SOUTHWEST SECURITIES INTERNATIONAL SECURITIES LIMITED
(the "Issuer", Stock Code: 812)
(incorporated in Bermuda with limited liability)

US$178,000,000 4.00 PER CENT. GUARANTEED BONDS DUE 2024
(the "Bonds", Stock Code of the Bonds: 40594)

UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY

西南证券
SOUTHWEST SECURITIES

SOUTHWEST SECURITIES CO., LTD.
(西南證券股份有限公司)
(the "Guarantor")
(incorporated in the People's Republic of China with limited liability)

PUBLICATION OF THE OFFERING CIRCULAR

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

Reference is made to the notice of listing of the Bonds on the SEHK dated 9 February 2021 published by the Issuer. The offering circular dated 3 February 2021 referred to therein is appended to this announcement.

Hong Kong, 10 February 2021

As at the date of this announcement, the executive directors of the Issuer are Mr. Wu Jian (Chairman), Mr. Pu Rui (Chief Executive Officer) and Dr. Zhao Mingxun; and the independent non-executive directors of the Company are Mr. Meng Gaoyuan, Dr. Guan Wenwei and Mr. Liang Jilin.

As at the date of this announcement, the directors of the Guarantor are Mr. Liao Qingxuan (Chairman), Mr. Wu Jian (President), Mr. Peng Zuofu, Mr. Zhang Chunyong (Vice President), Mr. Zhang Gang and Mr. Wan Shubin; and the independent directors of the Guarantor are Mr. Zhao Rubing, Mr. Luo Wei and Mr. Fu Daqing.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE U.S.

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

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

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. 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 AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES.

The Offering Circular is being furnished in connection with an offering in offshore transactions outside the United States in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the Securities.

Confirmation and your representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the Securities, investors must be outside the United States. By accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to each of Southwest Securities International Securities Limited (the "**Issuer**"), Southwest Securities Co., Ltd. (the "**Guarantor**") and Southwest Securities (HK) Brokerage Limited, Haitong International Securities Company Limited, CMB International Capital Limited, BOSC International Company Limited, Huatai Financial Holdings (Hong Kong) Limited, BNP Paribas, BOCOM International Securities Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, China Securities (International) Corporate Finance Company Limited, CLSA Limited, CMBC Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, Orient Securities (Hong Kong) Limited and SPDB International Capital Limited (together, the "**Joint Lead Managers**") that (1) you and any customers you represent are outside the United States 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 this Offering Circular by electronic transmission.

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

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this Offering Circular to any other person.

The materials relating to the offering do 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 any Joint Lead Manager or any affiliate of such Joint Lead Manager is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Issuer, the Guarantor, the Joint Lead Managers, or any person who controls any of them or any director, officer, employee or 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 Joint Lead Managers.

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

If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

SOUTHWEST SECURITIES INTERNATIONAL SECURITIES LIMITED
西證國際證券股份有限公司*

(incorporated in Bermuda with limited liability)

US$178,000,000 4.0 per cent. Guaranteed Bonds due 2024

Guaranteed by

西南证券
SOUTHWEST SECURITIES

SOUTHWEST SECURITIES CO., LTD.*
西南證券股份有限公司

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

Issue Price: 100 per cent.

The 4.0 per cent. guaranteed bonds due 2024 (the "**Bonds**") will be issued in the aggregate principal amount of US$178,000,000 by Southwest Securities International Securities Limited (formerly known as Tanrich Financial Holdings Limited) (the "**Issuer**") and will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by Southwest Securities Co., Ltd. (the "**Guarantor**") and are in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The Issuer is an indirect majority-owned subsidiary of the Guarantor.

The Bonds will bear interest on their outstanding principal amount from 9 February 2021 (the "**Issue Date**") at the rate of 4.0 per cent. per annum. Interest on the Bonds will be payable semi-annually in arrear in equal instalments on 9 February and 9 August in each year. Payments on the Bonds will be made without withholding or deduction for or on account of taxes of Bermuda, the PRC or Hong Kong (each as defined in the Terms and Conditions of the Bonds (the "**Conditions**")) or, in each case, any political subdivision or any authority therein or thereof having power to tax to the extent described in "*Terms and Conditions of the Bonds – Taxation*". The Bonds will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3(a) of the Conditions) unsecured obligations of the Issuer which rank *pari passu* without any preference or priority among themselves and will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of applicable laws.

The Guarantor will enter into a deed of guarantee (the "**Deed of Guarantee**") with The Bank of New York Mellon, London Branch (the "**Trustee**") on or around 9 February 2021. The Guarantor will undertake to submit for registration or cause to be submitted for registration with the relevant branch of the State Administration of Foreign Exchange ("**SAFE**"), the Deed of Guarantee within 15 PRC Business Days (as defined in the Conditions) after the execution of the Deed of Guarantee (the "**Cross-Border Security Registration**"). The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the Registration Deadline (being 120 PRC Business Days (as defined in the Conditions) after the Issue Date (as defined below)).

The Guarantor has completed the pre-issuance registration (the "**Pre-Issuance Registration**") of the issuance of the Bonds with the National Development and Reform Commission (the "**NDRC**") in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知)(發改外資[2015]2044號) (the "**NDRC Circular**") issued by the NDRC which came into effect on 14 September 2015. The Guarantor has received an Enterprise Foreign Debt Pre-Issuance Registration Certificate dated 16 October 2020 from the NDRC with respect to the Pre-Issuance Registration, which as at the date of this Offering Circular, remains valid and in full force and effect. The Guarantor undertakes to file or cause to be filed with the NDRC the requisite information and documents within 10 PRC Business Days (as defined in the Conditions) after the Issue Date. The Guarantor has received the letter of the China Securities Regulatory Commission or its local counterpart ("**CSRC**") in respect of the Guarantee (as defined in the Conditions) dated 25 November 2020.

Unless previously redeemed, or purchased and cancelled as provided herein, the Issuer will redeem each Bond at its principal amount on 9 February 2024 (the "**Maturity Date**"). At any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), the Issuer may redeem the Bonds in whole, but not in part, at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, if at any time in the event of certain changes affecting taxes of Bermuda, the PRC or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for tax reasons*". At any time following the occurrence of a Relevant Event (as defined in the Conditions), each Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all but not some only of such Bondholder's Bonds on the Put Settlement Date (as defined in the Conditions) at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount together with accrued interest to but excluding such Put Settlement Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase – Redemption for Relevant Event*".

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) ("**Professional Investors**") only. The Bonds are only suitable for Professional Investors and this document is for distribution to Professional Investors only. **Notice to Hong Kong investors: Each of the Issuer and the Guarantor confirms that the Bonds are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, each of the Issuer and the Guarantor confirms that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.**

The Hong Kong Stock Exchange has not reviewed the contents of this 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 Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer or the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this 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.

Investing in the Bonds involves certain risks. See "*Risk Factors*" beginning on page 17 for a description of certain factors to be considered in connection with an investment in the Bonds.

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

The Bonds have not been rated.

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

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Southwest Securities (HK) Brokerage Limited | **Haitong International** | **CMB International** | **BOSC International** | **Huatai International** | **BNP PARIBAS**

Joint Bookrunners and Joint Lead Managers

BOCOM International | **China CITIC Bank International** | **China Everbright Bank Hong Kong Branch** | **China Securities International** | **CLSA**

CMBC Capital | **Guotai Junan International** | **Orient Securities (Hong Kong)** | **SPDB International**

The date of this Offering Circular is 3 February 2021.

* *For identification purpose only*

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IMPORTANT NOTICE

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL TO, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF THE GUARANTOR'S OTHER SUBSIDIARIES (COLLECTIVELY THE "GROUP") SINCE THE DATE OF THIS OFFERING CIRCULAR OR THAT THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR IS CORRECT AS OF ANY TIME AFTER THAT DATE.

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

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 the Group, the Bonds and the Guarantee which is material in the context of the issue, offering, sale or distribution of the Bonds (including all information which is required by applicable laws and the relevant rules and regulations imposed by the Hong Kong Stock Exchange and the information which, according to the particular nature of the Issuer, the Issuer and its subsidiaries taken as a whole, the Guarantor, the Group, the Bonds, and the Guarantee, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Guarantor and the Group and of the rights attaching to the Bonds and the Guarantee, (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Group, the Bonds and the Guarantee are in all material respects true and accurate and not misleading (iii) the statements of intention, opinion, belief or expectation contained in this Offering Circular with regard to the Issuer, the Guarantor, and the Group are honestly held and reasonably made or held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other material facts relating to the Issuer, the Guarantor, the Group, the Bonds and the Guarantee, the omission of which would, in the context of the issue and offering of the Bonds make any statement in this Offering Circular misleading, 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 purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this 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.

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

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds and giving of the Guarantee as described in this Offering Circular exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Bonds. The distribution of this Offering Circular, the offering of the Bonds and the giving of the Guarantee in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, each of Southwest Securities (HK) Brokerage Limited, Haitong International Securities Company Limited, CMB International Capital Limited, BOSC International Company Limited, Huatai Financial Holdings (Hong Kong) Limited, BNP Paribas, BOCOM International Securities Limited, China CITIC Bank International Limited, China Everbright Bank Co., Ltd., Hong Kong Branch, China Securities (International) Corporate Finance Company Limited, CLSA Limited, CMBC Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, Orient Securities (Hong Kong) Limited and SPDB International Capital Limited (the "**Joint Lead Managers**"), the Trustee and the Agents (as defined in the Conditions) to inform themselves about and to observe any such restrictions. None of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee and the Agents and any of their respective affiliates, directors, officers, employees, representatives, agents and advisers and each person who controls any of them represents that this Offering Circular may be lawfully distributed, or that the Bonds 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 assume any responsibility for facilitating any such distribution or offering. No action is being taken to permit a public offering of the Bonds, giving of the Guarantee or the possession or distribution of this Offering Circular or any offering or publicity material relating to the Bonds in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, giving of the Guarantee and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*". By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Bonds or the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Group, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them.

This Offering Circular is being furnished by the Issuer and the Guarantor in connection with the proposed offering of the Bonds exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Bonds. Investors must not use this Offering Circular for any other purpose, make copies of any part of this Offering Circular or give a copy of it to any other person, or disclose any information in this Offering Circular to any other person. The information contained in this Offering Circular has been provided by the Issuer, the Guarantor and other sources identified in this Offering Circular and none of the Issuer and the Guarantor has authorised its use for any other purpose. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Bonds offered by this Offering Circular is prohibited. Each person into whose possession this Offering Circular comes, by accepting delivery of this Offering Circular, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by any of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds or the Guarantee and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by any of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them. The Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, representatives, agents and advisers and each person who controls any of them 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 Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them accepts any responsibility for the contents of this Offering Circular and assumes no responsibility for the contents, accuracy, completeness or sufficiency of any such information or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Guarantor, the Group, the Guarantee or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Agents and each of their respective affiliates, directors, officers, employees, representatives, agents and advisers and each person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Bonds remain outstanding nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them.

