1,216,342)
	8,177,602	4,759,186

The following is the deferred tax asset (liabilities) recognised by the Group and movements thereon during the current and prior years:

	Difference between depreciation and tax allowance HK$	ECL provision HK$	Others HK$	Total HK$
At 1 January 2020	(1,858,019)	-	458,434	(1,399,585)
Exchange difference	4,921	-	25,563	30,484
Credit (debit) to profit or loss for the year (note 12)	1,935,761	4,254,836	(62,310)	6,128,287
At 31 December 2020	82,663	4,254,836	421,687	4,759,186
Exchange difference	(4,293)	-	(32,810)	(37,103)
Credit (debit) to profit or loss for the year (note 12)	(1,687,430)	5,091,691	51,258	3,455,519
At 31 December 2021	(1,609,060)	9,346,527	440,135	8,177,602

18. TRADE RECEIVABLES

	2021 HK$	2020 HK$
Trade receivables arising from the business of dealing in securities, futures, corporate finance, asset management and others:		
Cash clients	750,884,516	296,651,818
Margin clients	5,290,360,852	5,788,507,020
OTC counterparties	387,492,101	94,642,819
Clearing houses	499,507,759	549,767,196
Brokers	2,041,911,206	1,239,582,071
Trade receivables from corporate finance activities	67,211,152	65,451,894
Trade receivables from asset management activities	9,063,437	2,391,418
Other trade receivables	66,393,989	13,173,968
Less: Impairment allowance on cash and margin clients	(18,268,623)	(18,946,109)
Less: Impairment allowance on corporate finance activities, asset management activities and other receivables	(9,029,324)	(6,759,195)
	9,085,527,065	8,024,462,900

The normal settlement terms of trade receivables arising from the business of dealing in securities are normally a few days after trade date.

Included in the trade receivables other than corporate finance activities, with a carrying amount of HK$25,732,189 (2020: HK$54,402,502) which are past due at the reporting date for which the directors of the Group considered them as recoverable since the amounts are either fully secured by collateral pledged by the customers or subsequently settled, thus the expected credit losses made in the consolidated financial statement is considered as sufficient.

The trade receivables other than receivables from corporate finance activities which are past due but not credit impaired at the end of respective reporting period, the aging analysis is as follows:

	2021 HK$	2020 HK$
0 - 30 days	14,931,511	44,816,024
Over 30 days	10,800,678	9,586,478
	25,732,189	54,402,502

Among the trade receivables from corporate finance activities, with a carrying amount of HK$7,831,115 (2020: HK$6,747,002) which are past due at the reporting date for which the directors of the Group considered HK$1,121,476 (2020: HK$69,773) as recoverable since the counterparties are financially sounded listed issuers or amounts are subsequently settled. Out of the past due balances, HK$6,709,639 (2020: HK$6,677,229) has been past due 1 year or more and is fully impaired.

18. TRADE RECEIVABLES - continued

The trade receivables from corporate finance activities which are past due at the end of respective reporting period, the aging analysis is as follows:

	2021 HK$	2020 HK$
0 - 30 days	179,356	69,773
31 days - 1 year	942,120	-
Over 1 year	6,709,639	6,677,229
	7,831,115	6,747,002

Margin loans due from margin clients are current and repayable on demand. Margin clients are required to pledge securities collateral to the Group in order to obtain margin loans for securities trading. At 31 December 2021, the total market value of securities pledged as collateral in respect of margin clients are approximately HK$20,788,873,000 (2020: HK$22,326,043,000). Interest is charged on margin clients at prime rate basis plus a spread and the Group is allowed to repledge the collateral from margin clients. As at 31 December 2021, no client securities from margin client was repledged (2020: nil).

The normal settlement terms of trade receivables from OTC counterparties depend on the settlement terms of derivative contracts, varying from 2 to 14 days after trade date. There is collateral collection arrangement when there is a mark to market loss or subject to other margin requirement for the underlying derivative contracts.

Trade receivables from clearing houses are current which represents pending trades arising from the business of dealing in securities and deposit paid for futures contracts execution, which are normally due within a few days after the trade date in accordance with the settlement requirements in respective markets.

The settlement terms of trade receivables arising from brokers are required to be settled on settlement date determined under the relevant market practices.

The gross carrying amount of trade receivables as at 31 December 2021 and 2020 is disclosed by stage in note 6, along with the details of ECL assessment.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK$	2020 HK$
Equity securities		
Listed in Hong Kong	2,684,804,410	691,925,817
Listed outside Hong Kong	7,446,755,661	2,772,960,826
Unlisted	262,292,231	272,809,703
	10,393,852,302	3,737,696,346
Fund investments		
Listed in Hong Kong	99,197,466	75,806,680
Listed outside Hong Kong	167,132,376	17,026,282
Unlisted	4,850,055,104	1,518,019,833
	5,116,384,946	1,610,852,795
Debt securities		
Listed in Hong Kong	-	4,036,772
Unlisted and trade over-the-counter	807,928,747	1,648,240,108
	807,928,747	1,652,276,880
Others		
Structured notes	72,880,183	-
	16,391,046,178	7,000,826,021

Included in the financial assets at fair value through profit or loss, a total amount of HK$5,080,002,590 (2020: HK$1,434,292,136) of equity securities and a total amount of HK$nil (2020: HK$389,201,328) of debt securities, placed with external brokers, are pledged for margin financing.

As at 31 December 2021 and 2020, the financial assets at fair value through profit or loss are measured at fair value and the valuation details are disclosed in note 6.

20. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 HK$	2020 HK$
Bonds issued by financial institutions	132,434,408	244,912,419
Bonds issued by corporates	701,534,671	2,214,826,774
	833,969,079	2,459,739,193

20. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - continued

Bonds issued by financial institutions bear interest at a range from 1% to 1.25% (2020: 1.04% to 3.13%) per annum with maturity from year 2022 to year 2024 (2020: from year 2021 to year 2023). Bonds issued by corporates bear interest at a range from 2.3% to 7.5% (2020: 1.98% to 11.25%) per annum with maturity from year 2022 to year 2023 (2020: from year 2021 to year 2024).

These bonds are held by the Group within a business model whose objective is both to collect their contractual cash flows which are solely payments of principal and interest on the principal amount outstanding and to sell these financial assets. Hence, the investments in above bonds are classified as at FVTOCI.

Details of impairment assessment are set out in note 6.

21. DEBT INSTRUMENTS AT AMORTISED COST

	2021 HK$	2020 HK$
Bonds issued by corporates	280,241,071	159,522,252
Less: impairment	(29,150,530)	(366,147)
	251,090,541	159,156,105

Analysis as:

	2021 HK$	2020 HK$
Current	251,090,541	159,156,105

Bonds issued bear interest at a range from 3.88% to 7.13% per annum with maturity in year 2022 (2020: from 1% to 8.38% per annum with maturity in year 2021).

Details of impairment assessment are set out in note 6.

22. BANK BALANCES AND CASH

	2021 HK$	2020 HK$
General accounts		
Bank balances		
- general accounts	2,401,156,935	1,725,027,066
Cash in hand	8,615	28,374
Cash and cash equivalents	2,401,165,550	1,725,055,440
Segregated accounts		
Bank balances		
- segregated accounts, including deposits with banks with a term within 3 months (note)	10,375,243,638	9,004,352,229

Note: The bank balances include current accounts, saving accounts and short term deposits at market interest rates with an original maturity of three months or less. From the Group's ordinary course of business, it receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients' monies are maintained in segregated bank accounts. The Group has recognised the corresponding account payables to respective clients as the Group does not have a currently enforceable right to offset those payables with the deposits placed.

Details of impairment assessment are set out in note 6.

23. TRADE PAYABLES

	2021 HK$	2020 HK$
Trade payables arising from the business of dealing in securities, futures, corporate finance and others:		
Cash clients	5,429,333,432	4,388,666,828
Margin clients	5,205,767,534	4,761,647,438
Clearing houses	162,665,633	52,405,127
Brokers	1,835,740,745	2,373,512,165
Trade payable to over-the-counter counterparties	477,095,145	910,242,109
Others	25,588,039	27,272,195
	13,136,190,528	12,513,745,862

The trade payables arising from the business of dealing in securities are required to be settled on settlement date determined under the relevant market practices. The trade payables to certain margin and cash clients arising from the business of dealing in securities bear variable interest at commercial rates, and are repayable on demand subsequent to settlement date.

23. TRADE PAYABLES - continued

Trade payable to clients arising from the business of dealing in futures contracts are margin deposits received from clients for their trading of these contracts. The required margin deposits are repayable upon the closure of the corresponding futures and options positions. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. The trade payables are non-interest bearing.

The settlement terms of trade payables arising from the brokers and over-the-counter counterparties are required to be settled on settlement date determined under the relevant market practices.

As at 31 December 2021, trade payables amounting to HK$10,375,243,638 (2020: HK$9,004,352,229) were payable to clients in respect of the segregated bank balances received and held for clients in the course of conducting regulated activities. The Group currently does not have an enforceable right to offset these payables with the deposits placed.

24. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

The Group enters into certain derivatives contracts for the purpose of proprietary trading activities. The nature and the fair values of derivative instruments held by the Group are set out in the following tables.

	2021		2020	
	Assets HK$	Liabilities HK$	Assets HK$	Liabilities HK$
Commodity future contracts	64,099,486	164,637,861	238,315	18,465,143
Commodity swap contracts	87,859,555	21,356,501	9,476,545	3,382,304
Commodity spot contracts	4,708,250	4,081,013	10,238,030	14,263,293
Index future contracts	39,077,575	3,887,838	747,250	1,805,364
Foreign exchange contracts	1,862,916	650,208	-	62,378
Equity swaps	9,404,751	29,940,147	18,717,789	23,756
Equity options	1,009,160	2,616,780	-	-
Credit default swaps	-	-	-	423,804
Interest rate swap	7,565,659	14,862,098	-	156,325
Portfolio Swap (note)	1,722,546,885	-	-	-
Total	1,938,134,237	242,032,446	39,417,929	38,582,367

24. DERIVATIVE FINANCIAL ASSETS/LIABILITIES - continued

The notional amounts of derivative financial instruments are as follows:

	2021 HK$	2020 HK$
Commodity future contracts	6,184,417,596	321,767,515
Commodity swap contracts	4,633,931,793	869,454,168
Commodity spot contracts	1,412,770,190	1,741,486,784
Index future contracts	1,669,046,617	100,186,215
Foreign exchange contracts	1,050,949,474	5,479,302
Equity swaps	472,927,804	228,321,903
Equity options	45,680,908	-
Credit default swaps	-	155,052,000
Interest rate swap	8,709,753,760	59,407,823
Portfolio Swap (note)	7,808,608,960	-
	31,988,087,102	3,481,155,710

Note: During the year ended 31 December 2021, the Group entered into a total return swap arrangement with its parent company which effectively linked to the performance of a portfolio of listed equity securities and future contracts. The Group also held the underlying listed equity securities and future contracts, as measured at fair value through profit or loss, to eliminate the market risk.