Any of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or each person who controls any of them may purchase the Bonds 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 Bonds 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 Bonds 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 Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). Furthermore, investors in the Bonds may include entities affiliated with the Issuer or the Group.

Investors are advised to read and understand the contents of this Offering Circular before investing in the Bonds. If in doubt, investors should consult his or her professional adviser.

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING IN ITS CAPACITY AS STABILISATION MANAGER (THE "**STABILISATION MANAGER(S)**") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER(S)), PROVIDED THAT NEITHER CHINA CITIC BANK INTERNATIONAL LIMITED NOR ORIENT SECURITIES (HONG KONG) LIMITED SHALL BE ACTING AS THE STABILISATION MANAGER, MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

This Offering Circular is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or each person who controls any of them) that any recipient of this Offering Circular should purchase the Bonds. 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 of the Bonds, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds. None of the Issuer, the Guarantor, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, representatives, agents and advisers and each person who controls any of them makes any representation to any purchaser of the Bonds regarding the legality of any investment in the Bonds 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, tax or investment advice. Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision.

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 Joint Lead Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them, and none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them makes any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

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 offering of the Bonds. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

In this Offering Circular, unless the context otherwise requires, the term "**Issuer**" refers to Southwest Securities International Securities Limited (formerly known as Tanrich Financial Holdings Limited) itself; the term "**Issuer Group**" refers to the Issuer and its consolidated subsidiaries; the terms "**Southwest Securities**", "**Company**" or "**Guarantor**" refer to Southwest Securities Co., Ltd. (西南證券股份有限公司) itself; and the term "**Group**" refers to the Guarantor and its consolidated subsidiaries.

All references in this Offering Circular to "**U.S. dollars**" and "**US$**" are to United States dollars; all references to "**H.K. dollars**" and "**HK$**" are to Hong Kong dollars; and all references to "**RMB**" and "**Renminbi**" are to Renminbi, the official currency of the PRC.

References to the "**PRC**" and "**China**" are to the People's Republic of China and, for the purposes of this Offering Circular, do not include Hong Kong, the Macau Special Administrative Region or Taiwan; and all references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China.

References to "**PRC government**" are to the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

References to "**CSRC**" are to the China Securities Regulatory Commission (中國證券監督管理委員會).

References to "**EIT Law**" are to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which came into effect on 1 January 2008.

References to "**MOFCOM**" are to the Ministry of Commerce of the PRC (中華人民共和國商務部).

References to "**NDRC**" are to the National Development and Reform Commission (國家發展和改革委員會).

References to "**NEEQ**" are to the National Equities Exchange And Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司).

References to "**SAC**" are to the Securities Association of China (中國證券業協會).

References to "**SAFE**" are to the PRC State Administration of Foreign Exchange (中國國家外匯管理局) or its local counterpart.

References to "**SASAC Chongqing**" are to the State-owned Assets Supervision and Administration Commission of Chongqing (重慶市國有資產監督管理委員會).

References to "**SAT**" are to the State Administration of Taxation (國家稅務總局).

References to "**SFC**" are to the Securities and Futures Commission of Hong Kong.

References to "**SME**" are to small and medium enterprises.

References to "**Southwest E-commerce**" are to Chongqing Southwest Securities Electronic Commerce Co., Ltd. (重慶西證電子商務有限責任公司), a company established in the PRC in 2014 which is an indirect wholly-owned subsidiary of the Guarantor.

References to “**Southwest Futures**” are to Southwest Futures Company Limited (西南期貨有限公司), a company established in the PRC which is a direct wholly-owned subsidiary of the Guarantor.

References to “**Southwest Microfinance**” are to Chongqing Southwest Securities Microfinance Co., Ltd. (重慶西證小額貸款有限公司), a company established in the PRC in 2014 which is an indirect wholly-owned subsidiary of the Guarantor.

References to “**Southwest Securities Equity Investment**” are to Southwest Securities Equity Investment Company Limited (西證股權投資有限公司), a company established in the PRC which is a direct wholly-owned subsidiary of the Guarantor.

References to “**Southwest Securities Innovation Investment**” are to Southwest Securities Innovation Investment Company Limited (西證創新投資有限公司), a company established in the PRC which is a direct wholly-owned subsidiary of the Guarantor.

References to “**Southwest Securities International Investment**” are to Southwest Securities International Investment Limited (西證國際投資有限公司), a company established in Hong Kong which is a direct wholly-owned subsidiary of the Guarantor.

References to “**Wind Info**” are to Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), an integrated service provider of financial information and data for financial institutions in the PRC.

References to “**Yinhua Fund**” are to Yinhua Fund Management Company Limited (銀華基金管理股份有限公司), a company established in the PRC, 44.10% of whose shares were owned by the Guarantor as of 30 June 2020.

In this Offering Circular, because certain amounts have been rounded, 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.

Unless otherwise stated in this Offering Circular, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB7.0651 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on 30 June 2020, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK$7.7501 to US$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on 30 June 2020. All such translations in this Offering Circular are provided solely for the convenience of the reader. No representation is made that the Renminbi or H.K. dollar amounts referred to herein have been or could have been or could be converted into U.S. dollars, or vice versa, at any particular rate or at all. See “*Exchange Rate Information*”.

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

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 Issuer’s, the Guarantor’s and the Group’s future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where the Issuer, the Guarantor and the Group participate or are 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”, “target” 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 Issuer’s, the Guarantor’s or 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 Issuer’s, the Guarantor’s or the Group’s present and future business strategies and the environment in which it will operate in the future. Important factors that could cause the Issuer’s, the Guarantor’s or the Group’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- the development of the outbreak of the coronavirus disease 2019 (“**COVID-19**”) and the restrictive measures governments impose on social and economic activities to contain the pandemic;
- the risks inherent to the industries in which the Issuer, the Guarantor and the Group operate;
- the business and operating strategies and the future business development of the Issuer, the Guarantor and the Group;
- the general economic, political, social conditions and developments in the PRC;
- changes in competitive conditions and the Issuer’s, the Guarantor’s and the Group’s ability to compete under these conditions;
- the Issuer’s, the Guarantor’s and the Group’s capital expenditure and development plans;
- the Issuer’s, the Guarantor’s and the Group’s expectations with respect to its ability to acquire and maintain regulatory qualifications required to operate its business;
- costs of bank loans and other forms of financing, and the Issuer’s, the Guarantor’s and the Group’s ability to secure adequate financing;
- the Issuer’s, the Guarantor’s and the Group’s financial condition and results of operations;
- the Issuer’s, the Guarantor’s and the Group’s dividend distribution plans;
- changes in currency exchange rates;
- macroeconomic policies of the PRC government; and
- other factors beyond the Issuer’s, the Guarantor’s and the Group’s control.

Any forward-looking statement speaks only as of the date on which it is made, and none of the Issuer, the Guarantor or the Group undertakes any obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for the Issuer, the Guarantor or the Group to predict which factors will arise. In addition, the Issuer, the Guarantor or the Group cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Important factors that could cause actual results to differ materially from expectations are disclosed under the section entitled "*Risk Factors*".

PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial information of the Group as of and for the years ended 31 December 2018 and 2019 has been derived from the Group's audited consolidated financial statements as of and for the year ended 31 December 2019 (the "**Group's Audited Financial Statements**"), which have been audited by Pan-China Certified Public Accountants (天健會計師事務所) ("**Pan-China**"). The unaudited consolidated financial information of the Group as of and for the six months ended 30 June 2019 and 2020 has been derived from the Group's reviewed consolidated financial statements as of and for the six months ended 30 June 2020 (the "**Group's Unaudited Interim Financial Statements**"), which have been reviewed by Baker Tilly China Certified Public Accountants (天職國際會計師事務所) ("**Baker Tilly**").

The Group's Audited Financial Statements and the Group's Unaudited Interim Financial Statements are in Chinese only, while English translations of such financial statements have been prepared and included in this Offering Circular for reference. Should there be any inconsistency between such financial statements in Chinese and the respective English translation, the Chinese version shall prevail. Copies of the Group's Audited Financial Statements and the Group's Unaudited Interim Financial Statements are available for inspection – please see "*General Information*". None of the Joint Lead Managers, the Trustee or the Agents, nor their respective affiliates, directors, officers, employees, representatives, agents and advisers, has independently verified or checked the accuracy of the English translation, nor can any of them give any assurance that the information contained in the English translation of the Group's Audited Financial Statements or the Group's Unaudited Interim Financial Statements is accurate.

The Group's Audited Financial Statements and the Group's Unaudited Interim Financial Statements have been prepared and presented in accordance with the Accounting Standards for Business Enterprises in China ("**PRC GAAP**"). PRC GAAP differs in certain material respects from the International Financial Reporting Standards ("**IFRS**"). For a discussion of certain differences between PRC GAAP and IFRS, see "*Summary of Certain Differences between PRC GAAP and IFRS*".

The audited consolidated financial information of the Issuer Group as of and for the years ended 31 December 2018 and 2019 has been derived from the Issuer Group's audited financial statements as of and for the year ended 31 December 2019 (the "**Issuer Group's Audited Financial Statements**"), which have been audited by Ernst & Young ("**EY**"). The unaudited condensed consolidated financial information of the Issuer Group as of and for the six months ended 30 June 2019 and 2020 has been derived from the Issuer Group's unaudited condensed consolidated interim financial information as of and for the six months ended 30 June 2020 (the "**Issuer Group's Unaudited Interim Financial Statements**"), which have been reviewed by EY.

The Issuer Group's Audited Financial Statements have been prepared and presented in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The Issuer Group's Unaudited Interim Financial Statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 Interim Financial Reporting issued by the HKICPA.

Neither the Group's Unaudited Interim Financial Statements nor the Issuer Group's Unaudited Interim Financial Statements has been audited. As such, the interim financial information of the Group or the Issuer Group presented in this Offering Circular should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's or the Issuer Group's financial condition and results of operations.

The unaudited condensed consolidated interim financial information should not be taken as an indication of the expected financial condition and results of operations of the Issuer Group or the Group for the full financial year ended 31 December 2020.

SUMMARY

This summary does not contain all the information that may be important to investors in deciding to invest in the Bonds. Investors should read the entire Offering Circular, including the section entitled "Risk Factors" and the consolidated financial statements of the Issuer and the Group and related notes thereto, before making an investment decision.

THE GROUP

The Group is an integrated securities group that offers a wide range of financial services and products in the PRC and Hong Kong. The predecessor of the Guarantor was established on 28 December 1999 with CSRC's approval and the Guarantor became listed on the Shanghai Stock Exchange (SHA: 600369) in February 2009. The Guarantor is a leading financial service provider in the PRC and the only national securities firm that is over 30% indirectly owned by the SASAC Chongqing.

The Group is primarily engaged in securities brokerage, investment banking, asset management and securities proprietary trading businesses. The Group also operates an in-house research centre which provides analysis services to its clients and supports the Group's other core businesses. The Group carries out its business activities primarily through its subsidiaries, including the Issuer, in the PRC and Hong Kong.

History

The Guarantor was founded on 28 December 1999 and as of the date of this Offering Circular has a registered capital of RMB6,645.1 million. The following highlights the key milestone events of the Guarantor:

Year	Key Milestone
1999	Southwest Securities was founded on 28 December 1999 with an initial registered capital of approximately RMB1,128.2 million.
2002	Southwest Securities issued a limited amount of new shares on 14 November 2002, and its registered share capital increased to approximately RMB1,630.4 million.
2006	Southwest Securities first reduced its registered share capital on 7 August 2006 to approximately RMB815.2 million and later increased its registered share capital on 23 October 2006 to approximately RMB2,336.6 million.
2009	Chongqing Changjiang River Water Transport Company Limited (重慶長江水運股份有限公司), which was listed on the Shanghai Stock Exchange, merged with Southwest Securities and obtained the qualifications for various brokerage and securities businesses previously held by Southwest Securities in February 2009. The merged entity was renamed as Southwest Securities Co., Ltd. (西南證券股份有限公司), which remains a listed company on the Shanghai Stock Exchange (SHA: 600369), and its registered share capital was changed to approximately RMB1,903.9 million.
2010	In March, the Guarantor obtained approval from the CSRC to establish Southwest Securities Equity Investment.
	In August, the Guarantor offered 418.7 million ordinary shares in a private placement and its registered share capital increased to approximately RMB2,322.6 million.

Year	Key Milestone
2013	In February, the Guarantor acquired the controlling stake of Chongqing Share Transfer Centre Co. Ltd.
	In April, the Guarantor obtained approval from the CSRC to establish Southwest Securities Innovation Investment.
	In October, after receiving approval from the CSRC, the Guarantor completed its acquisition of Southwest Futures Brokerage Company Limited (西南期貨經紀有限公司), which later changed its name to Southwest Futures in January 2014.
	In November, the Guarantor obtained approval from the CSRC to establish Southwest Securities International Investment.
2014	In February, the Guarantor offered 500 million ordinary shares in a private placement and its registered share capital increased to approximately RMB2,822.6 million.
2015	In January, the Guarantor completed its acquisition of the Issuer.
	In September, the Guarantor completed a capitalisation issue of 2,822.6 million new ordinary shares and its registered share capital increased to RMB5,645.1 million.
2016	Together with the Government of Xinjiang Uygur Autonomous Region of China, one subsidiary of the Guarantor, Southwest Innovation Capital (Shenzhen) Co., Ltd. (西證創新資本(深圳)有限公司), co-established the Xinjiang Silk Road equity fund with an asset size of RMB0.15 billion.
2017	Southwest Futures established a wholly-owned risk management company, Chongqing Dingfu Ruize Risk Management Co., Ltd. (重慶鼎富瑞澤風險管理有限公司), which is the only company in the Western China region qualified to provide all services of basis trading, warehouse receipts service, cooperation insurance and pricing service.
2018	The Guarantor invested HK$570 million in Southwest Securities International Investment, the immediate holding company of the Issuer.
2020	In July, the Guarantor issued 1,000 million new ordinary shares, thereby increasing its registered share capital to RMB6,645.1 million.

Competitive Strengths

The Group believes its success and prospects are supported by a combination of the following key competitive strengths:

- headquartered in Chongqing and the Western China region, which provides economic growth and policy advantages
- a leading PRC financial service institution with a wide range of security products and services
- large and diverse client base
- strong ability to develop new products and services
- strong research capabilities
- experienced management with extensive industry expertise

Business Strategies

The Group seeks to become a leading integrated financial group in the PRC. To achieve this goal, the Group intends to pursue the following core business strategies:

- further strengthen the Group's leading position in the Western China region

- continue to improve and advance the Group's integrated business platform to increase competitiveness

- enhance risk management and internal controls to meet new regulatory requirements and minimise business risks

- effectively attract, incentivise and retain talented employees

THE ISSUER

The Issuer is an integrated financial institution that offers a wide range of financial products and services in Hong Kong. The Issuer has developed a robust business model with diversified sources of income and strives to achieve international standards in its product and service offerings. The Issuer received the ISO 9001 (Quality Management System) and ISO 10002 (Complaints Management System & Customer Satisfaction) accreditations in 2008. The Issuer's principal business lines currently include:

- ***Brokerage and Margin Financing***. The Issuer engages in agency trading of securities, futures and options trading, and provision of insurance brokerage services, margin financing services, financial products business and one-stop integrated investment and financing services for high-net-worth clients.

- ***Corporate Finance***. The Issuer provides corporate finance services, including sponsor services, underwriting and placement services, financial advisory services and financing arrangement services to corporate clients in Hong Kong.

- ***Asset Management***. The Issuer provides asset management services.

- ***Proprietary Trading***. The Issuer engages in the trading of various financial products for its own account.

The Issuer's origins can be traced back to 1990 when Southwest Securities (HK) Futures Limited (formerly known as Tanrich Futures Limited) was first established. The Issuer was incorporated in Bermuda on 3 September 1998 as an exempted company with limited liability and listed on the Main Board of the Hong Kong Stock Exchange in January 2002. The Issuer was acquired by the Guarantor in January 2015 and rebranded itself by changing its name to Southwest Securities International Securities Limited on 14 April 2015. The Guarantor acquired a majority interest in the Issuer in order to expand and develop the Issuer as the Guarantor's overseas platform. The Guarantor intends to continue to develop the Issuer's existing business in anticipation of market developments and opportunities, such as the Shanghai-Hong Kong Stock Connect (滬港通) programme, under which the Shanghai Stock Exchange and the Hong Kong Stock Exchange enable investors to trade eligible shares listed on the other's market through local securities firms or brokers. The acquisition by the Guarantor has improved the Issuer's liquidity and financial position, in particular, its working capital and cash flow position, and strengthened its cash reserves to facilitate its on-going development.

Competitive Strengths

The Issuer believes its success and prospects are attributable to the following competitive strengths:

- the sole overseas platform of the Group, a leading PRC financial service institution
- well-positioned to capture growth opportunities provided by increasing cross-border investments
- integrated financial services company with a diversified business model
- technologically advanced online trading platforms
- prudent and effective risk management and internal control systems

Business Strategies

The Issuer intends to implement the following business strategies to achieve its goal of becoming one of the leading integrated financial institutions in Hong Kong:

- strengthen its "investment" + "corporate finance" business portfolio and capture cross-selling opportunities
- further leverage the Group's strength and experience in the PRC brokerage industry and explore new business opportunities and clienteles
- continue to attract talented professionals in Hong Kong
- enhance risk management and internal controls to support its business operations

RECENT DEVELOPMENT

COVID-19 Outbreak

As the COVID-19 outbreak broke out and spread quickly around the world at the beginning of 2020, and was declared a pandemic, mobility restrictions were imposed in various countries, and the global economy contracted substantially as a result. The number of confirmed cases of COVID-19 infections increased rapidly in countries like the United States, United Kingdom, Brazil and India, disrupting the pace of economic recovery. There has been a recent resurgence of reported infections, including in Europe, Canada and, to a lesser extent, Hong Kong and mainland China, as well as the emergence and rapid spread of new variants of the COVID-19 virus in the United Kingdom and other parts of Europe. There are substantial uncertainties in Hong Kong's economic outlook and it is expected that the market sentiment will continue to be dominated by development of the pandemic in the short and medium term. See "*Risk Factors – Risks relating to the Group's Business – The Group's business is highly dependent on the general economic and market conditions in China and other parts of the world*".

Changes to the Group's Capitalisation and Indebtedness

There have been material changes in the Group's capitalisation and indebtedness since 30 June 2020. See "*Capitalisation and Indebtedness of the Group*".

THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this Offering Circular. For a more detailed description of the Bonds, see "Terms and Conditions of the Bonds". Terms used in this summary and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds" and "Summary of Provisions Relating to the Bonds in Global Form".

Issuer	Southwest Securities International Securities Limited (西證國際證券股份有限公司*).
Guarantor	Southwest Securities Co., Ltd.* (西南證券股份有限公司).
Bonds	US$178,000,000 4.0 per cent. Guaranteed Bonds due 2024.
Guarantee	The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. Its obligations in that respect will be contained in the Deed of Guarantee.
Issue Price	100 per cent.
Form and Denomination	The Bonds will be issued in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof.
Interest	The Bonds will bear interest on their outstanding principal amount from, and including, the Issue Date at the rate of 4.0 per cent. per annum, payable semi-annually in arrear in equal instalments of US$20.0 per Calculation Amount (as defined in the Conditions) on 9 February and 9 August each year.
Issue Date	9 February 2021.
Maturity Date	9 February 2024.
Status of the Bonds	The Bonds will constitute direct, general, unconditional, unsubordinated and (subject to Condition 3(a) (*Negative Pledge*) of the Conditions) unsecured obligations of the Issuer which rank *pari passu* without any preference or priority among themselves and will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of applicable laws.
Status of the Guarantee	The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation (subject to Condition 3(a) (*Negative Pledge*) of the Conditions), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

* *For identification purpose only*

Negative Pledge	The Bonds will contain a negative pledge provision as further described in Condition 3(a) (*Negative Pledge*) of the Conditions.
Redemption at Maturity	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Taxation	All payments of principal, premium and interest in respect of the Bonds or under the Guarantee by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Bermuda, the PRC or Hong Kong or, in each case, any political subdivision or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In such event, the Issuer or the Guarantor (as the case may be) shall, subject to the limited exceptions specified in Condition 7 (*Taxation*) of the Conditions, pay such additional amounts as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been receivable by them had no such withholding or deduction been required, as further described in Condition 7 (*Taxation*) of the Conditions.
Redemption for Tax Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, if, immediately before giving such notice, the Issuer and/or the Guarantor (as the case may be) satisfies the Trustee that (i) the Issuer (or, if the Guarantor were called, the Guarantor) has or will become obliged to pay Additional Amounts (as defined in Condition 7 (*Taxation*) of the Conditions) as a result of any change in, or amendment to, the laws or regulations of Bermuda, the PRC or Hong Kong or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 3 February 2021; and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Amounts if a payment in respect of the Bonds (or the Guarantee, as the case may be) were then due. See Condition 5(b) (*Redemption for tax reasons*) of the Conditions.