25. OTHER ASSETS AT FAIR VALUE

	2021 HK$	2020 HK$
Other assets		
Physical precious metal, at fair value	127,167,093	473,090,605

The other assets at fair value represent physical precious metal owned by the Group at the end of reporting period. The fair value is based on the quoted commodity market prices.

26. BANK BORROWINGS

	2021 HK$	2020 HK$
Within one year	6,379,167,851	4,208,256,494
After one year but within five years	1,198,067,518	497,068,431
	7,577,235,369	4,705,324,925
Amounts shown under current liabilities	6,379,167,851	4,208,256,494
Amounts shown under non-current liabilities	1,198,067,518	497,068,431
	7,577,235,369	4,705,324,925

As at 31 December 2021, the Group's bank borrowings bear interest rates at a range of 0.89% to 1.71% (2020: 1.10% to 1.71%).

27. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK$	2020 HK$
Equity securities		
Listed in Hong Kong	467,121,419	410,732,074
Listed outside Hong Kong	1,516,886	-
	468,638,305	410,732,074
Others		
Structured notes and equity-linked financial instruments issued	2,538,309,908	736,454,258
Loco London gold	137,483,224	423,399,085
	2,675,793,132	1,159,853,343
	3,144,431,437	1,570,585,417

Included in financial liabilities at fair value through profit or loss are financial liabilities designated at FVTPL are structured notes and equity-linked financial instruments issued amounting to total HK$2,538,309,908 (2020: HK$736,454,258) issued by the Group. The risk of economic exposure of these financial products is primarily hedged by certain financial instruments held by the Group classified as financial assets at FVTPL. The Company managed relevant assets and liabilities on a pair basis and such relevant liabilities are valued with direct reference to its hedging assets.

As at 31 December 2021 and 2020, the financial liabilities at fair value through profit or loss are measured at fair value and the valuation details are disclosed in note 6.

28. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS AND OTHER BORROWINGS

	31 December 2021 HK$	31 December 2020 HK$
Financial assets sold under repurchase agreements		
Analysed by collateral type:		
Debt securities	1,130,073,115	3,086,560,749
Analysed by market:		
Trade over-the-counter	1,130,073,115	3,086,560,749
Analysed for reporting purposes:		
Current	1,130,073,115	3,086,560,749

Sales and repurchase agreements are transactions in which the Group sells a debt security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities sold. These securities are not derecognised from the consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities.

As at 31 December 2021, the Group entered into repurchase agreements with financial institutions to sell debt securities recognised as financial assets at fair value through profit or loss with carrying amount of HK$1,396,389,775 (31 December 2020: HK$3,696,930,047), which subject to the simultaneous agreements to repurchase these investments at the agreed date and price.

Other borrowings

As at 31 December 2021, the Group has an outstanding borrowing amounting to HK$2,044 million (2020: HK$659 million) from a financial institution with interest rate at a range of 1.30% - 1.35% per annum and a maturity date within one to two months (2020: 1.35% per annum and a maturity date within one month).

29. TRANSFER OF FINANCIAL ASSETS

	Carrying amount of pledged assets		Related liabilities (note)	
	2021	2020	2021	2020
	HK$	HK$	HK$	HK$
Financial assets at fair value through profit or loss				
- Debt securities	1,396,389,775	3,696,930,047	1,130,073,115	3,086,560,749

Note: The related liabilities of those pledged debt securities are financial assets sold under repurchase agreements disclosed in note 28.

30. LEASE LIABILITIES

	31 December 2021	31 December 2020
	HK$	HK$
Within one year	31,683,782	36,050,456
Within a period of more than one year but not more than two years	28,401,630	35,764,117
Within a period of more than two years but not more than five years	64,481,994	47,062,065
	124,567,406	118,876,638
Less: Amount due for settlement with 12 months shown under current liabilities	(31,683,782)	(36,050,456)
Amount due for settlement after 12 months shown under non-current liabilities	92,883,624	82,826,182

The weighted average incremental borrowing rates applied to lease liabilities range from 1.68% to 3.5% (2020: from 2.1% to 3.91%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	TWD	GBP	KOR
	HK$	HK$	HK$
As at 31 December 2021	404,460	-	2,776,653
As at 31 December 2020	107,010	1,036,401	5,019,926

31. SHORT-TERM NOTES ISSUED

Name	As at 1 January 2021	Issuance/ interest accrued	As at 31 December 2021
Principals of structure notes	-	483,432,000	483,432,000
Interest accrued	-	737,691	737,691
Total	-	484,169,691	484,169,691

During the year, China Merchants Securities Investment Management (HK) Co., Limited, a subsidiary of the Group issued short-term notes of US$12 million and HK$390 million. The notes are unsecured, interest-bearing at 0.74% to 1.2% per annum and repayable in 2022. The notes amounting HK$383,758,597 are guaranteed by China Merchants Securities International Company Limited. The notes are carried at amortised cost.

32. LONG-TERM NOTE ISSUED

	2021 HK$
Long-term notes issued	
- Non current	3,902,536,450

On 6 September 2021, CMS International Gemstone Limited, a subsidiary of the Group issued long-term notes of US$500,000,000. The notes are unsecured, guaranteed by China Merchants Securities International Company Limited, interest-bearing at 1.295% per annum and repayable on 16 September 2024. The notes are carried at amortised cost.

As at 31 December 2021, fair value of the long-term note issued is amounted to HK$3,831,381,987.