Redemption for Relevant Event	At any time following the occurrence of a Relevant Event, each Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all but not some only of that Bondholder's Bonds on the Put Settlement Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest to but excluding such Put Settlement Date. See Condition 5(c) (*Redemption for Relevant Event*) of the Conditions.
Events of Default	Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Conditions, the Trustee at its discretion may and, if so requested in writing by Holders of at least 25 per cent. in aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject in every such case to the Trustee having been indemnified and/or provided with security and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with any accrued but unpaid interest without further action or formality.
Cross-Default	The Bonds will contain a cross-default provision as further described in Condition 8(c) (*Cross-default of the Issuer, the Guarantor or Subsidiaries*) of the Conditions.
Clearing Systems	The Bonds will be represented by a Global Bond Certificate in registered form which will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Bond Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described in the Global Bond Certificate, individual bond certificates for Bonds will not be issued in exchange for interests in the Global Bond Certificate.
Clearance and Settlement	The Bonds have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS2289193810 Common Code: 228919381
Legal Entity Identifier of the Issuer	254900RJS6SGU87M1L69.
Governing Law and Jurisdiction	Hong Kong law and exclusive jurisdiction of Hong Kong courts.
Trustee	The Bank of New York Mellon, London Branch.

Registrar	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Principal Paying Agent	The Bank of New York Mellon, London Branch.
Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Listing	Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only, and it is expected that dealing in, and listing of, the Bonds on the Hong Kong Stock Exchange will commence on 10 February 2021.
Rating	The Bonds have not been rated.
Use of Proceeds	See "*Use of Proceeds*".

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The following tables set forth selected summary consolidated financial information of the Issuer as of and for the years indicated. The summary consolidated financial information as of and for the years ended 31 December 2018 and 2019 set forth below has been derived from the Issuer's Audited Financial Statements, which have been audited by EY. The summary condensed consolidated financial information as of and for the six months ended 30 June 2019 and 2020 set forth below has been derived from the Issuer Group's Unaudited Interim Financial Statements, which have been reviewed by EY. The Issuer Group's Audited Financial Statements have been prepared and presented in accordance with HKFRS and the Issuer Group's Unaudited Interim Financial Statements have been prepared in accordance with HKAS 34. See "Presentation of Financial Information".

The summary financial information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements of the Issuer and, including the notes thereto, included elsewhere in this Offering Circular. Historical results of the Issuer are not necessarily indicative of results that may be achieved for any future period.

SUMMARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
			(unaudited)	(unaudited)
	(HK$ in thousands)			
Revenue	122,172	232,534	131,483	128,878
Other income and gains	8,479	30,466	17,495	5,416
Reversal of allowance for doubtful debts	–	–	4,754	–
Fair value change on derivative financial liabilities	77,413	–	–	–
	208,064	263,000	153,732	134,294
Fee and commission expenses	(24,668)	(16,913)	(10,677)	(6,855)
Finance costs	(146,479)	(138,835)	(78,459)	(58,008)
Staff costs	(96,360)	(75,200)	(39,301)	(32,984)
Depreciation	(10,928)	(23,611)	(13,279)	(9,534)
Expected credit losses on financial assets, net	(7,599)	(318,538)	(58,472)	(133,884)
Loss on non-substantial modification of financial assets measured at amortised cost	–	(1,763)	–	–
Other operating expenses	(104,301)	(34,978)	(13,796)	(20,239)
Other losses arising from consolidation of investment fund	(14,477)	–	–	–
Total expenses	(404,812)	(609,838)	(213,984)	(261,504)
Loss before tax	(196,748)	(346,838)	(60,252)	(127,210)
Income tax (expense)/credit	(5,000)	2,243	76	–
Loss for the year attributable to equity shareholders of the Company	(201,748)	(344,595)	(60,176)	(127,210)

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
			(unaudited)	(unaudited)
	(HK$ in thousands)			
Other comprehensive income				
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Exchange difference on translation of foreign operation	(160)	(339)	(61)	(119)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	(160)	(339)	(61)	(119)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:				
Change in fair value of financial assets at fair value through other comprehensive income	(168)	388	388	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	(168)	388	388	–
Other comprehensive income for the year, net of tax	(328)	49	327	(119)
Total comprehensive income for the year attributable to equity shareholders of the Company	(202,076)	(344,546)	(59,849)	(127,329)
			(Restated)	
Loss per share				
– Basic (HK cents)	(7.765)	(10.025)	(1.872)[(1)]	(3.474)
– Diluted (HK cents)	(7.765)	(10.025)	(1.872)	(3.474)

Note:

(1) The Issuer completed a rights issue during the six months period ended 30 June 2019. The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the six months ended 30 June 2019 has been retrospectively adjusted to correctly reflect the weighted average number of ordinary shares in issue during the six months ended 30 June 2019. See note 15 to the Issuer Group's Unaudited Interim Financial Statements for details.

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December		As of 30 June
	2018	2019	2020
			(unaudited)
	(HK$ in thousands)		
Non-current assets			
Fixed assets	13,744	7,758	5,932
Right-of-use assets	–	43,564	36,060
Financial assets at fair value through other comprehensive income	1,079	–	–
Other non-current assets	7,654	8,072	8,010
	22,477	59,394	50,002
Current assets			
Financial assets at fair value through profit or loss	451,854	739,506	1,159,709
Accounts receivable	1,099,683	532,164	267,347
Prepayments, other receivables and other assets	10,351	8,798	15,238
Tax recoverable	–	6,884	2,661
Cash and bank balances	441,812	789,090	524,533
	2,003,700	2,076,442	1,969,488
Current liabilities			
Bonds payable	1,945,475	–	1,545,378
Derivative financial liabilities	–	17,732	–
Accounts payable	4,002	48,228	93,519
Other payables and accrued charges	37,781	34,661	40,317
Provisions	–	13,173	3,381
Contract liabilities	1,125	1,336	–
Lease liabilities	–	14,876	15,209
Tax payable	8,000	–	–
	1,996,383	130,006	1,697,804
Net current assets	7,317	1,946,436	271,684
Total assets less current liabilities	29,794	2,005,830	321,686
Non-current liabilities			
Bonds payable	–	1,549,172	–
Provisions	–	2,034	2,034
Lease liabilities	–	32,476	24,833
	–	1,583,682	26,867
Net Assets	29,794	422,148	294,819
Capital and reserves			
Share capital	244,121	366,182	366,182
Reserves	(214,327)	(524,034)	(651,363)
Other equity instrument	–	580,000	580,000
TOTAL EQUITY	29,794	422,148	294,819

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOW

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
			(unaudited)	(unaudited)
	(HK$ in thousands)			
Net cash generated from/(used in) operating activities	(147,208)	139,538	285,308	(199,012)
Net cash generated from/(used in) investing activities	(3,454)	(1,395)	(1,226)	(142)
Net cash generated from/(used in) financing activities	(50,505)	211,494	(310,206)	(60,864)
Cash and cash equivalents at the beginning of the year	645,184	441,812	441,812	789,090
Effect on exchange rate changes	(2,205)	(2,359)	(3,392)	(4,539)
Cash and cash equivalents at the end of the year	441,812	789,090	412,296	524,533

SUMMARY FINANCIAL INFORMATION OF THE GROUP

The following tables set forth selected summary consolidated financial information of the Group as of and for the years and periods indicated. The summary consolidated financial information as of and for the years ended 31 December 2018 and 2019 set forth below has been derived from the Group's Audited Financial Statements, which have been audited by Pan-China. The summary consolidated financial information as of and for the six months ended 30 June 2019 and 2020 set forth below has been derived from the Group's Unaudited Interim Financial Statements, which have been reviewed by Baker Tilly. See "Presentation of Financial Information".

The summary financial information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements of the Group and, including the notes thereto, included elsewhere in this Offering Circular. Historical results of the Group are not necessarily indicative of results that may be achieved for any future period. The Group's Audited Financial Statements and the Group's Unaudited Interim Financial Statements have been prepared and presented in accordance with PRC GAAP. PRC GAAP differs in certain material respects from IFRS. For a discussion of certain differences between PRC GAAP and IFRS, see "Summary of Certain Differences between PRC GAAP and IFRS".

SUMMARY CONSOLIDATED INCOME STATEMENT

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
			(unaudited)	(unaudited)
	(RMB in thousands, except for earnings per share)			
Total operating revenue	2,744,154	3,488,837	1,709,818	1,621,941
Net handling charges and commission income	1,146,206	950,089	507,764	480,553
Including: brokerages	496,079	582,755	337,880	343,065
Investment banking	493,817	295,132	136,214	110,562
Assets management	73,954	54,831	27,232	15,367
Net interest income	(448,044)	187,534	108,150	156,725
Investment income (or less: losses)	1,683,120	1,295,445	539,856	699,897
Including: investment income from associates and joint ventures	175,285	269,681	159,670	196,884
Gains on changes in fair value (or less: losses)	(2,683)	905,791	450,207	245,851
Gains on asset disposal (or less: losses)	305	691	189	304
Gains on foreign exchange (or less: losses)	(59,907)	8,977	3,139	2,640
Other income	85,551	40,488	28,111	17,769
Other operating income	339,605	99,823	72,402	18,201
Total operating cost	2,526,050	2,382,718	1,168,359	1,156,471
Taxes and surcharge for operations	27,365	21,941	10,661	9,307
Business and administrative expenses	1,780,083	1,956,005	1,020,172	995,838
Credit impairment losses	–	300,653	50,216	129,005
Asset impairment losses	376,136	–	–	–
Impairment loss of other assets	–	15,422	15,413	491
Other operating costs	342,466	88,697	71,897	21,831
Operating profit (or less: losses)	218,104	1,106,119	541,460	465,470
Add: non-operating revenue	1,428	362	279	384
Less: non-operating expenditures	5,107	7,294	4,274	12,835
Profit before tax (or less: total loss)	214,425	1,099,187	537,464	453,018
Less: income tax	(801)	134,684	58,468	57,162

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
			(unaudited)	(unaudited)
	(RMB in thousands, except for earnings per share)			
Net profit (or less: net loss)	215,226	964,503	478,996	395,856
Categorized by the continuity of operations				
Net profit from continuing operations (or less: net loss)	175,162	964,503	478,996	395,856
Net profit from discontinued operations (or less: net loss)	40,063	–	–	–
Categorized by the portion of equity ownership				
Net profit attributable to owners of parent company	226,843	1,042,001	490,497	428,438
Non-controlling interest income	(11,617)	(77,499)	(11,500)	(32,582)
Other comprehensive income after tax	(692,284)	142,704	93,709	10,195
Items attributable to owners of parent company	(733,923)	143,116	93,426	10,767
Not to be reclassified subsequently to profit or loss	(6,009)	110,512	110,421	(28,972)
Changes in remeasurement on the net defined benefit liability/asset	(6,009)	(4,196)	(1,223)	(912)
Changes in the fair value of other equity instrument investments	–	114,708	111,644	(28,060)
To be reclassified subsequently to profit or loss	(727,914)	32,604	(16,995)	39,739
Items attributable to investees under equity method that will be reclassified to profit or loss	723	249	210	197
Profit or loss from changes in fair value of available-for-sale financial assets	(740,491)	–	–	–
Changes in fair value of investments in other debt	–	20,868	(17,410)	14,879
Provision of credit losses on investments in other debt	–	(723)	(1,312)	(867)
Translation difference of financial statements in foreign currencies	12,510	12,210	1,517	25,530
Others	(655)	–	–	–
Items attributable to non-controlling interests	41,639	(412)	282	(572)
Total comprehensive income	(477,059)	1,107,207	572,705	406,051
Items attributable to owners of parent company	(507,080)	1,185,118	583,923	439,205
Items attributable to non-controlling interests	30,022	(77,911)	(11,218)	(33,154)
Earnings per share (RMB):				
(I) Basic EPS	0.04	0.18	0.09	0.08
(II) Diluted EPS	0.04	0.18	0.09	0.08

SUMMARY CONSOLIDATED BALANCE SHEET

	As of 31 December		As of 30 June
	2018	2019	2020
			(unaudited)
	(RMB in thousands)		
Assets:			
Cash and bank balances	10,509,699	13,424,713	14,514,915
Including: cash held on behalf of clients	7,047,318	9,789,334	10,553,180
Settlement reserve fund	3,276,097	2,912,120	3,300,096
Including: Settlement reserve fund held on behalf of clients	2,187,230	1,616,211	2,520,890
Loans to clients for buying securities	8,489,617	10,578,077	10,864,973
Financial assets at fair value through profit or loss	27,115,564	–	–
Derivative financial assets	6,300	80	1,395
Reverse-REPO financial assets	2,140,371	1,560,087	1,505,869
Accounts receivable	52,226	14,747	134,677
Interest receivable	675,472	–	–
Refundable deposits	583,244	879,185	1,124,156
Available-for-sale financial assets	6,364,866	–	–
Financial assets held for trading	–	17,667,369	23,045,529
Other debt investments	–	11,383,679	10,360,984
Other equity investments	–	3,317,993	3,268,177
Long-term equity investments	1,846,765	2,013,395	2,061,327
Investment property	35,718	32,055	69,908
Fixed assets	313,508	290,115	238,280
Construction in progress	393,096	574,160	650,009
Intangible assets	175,520	166,421	156,398
Goodwill	203,818	192,425	195,989
Deferred tax assets	435,024	359,509	370,829
Other assets	1,078,310	484,865	474,676
Total assets	63,695,216	65,850,995	72,338,189
Liabilities & Equity			
Liabilities:			
Short-term debt instruments	2,341,310	1,310,320	3,883,705
Placement from banks and other financial institutions	500,000	1,408,303	2,017,333
Financial liabilities at fair value through profit or loss	1,941,786	–	–
Derivative financial liabilities	4,159	15,884	9
Financial liabilities held for trading	–	779,764	615,015
REPOs	16,608,204	14,515,652	16,938,030
Deposit for client brokerages	8,678,011	11,242,411	13,059,413
Proceeds from underwriting securities received on behalf of customers	–	–	176,250
Employee benefits payable	802,446	1,146,654	1,275,212
Taxes and rates payable	81,001	39,379	42,265
Accounts payable	32,101	99,926	182,587
Interest payable	323,901	–	–
Bonds payable	13,237,046	15,460,003	14,279,560
Deferred tax liabilities	13,490	102,558	155,078
Other liabilities	154,796	172,362	204,060
Total liabilities	44,718,251	46,293,217	52,828,518
Equity:			
Share capital/Paid-in capital	5,645,109	5,645,109	5,645,109
Capital reserve	7,768,260	7,768,260	7,768,260
Other comprehensive income	(328,397)	183,766	183,017
Surplus reserve	1,023,128	1,100,648	1,100,648
General risk reserve	1,969,276	2,124,316	2,124,316
Undistributed profit	2,518,033	2,771,470	2,757,607
Equity attributable to owners of the parent company	18,595,408	19,593,569	19,578,957
Non-controlling interests	381,557	(35,791)	(69,286)
Total equity	18,976,965	19,557,778	19,509,671
Total liabilities and equity	63,695,216	65,850,995	72,338,189

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
			(unaudited)	(unaudited)
	(RMB in thousands)			
Net cash flows from operating activities .	2,348,842	1,464,202	1,588,592	(147,625)
Net cash flows from investing activities .	1,063,593	2,832,361	1,371,859	1,217,573
Net cash flows from financing activities .	(5,593,762)	(1,763,500)	1,824,673	393,126
Closing balance of cash and cash equivalents	13,785,796	16,335,990	18,574,098	17,814,898

RISK FACTORS

Investors should carefully consider the risks described below and information contained in this Offering Circular before deciding to invest in the Bonds. The following describes some of the significant risks that could affect the Issuer, the Group and the value of the Bonds. The risks and uncertainties described below may not be the only ones that the Issuer and the Group face. Additional risks and uncertainties that the Issuer and the Group are not aware of or that they currently believe are immaterial may also adversely affect their business, financial condition or results of operations. If any of the possible events described below occur, the Issuer's and the Group's business, financial condition or results of operations could be materially and adversely affected. In such case, the Issuer and the Group may not be able to satisfy their obligations under the Bonds and investors could lose all or part of their investment.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group's business is highly dependent on the general economic and market conditions in China and other parts of the world.

With substantially all of its revenue derived from the securities markets in China, the Group's business is highly dependent on China's economic and market conditions. Therefore, the Group's business is subject to China's macro-economic and monetary policies, legislation and regulations affecting the securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates. In addition, unfavourable financial or economic conditions globally, such as the financial instability in the U.S., the European debt crisis and US-Sino trade war, have also materially affected, and may continue to affect, the market conditions in China. If the Group fails to promptly adjust its business structure and proactively prevents the risks in response to such changes, the Group's business operations and prospects may be adversely affected.

The recent outbreak of the COVID-19 pandemic and its spread worldwide are expected to introduce more uncertainty and volatility in global markets, as it remains unknown when the ongoing situation will improve and whether any effective containment of the spread of the coronavirus can be achieved. The World Health Organisation declared COVID-19 to be a pandemic. There has been rapid and widespread increase in new infections in the United States, Europe and other parts of the world and increased fatality rates in many countries. Many countries have declared a state of emergency, closed or limited their borders to international travellers, and restricted movements of their citizens with a view to containing the pandemic. There is no assurance that such measures will be effective. There has been a halting of commercial activities and closures of shops, offices and factories in many countries around the world. Citizens in many affected countries and areas are being advised or required to stay at their homes subject to limited exceptions. The reduced consumption, commercial activities and industrial production will severely disrupt their economies and the global supply chain and may result in recessions in these economies. As a result, the global economy is facing significant uncertainties and the global financial markets are experiencing significant volatilities across all asset classes: stocks, bonds, oil and metals and these volatilities may continue. While vaccines have been gradually rolled out in various countries, there is no assurance of the vaccines' long-term efficacy, nor that the rollouts would be sufficiently speedy and comprehensive to buttress any economic recovery. Please also refer to "*– Risks relating to the PRC – Any occurrence of force majeure events, natural disasters or outbreaks of contagious diseases may have a material adverse effect on the Group's business operations, financial condition and results of operations*".

The global macroeconomic environment is facing other significant challenges, including the higher prospect of a global recession, dampened business sentiment and outlook, and recent decline in oil prices. The recent trade dispute between the PRC and the United States contributed to increased market volatility, weakened business and consumer confidence and diminished expectations for economic growth around the world. The United Kingdom withdrew from the European Union ("**EU**") on 31 January 2020 ("**Brexit**"), but continued to participate in certain EU organisations (such as the customs union) during a transition period that ended on 31 December 2020. With Brexit taking full effect, there remains uncertainty about the future relationship between the United Kingdom and the EU. Although a new trade and cooperation agreement between the United Kingdom and EU was agreed upon on 24 December 2020 and will apply on a provisional basis for a limited time until 28 February 2021, it is unclear how Brexit would ultimately affect the fiscal, monetary and regulatory landscape within the United Kingdom, the EU and the rest of the world. These recent events have also caused significant declines as well as volatility in global equity and debt capital markets, further elevating the risk of an extended global economic downturn or even a global recession that could in turn trigger a severe contraction of liquidity in the global credit markets. Further, there is considerable uncertainty over the impact and duration of the COVID-19 pandemic on the global macroeconomic environment.

Each of the Group's business lines faces certain risks from unfavourable changes in economic and market conditions. Securities market volatility and adverse financial conditions could dampen investor confidence and reduce securities trading and corporate finance activities, which may adversely affect the commission and fee income from the Group's brokerage business and the underwriting and sponsors' fees from its investment banking business. Unfavourable financial or economic conditions and market volatility could also increase the risk of default in the margin financing and securities lending services the Group provides to its clients, and the Group's proprietary trading business may also be adversely affected by the reduction in the value of its trading and investment positions. In addition, under unfavourable financial or economic conditions, the value of the Group's asset management portfolio may be adversely affected, thereby reducing the management fees the Group earns from its asset management business, and the Group may be faced with an influx of client redemptions, which, in turn, could also adversely affect the revenue from its asset management business.