33. SHARE CAPITAL

	Number of shares	Amount HK$
Issued and fully paid:		
At 1 January 2020, 31 December 2020, and 1 January 2021	4,103,627,390	4,103,627,390
Shares issued (note)	2,350,000,000	2,350,000,000
At 31 December 2021	6,453,627,390	6,453,627,390

Note: The new shares issued rank pari passu in all respects with the existing shares.

34. INVESTMENTS REVALUATION RESERVE

	HK$
At 1 January 2020	1,905,574
Fair value gain on investments in debt instruments at FVTOCI	7,804,767
Reclassification to profit or loss	(1,376,431)
ECL on debt instruments at FVTOCI	12,061,101
At 31 December 2020	20,395,011
Fair value loss on investments in debt instruments at FVTOCI	(103,046,958)
Reclassification to profit or loss	74,651,013
ECL on debt instruments at FVTOCI	6,932,199
At 31 December 2021	(1,068,735)

The investment revaluation reserve represents cumulative gains and losses arising on the revaluation of debt instruments at FVTOCI that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those debt instruments at FVTOCI are disposed of or are determined to be impaired.

35. FINANCIAL GUARANTEE CONTRACTS

As at 31 December 2021 and 2020, the Company issued financial guarantees to banks in respect of banking facilities granted to its subsidiaries. Bank borrowings of HK$500,000,000 (2020: HK$600,000,000) have been drawn down by a subsidiary and recognised in the consolidated statement of financial position as liabilities.

36. CAPITAL COMMITMENTS

In accordance with an investment agreement signed between the Group and an investment fund, the Group committed to make a capital contribution of US$10,000,000 (2020: US$10,000,000) into the investment fund. As at 31 December 2021, the Group has made capital contribution of US$7,650,201 (2020: US$7,650,201).

37. RELATED PARTY TRANSACTIONS

The Group itself is part of a larger group of companies under China Merchants Group Limited and its subsidiaries (hereinafter collectively referred to as the "CM Group") which is controlled by the PRC government.

Apart from the transactions with the CM Group disclosed below, the Group may have businesses with other government-related entities. The directors of the Company are of the opinion that such transactions with other state-controlled entities are not individually or collectively significant to the Group's operations.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions and balances between the Group and other related parties are disclosed below.

37. RELATED PARTY TRANSACTIONS - continued

During both current and prior years, the Group entered into the following transactions with its related parties that are within CM Group:

	2021 HK$	2020 HK$
Interest expense paid for bank borrowings from the CM Group that act as an authorised institution	9,021,150	9,732,546
Interest income from bank deposit from the CM Group that act as an authorised institution	1,664,381	8,044,424
Placing and underwriting commission income from CM Group	3,632,509	47,110,459
Financial advisory income from the fellow subsidiaries	8,553,900	-
Gain in fair value of derivative financial instruments from the immediate holding company	1,722,546,885	-

Other than disclosed elsewhere, at the end of the reporting period, the Group has the following balances with its related parties.

	2021 HK$	2020 HK$
Trade receivable from the immediate holding company that act as a broker	307,142,428	180,128,063
Trade receivables from corporate finance activities from the immediate holding company	48,364,000	44,732,320
Trade receivables from CM Group that act as a broker	17,252,171	-
Trade payable to the immediate holding company that act as a broker	1,489,602	1,858,792
Interest receivable for bank balances - segregated account deposited with the CM Group that act as an authorised institution	74,949	178,996
Bank balances - general account deposited with the associated entity of the CM Group that act as an authorised institution	2,251,013	1,807,576
Bank balances - segregated account deposited with the CM Group that act as an authorised institution	419,329,494	699,329,906
Bank borrowing from the CM Group that act as an authorised institution	500,000,000	500,000,000
Interest payable for bank borrowing from the CM Group that act as an authorised institution	188,004	361,655
Derivative financial assets from the immediate holding company	1,722,546,885	-

Compensation of key management personnel

During the years ended 31 December 2021 and 2020, the compensation of key management personnel is disclosed in note 9.

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 HK$	2020 HK$
Non-current assets		
Investments in subsidiaries and controlled structured entities	6,412,603,783	6,412,603,775
Property and equipment	12,594,885	18,062,084
Right-of-use assets	119,224,584	113,964,072
Deferred tax asset	1,809,737	1,223,455
Intangible assets	1,799,167	1,179,547
	6,548,032,156	6,547,032,933
Current assets		
Trade receivables	372,444	364,496
Loan to subsidiary	100,000,000	100,000,000
Amounts due from subsidiaries	10,997,774,414	3,199,425,036
Other receivable and prepayment	18,452,610	12,794,577
Bank balances	997,664,957	62,970,516
	12,114,264,425	3,375,554,625
Current liabilities		
Other payables and accrued charges	168,679,428	94,036,509
Amounts due to subsidiaries	1,359,070,385	1,533,428,764
Bank borrowings	4,828,463,787	3,032,647,294
Loan from subsidiary	62,745,709	-
Lease liabilities	28,971,256	32,626,430
Tax liabilities	2,205,745	-
	6,450,136,310	4,692,738,997
Net current assets (liabilities)	5,664,128,115	(1,317,184,372)
Total assets less current liabilities	12,212,160,271	5,229,848,561
Capital and reserve		
Share capital	6,453,627,390	4,103,627,390
Reserves	567,494,052	549,065,959
	7,021,121,442	4,652,693,349
Non-current liabilities		
Bank borrowings	1,198,067,518	497,068,431
Loan from subsidiary	3,900,556,275	-
Lease liabilities	92,415,036	80,086,781
	5,191,038,829	577,155,212
	12,212,160,271	5,229,848,561

Approved and authorised for issue by the board of directors on 19 April 2022 and are signed on its behalf by:

LU GONGLU DIRECTOR	MA XIAOLI DIRECTOR

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

	Retained earnings HK$
At 1 January 2020	540,299,638
Profit for the year	8,766,321
At 31 December 2020	549,065,959
Profit for the year	18,428,093
At 31 December 2021	567,494,052

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2021 and 2020 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2021		2020		Principal activities
				Directly	Indirectly	Directly	Indirectly	
China Merchants Securities (HK) Co., Limited	Hong Kong	Ordinary	HK$5,500,000,000	100%	-	100%	-	Securities dealing and margin financing and advisory on corporate finance
China Merchants Futures (HK) Co., Limited	Hong Kong	Ordinary	HK$200,000,000	100%	-	100%	-	Futures contracts dealing and advising on futures contracts
CMS Fund Services (HK) Limited (formerly known as "China Merchants Nominees (HK) Co., Limited")	Hong Kong	Ordinary	HK$10,000	100%	-	100%	-	Provision of nominee services
China Merchants Securities Investment Management (HK) Co., Limited	Hong Kong	Ordinary	HK$400,000,000	100%	-	100%	-	Proprietary trading and lending
CMS Capital (HK) Co., Limited	Hong Kong	Ordinary	HK$5,000,000	100%	-	100%	-	Fund management
CMS Asset Management (HK) Co., Limited	Hong Kong	Ordinary	HK$10,000,000	100%	-	100%	-	Asset management
China Merchants Securities (HK) Finance Co., Limited	Hong Kong	Ordinary	HK$500,000	100%	-	100%	-	Money lending
China Merchants Securities (UK) Co., Limited	United Kingdom	Ordinary	US$22,000,000	100%	-	100%	-	Futures contracts dealing
China Merchants Securities (Singapore) Pte. Ltd.	Singapore	Ordinary	US$1	100%	-	100%	-	Futures contracts dealing

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2021 and 2020 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2021 Directly	2021 Indirectly	2020 Directly	2020 Indirectly	Principal activities
深圳招商致遠咨詢服務有限公司	PRC	Ordinary	RMB3,000,000	100%	-	100%	-	Consulting services
CMS Hong Kong Multi Income Fund	Hong Kong	Participating shares	HK$62,151,086	-	19.02%	-	39.79%	Investment fund
China Merchants Securities (Korea) Co., Ltd.	Republic of Korea	Ordinary	KRW 8,523,900,000	100%	-	100%	-	Advisory on corporate finance
CMS Technology Limited Partnership	Cayman Islands	Participating shares	US$11,650,558	-	97.09%	-	97.09%	Investment fund
CMS Agri-Consumer Fund, L.P.	Cayman Islands	Contributed capital	US$16,141,767	-	43.48%	-	43.48%	Investment fund
Humble Easy Limited	British Virgin Island	Class A shares Class B shares	US$1 US$4,920,000	-	98.4%	-	98.4%	Investment in unlisted equities
Bliss Moment Limited	British Virgin Island	Class A shares Class B shares	US$1 US$25,000,000	-	100%	-	100%	Investment in unlisted equities
CMS International Gemstone Limited	British Virgin Island	Ordinary	US$1	100%	-	-	-	Issued of long-term note
CMS China Opportunities Fund SP	Cayman Islands	Class B shares	US$12,899,890	-	100%	-	-	Investment fund
China Opportunities Ltd	British Virgin Island	Ordinary	US$12,749,889	-	100%	-	-	Investment in funds

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2021 and 2020 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2021 Directly	2021 Indirectly	2020 Directly	2020 Indirectly	Principal activities
CMS Chongyang China Equity Fund SP	Cayman Islands	Class B shares	US$4,249,963	-	100%	-	-	Investment fund
CMS Yuance China Equity Fund SP	Cayman Islands	Class B shares	US$4,249,963	-	89.37%	-	-	Investment fund
CMS Wideview China Equity Fund SP	Cayman Islands	Class A shares Class B shares	US$459,085 US$4,249,963	- -	100% 100%	- -	- -	Investment fund Investment fund
九坤策略精选41号私募证券投资基金	PRC	Contributed capital	RMB113,101,179	-	95.90%	-	-	Investment fund
聚宽定制十五号私募证券投资基金	PRC	Contributed capital	RMB45,150,754	-	70.97%	-	-	Investment fund
凤翔美元中国私募证券投资基金	PRC	Contributed capital	RMB42,027,000	-	100%	-	-	Investment fund
量锐111号私募证券投资基金	PRC	Contributed capital	RMB63,941,000	-	100%	-	-	Investment fund
卓识伟业五号私募证券投资基金	PRC	Contributed capital	RMB169,675,000	-	100%	-	-	Investment fund
高熵海丰元盛1号私募固定收益投资基金	PRC	Contributed capital	RMB60,000,000	-	100%	-	-	Investment fund
高熵鹏利元盛1号私募固定收益投资基金	PRC	Contributed capital	RMB50,000,000	-	100%	-	-	Investment fund