The Group may be unable to compete effectively in the highly competitive PRC securities industry.

The Group faces intense competition in most of its business lines in the highly competitive PRC securities industry. Competitors of the Group include over 130 PRC securities firms as well as other financial institutions, such as commercial banks and insurance companies, operating across the various business lines in which the Group is engaged. The gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC's financial industry may also cause new competitors to enter into the securities industry, or allow the Group's current competitors to expand the scope of their business. For instance, commercial banks, insurance companies and other financial institutions are expanding their services into the traditional businesses of securities firms through continuous product and service innovation and have been increasingly competing with securities firms. Commercial banks, in particular, present a greater challenge to securities firms in terms of financial advisory, debt financing and wealth management, as they are able to leverage their branch network and client and capital base.

In addition, other innovative products and services may emerge in the PRC securities market as the PRC securities industry is gradually evolving, and there is no guarantee that the Group will be able to provide such innovative products and services promptly. Since 2014, PRC securities firms began to launch online discount brokerage services, offering investors lower commission rates than conventional brokers. More online discount brokerage firms are expected to emerge in China and compete with traditional securities firms, including the Group.

Some of the Group's competitors may have certain competitive advantages over the Group, such as wider geographic coverage, greater financial resources, broader range of products and services offerings, stronger brand recognition and more advanced IT systems. The Group may also compete with specialised or regional competitors. While these competitors may not offer as broad a range of products and services or as wide a geographic coverage as the Group's other competitors do, they may have more extensive experience, stronger brand recognition and other competitive advantages in their specialised business lines or geographical regions. If the Group fails to compete effectively against its competitors, its business, financial condition, results of operations and prospects may be materially and adversely affected.

The Group's business is highly regulated in China and other jurisdictions in which the Group operates. The Group's non-compliance with any applicable regulations may subject it to sanctions and regulatory actions taken by relevant regulators, which may negatively affect its business, financial condition and results of operations.

As a participant in the securities and financial services industries, the Group is subject to extensive regulatory requirements in the PRC, which are designed to ensure the integrity of the financial markets, the financial stability of securities firms and other financial institutions and the protection of investors, including Securities Law of the People's Republic of China (中華人民共和國證券法), Securities Investment Fund Law of the People's Republic of China (中華人民共和國證券投資基金法), Regulation on the Administration of Futures Trading (期貨交易管理條例), Regulations on the Supervision and Administration of Securities Companies (證券公司監督管理條例), Regulation on the Risk Disposal of Securities Companies (證券公司風險處置條例), Interim Provisions on the Examination and Approval of the Business Scope of Securities Companies (證券公司業務範圍審批暫行規定), Provisions on the Supervision of Branch Offices of Securities Companies (證券公司分支機構監管規定), Provisions for Trial Implementation on Establishing Subsidiary Companies by Securities Companies (證券公司設立子公司試行規定), Provisions on Strengthening the Supervision and Administration of Listed Securities Companies (關於加強上市證券公司監管的規定), Measures for the Supervision and Administration of Futures Companies (2017 Amendment) (期貨公司監督管理辦法(2017修正)) and Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies (證券公司和證券投資基金管理公司合規管理辦法). These regulations often serve to limit the Group's activities by, among other things, imposing capital requirements, limiting the types of products and services that it may offer, restricting the types of securities in which it may invest and limiting the number and location of branches it may establish.

The Group is subject to periodic inspection, review or investigation of its compliance with relevant regulatory requirements by the PRC and overseas regulators, such as the CSRC and the SFC. For example, the CSRC assigns a regulatory rating every year to a securities firm based on a credit point system with reference to its risk management capabilities, competitiveness and compliance with regulatory requirements. A lower regulatory rating could require a securities firm to contribute more funds to the securities investor protection fund or make it ineligible to obtain business permits or approvals for its new or existing businesses. In 2020, the Guarantor's regulatory rating was "Class B Grade BBB".

The Group and its employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices and warnings from, or been fined by, the relevant regulatory authorities. See also "*– 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*". For instance, in 2012, the Guarantor acted as the sponsor for a non-public issuance of shares by Henan Da You Energy Co., Ltd. (河南大有能源股份有限公司). There were material omissions in the transaction documents prepared for such a non-public issuance and the required continuing supervision report. As a result, on 12 May 2017, the CSRC imposed regulatory sanctions including ordering the Guarantor to make rectification, giving a warning, confiscating the illegal gains of RMB10,000,000 and imposing a fine of RMB20,000,000; the CSRC also issued a warning to three members of the Guarantor's staff who were on the project team and imposed a fine on each of the three members. In addition, in 2016, the Guarantor, as the independent financial adviser of Anshan Heavy Duty Mining Machinery Co., Ltd. (鞍山重型礦山機器股份有限公司) in relation to the latter's major asset restructuring, was found to have failed to adequately perform its due diligence obligations and the independent financial adviser report contained false records and material omissions. As a result, on 16 May 2017, the CSRC ordered the Guarantor to rectify immediately, confiscated the illegal gains of RMB1,000,000 and imposed a fine of RMB5,000,000 on the Guarantor. The CSRC also imposed regulatory measures against two members of the Guarantor's staff who were on the project team, giving them warnings and imposing a fine of RMB100,000 on each of them. As a result of the regulatory non-compliance incidents, the CSRC downgraded the Guarantor's regulatory rating from "Class A Grade A" in 2016 to "Class C Grade C" in 2017, which had a negative effect on the Group's reputation. Furthermore, in March 2018, the CSRC issued a notice of regulatory measure to the Guarantor in relation to its deficiencies in compliance and risk management coverage of its investment banking business, its ineffective execution of internal control mechanism and its failure to sufficiently examine relevant matters in certain kinds of its investment banking business. In May 2018, the Chongqing Bureau of the CSRC conducted a regulatory meeting to express its concern with the Guarantor's lack of independent assessment of the financial data in relation to an equity offering project in its role as the independent financial adviser. In June 2018, a listed company that the Guarantor served as sponsor to was found by the Beijing Bureau of the CSRC to have failed to sufficiently disclose its investment risks, short positions of its investment and accounting policy changes; as a result, the Beijing Bureau of the CSRC issued a warning letter to the Guarantor. In May 2019, the Chongqing Bureau of the CSRC imposed regulatory measure against Southwest Securities Equity Investment for its failure to disclose a conflict of interests in a transaction to the investors. In December 2019, the SAC conducted a regulatory meeting and issued a notice to the Guarantor in respect of the deficiencies in the Guarantor's risk management system to cover credit risks, execution risks and reputation risks. Further, the Guarantor also received a regulatory notice from the CSRC requiring the Guarantor to address several issues relating to its compliance staff. In March 2020, the Shenzhen Bureau of the CSRC issued a regulatory notice to the securities business department in the Group's Shennan Avenue branch in respect of the deficiencies in compliance and internal control systems that allowed a staff member to engage in unauthorised trading of securities for the Group's clients.

Similarly, the Group's relevant subsidiaries may from time to time be subject to investigations or receive enquiries from the SFC relating to regulatory compliance matters. For example, in December 2016, the takeovers executive of the SFC publicly criticised, among others, Southwest Securities International Investment for acquiring shares in the Issuer within six months after the close of an offer at above the offer price in breach of Rule 31.3 of the Takeovers Code. Though public criticism is the lightest regulatory actions among all SFC disciplinary actions and the Group has confirmed that the aforementioned regulatory action will not have any impact on the business and general operation of the Group and the Issuer, the Group cannot assure investors that there will be no other investigation or enquiry events or negative outcome from regulatory investigations going forward, which may adversely affect the Group's financial condition, reputation and results of operations.

Failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, limitations or prohibitions on the Group's future business activities, which may limit its ability to conduct pilot programs and launch new businesses, and harm its reputation, and consequently materially and adversely affect its business, financial condition and results of operations.

The Group generates a significant portion of its revenue from its brokerage business, which faces the risks of decline in trade volume and intense market competition.

Revenue from brokerage business consists primarily of commission and fee income that the Group charges its clients for their trading of securities. In 2018 and 2019 and the first half of 2019 and 2020, revenue from the Group's brokerage business amounted to RMB1,098.9 million, RMB1,493.3 million, RMB922.2 million and RMB873.2 million, respectively, representing 40.0%, 42.8%, 53.9% and 53.8% of the Group's total revenue, respectively. Trading volume is subject to factors, including, among others, general economic conditions, macro-economic and monetary policies, market conditions, fluctuations in interest rates and investor behaviour, all of which are beyond the Group's control. Market competition also affects the Group's brokerage business. In 2018 and 2019 and the first half of 2019 and 2020, the Group's average brokerage commission rate was 0.0432%, 0.0433%, 0.0444% and 0.0414%, respectively. The Group may face further competition and price pressure if some of its competitors try to increase their market shares by offering brokerage commission rates and low fees, or if more investors prefer the internet or other alternative transaction methods over traditional transaction methods to execute transactions electronically. While the Group continues to grow its other business lines, the brokerage business is expected to remain one of the Group's primary sources of revenues. Therefore, any decline or slowdown in the Group's brokerage business could materially and adversely affect its total revenue.

Aside from the Group's own financial products, it also distributes, through its own service network, financial products developed by third-party financial institutions, such as fund houses, trust companies and commercial banks in China. If these third-party financial institutions default on their financial products and fail to pay interest or dividend or to repay principal on time or at all, the Group may be subject to client complaints and litigation, which could have an adverse effect on its reputation and business.

The Group's investment banking business is subject to various risks in the underwriting and sponsorship of securities offerings.

In 2018 and 2019 and the first half of 2019 and 2020, revenue from the Group's investment banking business amounted to RMB450.0 million, RMB277.8 million, RMB132.3 million and RMB100.3 million, respectively, representing 16.4%, 8.0%, 7.7% and 6.2% of the Group's total revenue, respectively. Offerings of securities in the PRC, especially IPOs, are subject to merit-based reviews and approvals conducted by various regulatory authorities. The result and timing of these reviews and approvals are beyond the Group's control and may cause substantial delays to, or the termination of, securities offerings underwritten and sponsored by the Group. Any failure to obtain regulatory approvals for the securities offerings sponsored by the Group could harm its reputation, erode client confidence and reduce its underwriting and sponsors fee income, thereby materially adversely affecting the Group's results of operations and financial condition.

The performance of the Group's investment banking business also largely depends on market conditions and competition. Adverse market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by the Group, or result in less financing and mergers and acquisitions activities, which may in turn materially and adversely affect the Group's revenue from the investment banking business. Competition from other securities firms and commercial banks, mainly in terms of brand recognition, pricing, marketing and services, may also result in less underwriting and sponsors fees or a lower market share for the Group.

The Group's proprietary trading business is subject to market volatility and its investment decisions.

The performance of the Group's proprietary trading business relies on its investment decisions and judgments based on its assessment of existing and future market conditions. In 2018 and 2019 and the first half of 2019 and 2020, revenue from the Group's proprietary trading business amounted to RMB833.9 million, RMB1,566.2 million, RMB697.0 million and RMB666.1 million, respectively, representing 30.4%, 44.9%, 40.8% and 41.4% of the Group's total revenue, respectively. The Group closely monitors the market value of its investment portfolio and actively manages the structure of its portfolio based on market conditions and internal risk management guidelines. However, its investment decisions involve management discretion and assumptions. If the Group's decision-making process fails to effectively minimise losses while capturing gains, or its forecasts do not conform to actual changes in market conditions, the Group's proprietary trading business may not achieve the investment returns that it anticipates or may even suffer material losses, which could materially and adversely affect its business, financial condition and results of operations.

In addition, the values of certain asset classes of the Group, such as certain available-for-sale financial assets, are marked to market. A decline in the value of the Group's available-for-sale financial assets can result in the recognition of impairment losses if management determines that such decline in value is not temporary. If the Group recognises impairment losses, its results of operations will be adversely affected.

The Group's asset management business faces the risks of poor investment performance and loss of clients.

The Group receives asset management fees, calculated as a percentage of the asset size of each asset management plan under its management. In 2018 and 2019 and the first half of 2019 and 2020, revenue from the Group's asset management business amounted to RMB129.7 million, RMB63.3 million, RMB53.7 million and RMB15.4 million, respectively, representing 4.7%, 1.8%, 3.1% and 0.9%, of the Group's total revenue, respectively. In addition, the Group may earn certain pre-agreed performance fees for certain collective asset management plans and targeted asset management plans. Poor investment performance and volatile market conditions could result in existing clients withdrawing their funds or requesting lower fees, which could result in the decrease in the Group's fees from asset management business and its results of operations will be adversely affected.

The Group may suffer significant losses from its credit exposures.

The Group's credit exposure mainly results from its margin financing and securities lending, futures brokerage and securities-backed lending, assets management and securities repurchase businesses. Any material non-payment or non-performance by a client or counter-party could adversely affect the Group's financial position, results of operations and cash flows. The Group's businesses are subject to risks that a client or counter-party may fail to perform its contractual obligations or that the value of collateral held to secure the obligations might be inadequate. With respect to the margin financing and securities lending business, the Group may enforce mandatory liquidation for clients who are unable to settle their obligations as scheduled, or whose collateral ratios upon day-end clearing are lower than the collateral ratios set for liquidation as a result of fluctuations in prices of the listed securities while failing to replenish the collateral in full within the agreed-upon period. In respect of the futures brokerage business, the Group requires the clients to maintain a certain amount of account balance for their futures trading. The Group conducts automatic valuations for its clients' account balances on each trading day, and, in the event of an insufficient account balance, the Group requires its clients to replenish their account balance or liquidate the clients' positions. Such mandatory liquidation mechanism may trigger disputes between clients and the Group, which may subject the Group to significant expenses or litigation risks. In addition, the Group recently launched its securities-backed lending and securities repurchase businesses, under which the Group will be subject to the credit risk and non-performance of the counterparties as well.

The Group may have exposure to credit risk associated with its own financial assets. These financial assets may also be subject to price fluctuations as a result of changes in the financial market's assessment of the Group's creditworthiness, delinquency and default rates and other factors, which could adversely affect the Group's financial condition and results of operations. While the Group has internal policies and procedures to limit such occurrences, these policies and procedures may not be fully effective. In addition, the Group may not have sufficient access to resources and trading counterparties to effectively implement the Group's trading and investment risk mitigation strategies and techniques. If the Group fails to effectively manage its credit exposure through its risk management policies and procedures, the volatility of any negative impact of adverse credit exposures could be magnified, and as a result, it may experience significant financial losses that could materially and adversely affect its business, financial condition and results of operations.

A significant decrease in the Group's liquidity could negatively affect its business and the Guarantor's ability to fulfil its obligations under the Deed of Guarantee.

It is important for the Group to maintain adequate liquidity for its business operations as it continues to expand its businesses which require substantial cash flow. The Group meets its liquidity needs primarily through cash generated by operating activities and cash provided by external financing. If there is a reduction in the Group's liquidity, it would negatively affect the confidence of its clients or counterparties and result in the loss of business and client accounts.

The Group's liquidity position may be negatively affected by various factors, including a significant increase in its margin financing and securities lending activities, increased regulatory capital requirements, substantial investments, other regulatory changes or a loss of market or client confidence. The Group had net cash used in operating activities for the six months ended 30 June 2020. There is no assurance that net cash flow from operating activities will be positive in the future. The Group must seek external financing if the cash generated from its operating activities is not sufficient to meet its liquidity or regulatory capital needs. During periods of disruptions in the credit and capital markets, potential sources of external financing could be limited and the Group's borrowing costs could increase. There is no guarantee that external financing will be available to the Group on acceptable terms or at all due to unfavourable market conditions and disruptions in the credit and capital markets. If the Group is not able to maintain a positive cash position or access other means of financing, it may not be able to fulfil its obligations under its loan commitments, including obligations under the Deed of Guarantee.

The Group faces the risks of concentration of clients and business in the Southwest China region.

The Group's business has been focused in the Southwest China region (which includes the municipality of Chongqing, the provinces of Sichuan, Yunnan and Guizhou, and the Tibet Autonomous Region). Favourable policies adopted by the PRC government, such as the Great Western Development Strategy (西部大開發), have benefited the economy of the Southwest China region and contributed to the growth of the region's securities market, providing the Group with a strong base to grow its business. In 2018 and 2019 and the first half of 2019 and 2020, 90%, 87%, 85% and 84%, respectively, of the Group's revenue originated in the Southwest China region. In addition, a significant portion of the clients in each of the Group's principal business lines are residents and institutions based in the Southwest China region. As of 30 June 2020, the Group had 126 brokerage service locations comprising 92 business outlets and 34 branches. Of the 92 business outlets, 40 of them were located in Chongqing.

The Group expects that a significant portion of its revenue will continue to be generated from its operations in the Southwest China region. Subject to its available capital, regulatory requirements and otherwise, the Group may face difficulties in its ability to further expand its service locations and operations outside of the Southwest China region. A significant economic downturn or material adverse changes in the economic or policy environment or any severe natural disasters or catastrophic events in the Southwest China region could materially and adversely affect the Group's business, financial condition and results of operations.

The Group's growth strategy includes growth via acquisitions, which may entail risks.

Since 2013, the Group has expanded its operations and range of products and services through the acquisition of Southwest Futures, Chongqing Share Transfer Centre and the Issuer. For more information about these acquisitions, see "*Description of the Group – Overview*". The Group may continue pursuing expansions through strategic acquisitions.

Acquisitions generally involve risks, including the following:

- uncertainty in the success of the acquired businesses;
- unrevealed potential liabilities or risks associated with the acquired businesses;
- difficulty in maintaining uniform standards, controls, procedures and policies;
- distraction of the management's time;
- difficulty in managing acquired businesses' regulatory obligations;
- difficulty in integrating the operations, personnel, information system and other aspects of the acquired business into the Group's operations or realising any expected cost savings or other synergies from the acquisitions;
- difficulty in retaining employees and clients and integrating client base;
- higher than planned requirements to preserve and grow the value of the acquired businesses or assets; and
- adverse effects on the Group's results of operations due to the amortisation of and potential impairment provision for goodwill or other intangible assets associated with acquisitions, and losses sustained by the acquired businesses after the date of acquisitions.

The Group may not be able to continue to identify acquisition targets that are complementary to its business. Even if the Group identifies such targets, there is no assurance that the Group will be able to obtain the necessary regulatory approvals and financing for the acquisition or acquire such targets on terms and conditions that are acceptable to the Group. In addition, an expansion of the Group's operations through acquisitions may place a significant strain on its management, internal controls and information technology systems and resources, and could result in additional expenditure. In addition to training, managing and integrating its workforce, the Group will need to continue to develop and improve its management and financial control. There is no assurance that the Group will be able to successfully integrate any acquisitions that it undertakes or that such acquisitions will perform as planned or prove to be beneficial to the Group's operations and cash flow. Each of these factors may have a material effect on the Group's business, results of operations, financial condition and prospects.

The Group has expanded its products and services and such expansion may not be successful.

In recent years, the Group has taken significant initiatives to expand its products and services to include sovereign bonds exchange traded funds, arbitrage business for gold, commodity and sovereign bond futures, interest rate swap business and securities-backed lending and securities repurchase businesses. Since 2015, the Group has received qualifications to carry out various services, such as NEEQ market making, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and OTC trading business. There is no assurance that the Group can replicate its previous success in the offering of new products and services.

The Group's expansion of its products and services in general requires a significant amount of capital investment and involve various risks and uncertainties, including the risk of operating in a new environment or market, difficulties in gaining market recognition or competing effectively with established industry participants, navigating different regulatory regimes or obtaining necessary governmental approvals, difficulties of integrating new products and services into the existing businesses, ability to develop the necessary technology or know-hows for the new products and services and the diversion of resources and attention of the Group's management. Any failure to address these risks and uncertainties may adversely affect the Group's business, financial condition and results of operations.

The Group's business and prospects may be materially and adversely affected by its failure to maintain effective and adequate risk management and internal control systems.

The Group has established an internal risk management framework and procedures to manage its risk exposure, primarily including market risk, credit risk, operational risk, liquidity risk, compliance risk and legal risk. The Group's risk management policies, procedures and internal controls may not be adequate or effective in mitigating its risk exposures or protecting the Group against unidentified or unanticipated risks. In particular, some methods of managing risks are based upon historical market behaviour and the Group's experience in the securities industry. These methods may fail to predict future risk exposure, which could be significantly greater than those indicated by Group's historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up-to-date or properly evaluated. In addition, in markets that are rapidly developing, the information and experience on which the Group relies for its risk management methods may become quickly outdated as markets and regulations continue to evolve. Potential deficiencies in the Group's risk management and internal control systems and procedures may materially and adversely affect its ability to record, process, summarise and report financial and other data in an accurate and timely manner, as well as materially and adversely impact its ability to identify any reporting errors and non-compliance with rules and regulations. During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the Group and its employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices and warnings from, or been fined by, the relevant regulatory authorities. For details of the regulatory non-compliance incidents, please see "*– The Group's business is highly regulated in China and other jurisdictions in which the Group operates. The Group's non-compliance with any applicable regulations may subject it to sanctions and regulatory actions taken by relevant regulators, which may negatively affect its business, financial condition and results of operations*".