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2021 and 2020 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2021		2020		Principal activities
				Directly	Indirectly	Directly	Indirectly	
沣京稳健六期私募证券投资基金	PRC	Contributed capital	RMB35,000,000	-	100%	-	-	Investment fund
招商资管智远君选 FOF23 号单一资产管理计划	PRC	Contributed capital	RMB10,000,000	-	100%	-	-	Investment fund
北天星二号私募证券投资基金	PRC	Contributed capital	RMB13,000,000	-	85.80%	-	-	Investment fund
基研投美好生活 1 号私募证券投资基金	PRC	Contributed capital	RMB51,174,604	-	94.54%	-	-	Investment fund
基研投价值增长 1 号私募证券投资基金	PRC	Contributed capital	RMB141,141,906	-	91.46%	-	-	Investment fund
高熵海蓝元盛私募固定收益投资基金	PRC	Contributed capital	RMB30,000,000	-	96.78%	-	-	Investment fund
复胜盛业三号私募证券投资基金	PRC	Contributed capital	RMB252,950,655	-	99%	-	-	Investment fund
复胜步步高五号私募证券投资基金	PRC	Contributed capital	RMB99,479,157	-	99%	-	-	Investment fund
金瀹中证 500 量化精选 3 号私募证券投资基金	PRC	Contributed capital	RMB16,000,000	-	100%	-	-	Investment fund

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Details of the Company's principal subsidiaries and controlled structured entities as at 31 December 2021 and 2020 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital/ capital contributed	Proportion of nominal value of issued capital/investment fund units held by the Company 2021 Directly	2021 Indirectly	2020 Directly	2020 Indirectly	Principal activities
中信期货价值精粹5号单一资产管理计划	PRC	Contributed capital	RMB50,000,000	-	100%	-	-	Investment fund
Hwabao China Growth Fund SP	Cayman Islands	Class A shares	HK$50,000,000	-	100%	-	-	Investment fund
天谷磐石进取十一号私募证券投资基金	PRC	Contributed capital	RMB49,833,355	-	100%	-	-	Investment fund
卓识专享二十号私募证券投资基金	PRC	Contributed capital	RMB16,197,750	-	100%	-	-	Investment fund
珺容九华中性7号私募证券投资基金	PRC	Contributed capital	RMB1,049,200	-	100%	-	-	Investment fund
佳期招星私募证券投资基金十六期	PRC	Contributed capital	RMB63,710,500	-	100%	-	-	Investment fund
嘉恳兴丰18号私募证券投资基金	PRC	Contributed capital	RMB4,170,300	-	100%	-	-	Investment fund

The above table lists the subsidiaries and controlled structured entities of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries and controlled structured entities would, in the opinion of the directors, result in particulars of excessive length.

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Other borrowings HK$	Lease liabilities HK$	Bank borrowings HK$	Long-term note issued HK$	Short-term note issued HK$	Total HK$
At 1 January 2021	659,339,140	118,876,638	4,705,324,925	-	-	5,483,540,703
Cash changes:						
New bank and other borrowings raised	1,389,493,896	-	278,001,578,005	-	-	279,391,071,901
New short-term note issued	-	-	-	-	484,169,691	484,169,691
New long-term note issued	-	-	-	3,879,651,377	-	3,879,651,377
Repayment of bank and other borrowings	(4,719,722)	-	(275,129,667,561)	-	-	(275,134,387,283)
Repayment of lease liabilities	-	(36,440,965)	-	-	-	(36,440,965)
Non-cash changes:						
Finance cost on lease liabilities	-	2,831,095	-	-	-	2,831,095
Finance cost on long-term note issued	-	-	-	22,885,073	-	22,885,073
New lease entered	-	871,077	-	-	-	871,077
Lease modified	-	38,429,561	-	-	-	38,429,561
At 31 December 2021	2,044,113,314	124,567,406	7,577,235,369	3,902,536,450	484,169,691	14,132,622,230
At 1 January 2020	-	150,770,150	5,010,107,132	-	-	5,160,877,282
Cash changes:						
New borrowings raised	659,339,140	-	256,658,156,395	-	-	257,317,495,535
Repayment of bank borrowings	-	-	(256,962,938,602)	-	-	(256,962,938,602)
Repayment of lease liabilities	-	(39,321,698)	-	-	-	(39,321,698)
Non-cash changes:						
Finance cost on lease liabilities	-	4,040,142	-	-	-	4,040,142
New leases entered	-	5,627,362	-	-	-	5,627,362
Lease modified	-	(2,239,318)	-	-	-	(2,239,318)
At 31 December 2020	659,339,140	118,876,638	4,705,324,925	-	-	5,483,540,703

40. INTERESTS IN CONSOLIDATED AND UNCONSOLIDATED STRUCTURED ENTITIES

The Group had consolidated certain structured entities including investment funds. For the investment funds where the Group involves as manager and also as investor, and for the investment funds where the third parties act as the investment managers or investment advisors, the Group assesses whether the combination of funds it held together with its remuneration creates exposure to variability of returns from the activities of the investment funds that is of such significance that it indicates that the Group is a principal. During the year ended 31 December 2021, profit contributed by the consolidated investment funds were HK$32,467,150 (2020: HK$9,329,725).

As at 31 December 2021, the total assets and total liabilities of the consolidated investment funds, were HK$2,065,323,410 and HK$54,116,947 (2020: HK$94,907,637 and HK$42,768,090) respectively. Third-party interests in consolidated structured entities consist of third-party unit holders/shareholders' interests in consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash. The realisation of net assets attributable to third-party unit holders/shareholders' interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated investment funds that are subject to the actions of third-party unit holders.

40. INTERESTS IN CONSOLIDATED AND UNCONSOLIDATED STRUCTURED ENTITIES - continued

For the year ended 31 December 2021, interests held by third-party unit holders/shareholders of HK$5,133,237 (2020: HK$4,903,717) in consolidated structured entities are presented as "change in third-party interests in consolidated investment funds" in the consolidated statement of profit or loss and other comprehensive income and the interests held by third-party unit holders/shareholders amounted to HK$99,574,540 (2020: HK$22,348,388) as at 31 December 2021 are presented as "third-party interests in consolidated investment funds" in the consolidated statement of financial position.

A wholly owned subsidiary of the Company, CMS Asset Management (HK) Co., Limited, serves as the investment manager of several investment funds, which are considered to be structured entities within the definition of HKFRS 12 "Disclosure of interests in other entities". The directors of the Company are of the opinion that the investment funds are regarded as unconsolidated structured entities as the Group does not hold any participating shares in the investment funds which is not able to exercise control over their operation and has no significant variable financial interest. Hence, they are not consolidated in the consolidated financial statements.

CMS Asset Management (HK) Co., Limited receives an interest in these unconsolidated structured entities through the receipt of management and performance fees. The unconsolidated structured entities invest in a range of asset classes. The carrying values of the Group's interests in these unconsolidated structured entities as recognised in the consolidated statement of financial position as at 31 December 2021 is HK$9,063,437 (2020: HK$2,391,418) (included in trade receivables) and the management fee and performance fee recognised in the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 is HK$11,592,886 (2020: HK$7,753,217).

The unconsolidated structured entities have various investment objectives and policies and are subject to the terms and conditions of their respective offering documentation. However, all unconsolidated structured entities invest their capital, from third-party investors, in a portfolio of assets according to respective investment restrictions set out in the offering documentation in order to provide a return to those investors from capital appreciation of those assets, income from those assets, or both. Accordingly, the portfolio of assets held by these unconsolidated structured entities are susceptible to market price risk and the performance of the investment manager.

Maximum exposure to loss

The Group's maximum exposure to loss associated with its interest in these unconsolidated structured entities is limited to the carrying amount mentioned as above.

Financial support

The Group has not provided financial support to any of its unconsolidated structured entities during the years ended 31 December 2021 and 2020, and has no contractual obligations or current intention of providing financial support in the future.

Other information

There are no liquidity arrangements, guarantees or other commitments that may affect the fair value or risk of the Group's interest in the unconsolidated structured entities.

ISSUER

CMS International Gemstone Limited
c/o Vistra Corporate Services Centre, Wickhams Cay II, Road Town
Tortola, VG1110, British Virgin Islands

GUARANTOR

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Central, Hong Kong

TRUSTEE

China Construction Bank (Asia) Corporation Limited
(中國建設銀行(亞洲)股份有限公司)
3/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

PRINCIPAL PAYING AGENT, REGISTRAR AND TRANSFER AGENT

China Construction Bank (Asia) Corporation Limited
(中國建設銀行(亞洲)股份有限公司)
3/F, CCB Tower
3 Connaught Road Central
Central, Hong Kong

CMU LODGING AND PAYING AGENT AND CMU REGISTRAR

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INDEPENDENT AUDITORS OF THE GUARANTOR

Deloitte Touche Tohmatsu Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Appendix II – Pricing Supplement

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

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

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

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

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

Pricing Supplement dated 11 September 2023

CMS International Gemstone Limited

Issue of CNY1,000,000,000 3.30 per cent. Guaranteed Notes due 2026 (the "Notes")

unconditionally and irrevocably guaranteed by
China Merchants Securities International Company Limited (招商證券國際有限公司)
under the U.S.$2,000,000,000 Medium Term Note Programme

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

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the offering circular dated 4 September 2023 (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular.

Each of the Issuer and the Guarantor is a private company and therefore there is less publicly available information about the Issuer and the Guarantor than a public company (including a public company whose equity securities are listed on a stock exchange). Please see "*Risk Factors – Public information in respect of the Guarantor or the Issuer is limited and neither of them is subject to continuous disclosure requirements as listed companies.*" in the Offering Circular.

1.	(i)	Issuer:	CMS International Gemstone Limited
	(ii)	Guarantor:	China Merchants Securities International Company Limited (招商證券國際有限公司)
2.	(i)	Series Number:	002
	(ii)	Tranche Number:	001
3.	Specified Currency or Currencies:		Renminbi ("**CNY**")
4.	Aggregate Nominal Amount:		CNY1,000,000,000
5.	(i)	Issue Price:	100 per cent. of the Aggregate Nominal Amount
	(ii)	Gross proceeds:	CNY1,000,000,000
6.	(i)	Specified Denominations:	CNY1,000,000 and integral multiples of CNY10,000 in excess thereof
	(ii)	Calculation Amount:	CNY10,000
7.	(i)	Issue Date:	18 September 2023
	(ii)	Interest Commencement Date:	Issue Date
8.	Maturity Date:		Interest Payment Date falling in or nearest to September 2026
9.	Interest Basis:		3.30 per cent. Fixed Rate (further particulars specified below)
10.	Redemption/Payment Basis:		Redemption at par
11.	Change of Interest or Redemption/Payment Basis:		Not Applicable
12.	Put/Call Options:		Change of Control Put
13.	Approvals		
	(i)	Board approval of the Issuer:	25 August 2023
	(ii)	Board approval of the Guarantor:	25 August 2023
	(iii)	Date of regulatory approval(s) for	Pursuant to 《企业借用外债审核登记证明》(发改办外债 [2023] 76 号) issued by the NDRC on 8 May

		issuance of Notes obtained:	2023, the NDRC has granted an annual foreign debt quota (the "**Headquarter Quota**") to China Merchants Group Limited (the "**CMG**"), the ultimate parent company of the Guarantor. The Issuer is permitted by the CMG to utilise and is relying on the Headquarter Quota for the issuance of the Notes.
14.	Listing:		HKSE. Expected effective listing date of the Notes is 19 September 2023
15.	Method of distribution:		Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions		Applicable
	(i)	Rate of Interest:	3.30 per cent. per annum payable semi-annually in arrear
	(ii)	Interest Payment Dates:	18 March and 18 September in each year, adjusted in accordance with Modified Following Business Day Convention
	(iii)	Fixed Coupon Amount:	Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005, being rounded upwards
	(iv)	Broken Amount(s):	Not Applicable
	(v)	Day Count Fraction:	Actual/365 (Fixed)
	(vi)	Determination Dates:	Not Applicable
	(vii)	Party responsible for calculating the amount of interest:	Principal Paying Agent
	(viii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
17.	Floating Rate Note Provisions		Not Applicable
18.	Zero Coupon Note Provisions		Not Applicable

PROVISIONS RELATING TO REDEMPTION

19.	**Call Option**	Not Applicable
20.	**Put Option**	Not Applicable
21.	**Change of Control Put**	Applicable
22.	**Final Redemption Amount of each Note**	CNY10,000 per Calculation Amount

23. **Early Redemption Amount**

(i)	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons, on change of control triggering event or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	Not Applicable; Early Redemption Amount(s) per Calculation Amount payable shall be as set out in the Conditions
(ii)	Early Termination Amount per Calculation Amount payable on mandatory redemption on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	Not Applicable; Early Termination Amount per Calculation Amount payable shall be as set out in the Conditions

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	**Form of Notes**:	**Registered Notes**: Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate
25.	Additional Financial Centre(s) or other special provisions relating to payment dates:	Not Applicable
26.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No

27.	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
28.	Consolidation provisions:	The provisions in Condition 19 (*Further Issues*) apply
29.	Any applicable currency disruption/ fallback provisions:	Not Applicable
30.	Other terms or special conditions:	Not Applicable

DISTRIBUTION

31.	(i)	If syndicated, names of Managers:	China Merchants Securities (HK) Co., Limited CMB Wing Lung Bank Limited The Hongkong and Shanghai Banking Corporation Limited China CITIC Bank International Limited BOSC International Securities Limited CEB International Capital Corporation Limited China Construction Bank (Asia) Corporation Limited China Industrial Securities International Brokerage Limited China Minsheng Banking Corp., Ltd., Hong Kong Branch CMB International Capital Limited CMBC Securities Company Limited CNCB (Hong Kong) Capital Limited Industrial Bank Co., Ltd. Hong Kong Branch Mizuho Securities Asia Limited Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch SMBC Nikko Securities (Hong Kong) Limited Standard Chartered Bank (together, the "**Managers**")
	(ii)	Stabilisation Manager (if any):	Any one of the Managers (other than China CITIC Bank International Limited) appointed and acting in its capacity as stabilisation manager (or persons acting on its behalf)
32.	If non-syndicated, name and address of Dealer:		Not Applicable
33.	U.S. Selling Restrictions:		Reg. S Category 1 TEFRA not applicable
34.	(i)	Prohibition of Sales to EEA Retail Investors:	Not Applicable

	(ii)	Prohibition of Sales to UK Retail Investors:	Not Applicable
35.	Additional selling restrictions:		Not Applicable

OPERATIONAL INFORMATION

36.	Legal Entity Identifier:	9845001AE6C993CB8D75
37.	ISIN Code:	HK0000950995
38.	Common Code:	267752869
39.	CMU Instrument Number:	BOAKFN23008
40.	Any clearing system(s) other than Euroclear / Clearstream / the CMU and the relevant identification number(s):	Not Applicable
41.	Delivery:	Delivery against payment
42.	Additional Paying Agents (if any):	Not Applicable
43.	Private Bank Rebate/Commission:	Not Applicable
44.	The aggregate principal amount of the Notes issued has been translated into United States dollars at the rate of U.S.$1.00 = CNY7.2148, producing a sum of (for Notes not denominated in United States dollars):	U.S.$138,603,980.71
45.	Ratings:	The Notes to be issued are expected to be rated: Moody's: Baa2

HONG KONG SFC CODE OF CONDUCT

46.	(i)	Rebates:	Not Applicable
	(ii)	Contact email addresses of the Overall Coordinators where underlying investor information in relation to omnibus orders should be sent:	projectjade2023@cmschina.com.hk bondissuance@cmbwinglungbank.com hk_syndicate_omnibus@hsbc.com.hk TMG_Syndicate@cncbinternational.com ccba_dcm@asia.ccb.com dcm@xyzq.com.hk cmd_dcm@cibhk.com Omnibus_Bond@hk.mizuho-sc.com spdbhk.dcm@spdb.com.cn dcmnea.int@smbcnikko-hk.com SYNHK@SC.COM

(iii)	Marketing and Investor Targeting Strategy:	As set out in the Offering Circular

USE OF PROCEEDS

For details, please refer to the section headed "Use of Proceeds" in the Offering Circular.

STABILISING

In connection with this issue, the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no obligation on such Stabilisation Manager (or persons acting on behalf of such Stabilisation Manager) to undertake stabilisation action. Any stabilisation action for a limited period after the Issue Date, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to the HKSE of the Notes described herein pursuant to the U.S.$2,000,000,000 Medium Term Note Programme of the Issuer.

RESPONSIBILITY

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

SIGNED on behalf of **CMS INTERNATIONAL GEMSTONE LIMITED**

By: ....
Duly authorised

Name: XIE Qingjiao

Title: Director

RESPONSIBILITY

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

SIGNED on behalf of **CHINA MERCHANTS SECURITIES INTERNATIONAL COMPANY LIMITED**
(招商證券國際有限公司):

By: .... 刘远生
Duly authorised

Name: LIU Yuansheng

Title: Chief financial officer