Management of operational, compliance and legal risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and business activities, as well as appropriate and consistent application of internal control systems. The Group's risk management and internal control policies and procedures may not be adequate or effective in mitigating risks of unanticipated or unforeseen nature, and its business, financial condition and results of operations could be materially and adversely affected by the corresponding increase in its risk exposure and actual losses as a result of failures in its risk management policies, procedures and internal controls. The risk mitigation strategies and techniques that the Group has adopted may not be fully effective and sufficiently encompassing and may leave the Group exposed to unidentified and unanticipated risks. In addition, if the Group fails to promptly adjust and improve its risk management and internal control systems and procedures in response to the development of its branch outlets and the expansion of its business and products, the Group's business, financial condition and results of operations could be materially and adversely affected.

Certain areas within the Group's risk management and internal control systems may require constant monitoring, maintenance and continual improvements by its senior management and staff. Due to the size of the Group's operations and its extensive branch network, there is no assurance that such implementation will not involve human error or mistakes, which may have a material and adverse effect on the Group's business, financial condition and results of operations.

The Group's operation depends on key management and professional staff and its business may suffer if it is unable to retain or replace them.

The success of the Group's business depends 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. These key personnel include members of the Group's core management, experienced investment managers and industry analysts, licensed sponsor representatives, IT specialists, sales staff and other key personnel. The Group may, however, not be able to successfully recruit or retain them despite devoting considerable resources to do so. In 2019, two of the Issuer's executive directors resigned from their positions due to personal reasons or other business commitments. In 2020, two of the Issuer's executive directors and one of the Issuer's independent non-executive directors also resigned due to personal reasons or other business commitments. Further, the market for quality professionals is highly competitive and the Group faces increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are looking for the same pool of talent. Intense competition may require the Group to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could result in additional expenditures. The Group may be unable to attract or retain these personnel. The failure to do so could severely disrupt its business and prospects. In addition, due to the rapid development of the PRC securities industry, the Group's current professional's knowledge and skills may be insufficient to meet its needs for product and service innovations, which may adversely affect the development of its business.

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

The Group may be subject to financial losses and sanctions imposed by governmental authorities because of the fraud and other misconduct by employees or other third parties. Types of misconduct by the Group's employees may include, among other things, improper extension of credit, unauthorised business transactions, business process in breach of its internal policies and procedures, inappropriate accounting treatment, theft, embezzlement, insider dealing or misappropriation of clients' funds, and taking bribes.

The types and incidents of fraud and other misconduct by employees or third-parties against the Group may go beyond those detected in the past. In addition, the Group's employees may commit errors or take improper actions that could subject the Group to financial claims as well as regulatory actions. There is no assurance that all of the Group's employees will comply with its risk management and internal control policies and procedures. Although the Group has increased its efforts to detect and prevent employee and third-party fraud or other misconduct, it is not always possible to detect or prevent such activities, and the precautions the Group take may not be effective in all cases. There is no assurance that fraud or other misconduct, whether involving past acts that have gone undetected or future acts, will not have a material adverse effect on the Group's reputation, financial condition, results of operations and business prospects.

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 the jurisdictions where it has operations. These laws and regulations require the Group, among other things, to adopt and enforce "know-your-client" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities in different jurisdictions.

While the Group has adopted policies and procedures aimed at detecting and preventing the use of its networks for money-laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures may not completely eliminate instances where the Group may be used by other parties to engage in money-laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures. If the Group fails to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on it. In 2018, the Group's branch in Gansu was fined RMB200,000 by the local People's Bank of China for deficiencies in carrying out proper "know-your-client" checks. In 2019, the Group's securities business department of the Group's office in Xuzhou on Second Ring Road West was fined RMB440,000 by the local People's Bank of China for similar deficiencies. See also "*– Risks relating to the Issuer's Business – the Issuer's businesses are highly regulated in Hong Kong*".

The Group is subject to the risks arising from failure of, or inadequacies in, its IT systems.

The Group's operations rely heavily on the stable and effective operations of its IT systems and are also affected by the operations of the IT systems of telecommunication carriers, exchanges, clearing agents, depositaries and other financial intermediaries. 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 network between its headquarters, subsidiaries and branches and its communication networks with exchanges, clearing agents and depositaries, are critical to its business and ability to compete effectively.

There is no assurance that the Group's operations will not be materially disrupted if any of its systems fails. A prolonged disruption to or failure of the Group's information processing or communications systems would limit its ability to process transactions. This would impair the Group's ability to service its clients and execute trades on behalf of clients and for its own account, which could materially and adversely affect its competitiveness, financial condition and results of operations.

The Group utilises IT products and services from a variety of third-party developers, contractors and vendors. If the Group fails to effectively manage its external IT developers, contractors and vendors and its products and services, it may experience system failures, incompatible software or platforms, as well as data transfer and data management issues across its various IT systems and platforms. If the Group upgrades its information systems or launches new information systems for its new business, it may encounter disruption, breakdown or slowdown of the systems due to their defects, the failure to upgrade the original systems or the operational errors of technicians, which may result in client dissatisfaction.

In addition, if the Group's information systems are unable to be improved in response to its business development and expansion, its capabilities of business management, client service, risk management and internal control may be adversely affected. If the processing capacity of its trading system is not able to deal with trading demands when the securities market experiences volatility, the Group may be subject to client complaints, litigation or adverse effects on its reputation.

The operations of the Group's IT systems are also exposed to disruptions resulting from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorised access, data loss or leakage, improper access to operation authority and other similar events. Disruptions to or the instability of the Group's technology or external technology that is used by its clients for its online products and services could harm the Group's business and reputation.

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

The Group is required by various laws, regulations and rules to protect the personal data and confidential information of its clients. The relevant authorities may issue sanctions or orders against the Group if it fails to protect the personal information of its clients, and it may have to provide compensation for economic loss arising from its failure to protect the personal information of its clients in accordance with relevant laws and regulations. If the Group mishandled any of its client information, the Group's clients may take legal action against the Group for breach of privacy or leakage of confidential information. Further, incidents of mishandling the personal information or failure to protect the confidential information of its clients could create a negative public or client perception of its operations or brand name, which may materially and adversely affect the Group's reputation and prospects.

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

The Group faces the risk of operational failure or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries it uses to facilitate its securities transactions. Any operational failure or termination of the particular financial intermediaries that the Group uses could adversely affect its ability to execute transactions, serve its clients and manage its exposure to various risks. Any disputes or difficulties in cooperating with these financial intermediaries could adversely affect the Group's business operations.

The Group may suffer significant losses from credit exposures from its clients and counterparties.

The Group's margin financing and securities lending business is subject to the risk that a client or counterparty may fail to perform its payment or other obligations or that the value of collateral held by the Group to secure the obligations might become inadequate. If a client is unable to meet its obligations or if guarantee ratios or performance coverage ratios are lower than the minimum thresholds due to fluctuations in market prices of the collateral and the client fails to provide additional collateral, the Group may enforce and realize the collateral. The Group's enforcement action may be disputed by clients and subject the Group to litigation risks. For example, on 20 January 2015, the Chongqing Arbitration Commission issued an award, ruling that the respondent Cai Kaijian shall repay the Group RMB117 million, plus interests and liquidated damages. The Group applied to Zhejiang Taizhou Intermediate People's Court to enforce the award to achieve the Group's right of first claim of 37 million shares of Zhongjie Co., Ltd. (Stock Code: 002021) that Cai Kaijian pledged to the Group. Due to Cai Kaijian's involvement in other lawsuits, the pledged shares had been frozen by the Zhejiang High People's Court. On 8 October 2019, the Zhejiang Yuhuan People's Court ruled that the 37 million shares of Zhongjie Co., Ltd. were valued at RMB133.2 million. The shares were subsequently transferred to the Group to settle the judgment debt owed to the Group by Cai Kaijian. In addition, the Group's ability to liquidate the positions held by clients may also be adversely affected by market volatility. If the market price of securities which the Group holds as collateral decreases sharply in a short period of time, the value of the collateral may fall below the value of the Group's margin loans and the Group will be unable to liquidate the positions of the clients in a timely manner, which may cause the Group to suffer significant losses. Any material non-payment or non-performance by a client or counterparty could adversely affect the Group's financial position, results of operations and cash flows.

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 the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of the Group's clients. The Group may be subject to arbitration claims and lawsuits in the ordinary course of business. In particular, members of the Group may be involved in legal proceedings from time to time in their capacity as asset managers to enforce security rights on the underlying assets of various asset management plans the Group offers to its clients.

The Group may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies. The Group and its employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices and warnings from, or been fined by, the relevant regulatory authorities. See "– *The Group's business is highly regulated in China and other jurisdictions in which the Group operates. The Group's non-compliance with any applicable regulations may subject it to sanctions and regulatory actions taken by relevant regulators, which may negatively affect its business, financial condition and results of operations*" for details. Actions brought against it may result in settlements, injunctions, fines, penalties or other results adverse to it that could harm its reputation. Even if it is successful in defending itself against these actions, the costs of such defence may be significant to the Group. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase.

A significant judgment or regulatory action against the Group, or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees, would have a material adverse effect on the Group's liquidity, business, financial condition, results of operations and prospects.

There may be an adverse impact on the Group's business as a result of a loss of business reputation or negative publicity.

The Group operates in an environment where integrity and the trust of clients are of utmost importance. Therefore, it is vulnerable to negative market perception. Negative publicity associated with the Group, its officers or employees or the occurrence of any of the risks set out in this section could result in loss of clients. Since the Group's business operations depend to a large extent on its officers and employees, the actions, misconduct, omissions, failures or breaches of any of such officers or employees, and/or service providers may, by association, create negative publicity on the Group. Accordingly, any mismanagement, fraud or failure to discharge legal, contractual, regulatory or fiduciary duties, responsibilities, liabilities or obligations, or the negative perception resulting from such activities or any allegation of such activities, could have a material adverse effect on the Group's business, growth prospects, net inflows of asset under management, fee income, financial condition and results of operations.

The Group's independent auditors for the year ended 31 December 2019, Pan-China, were subject to investigations and penalties.

In March 2017, the Chongqing Audit Bureau ("**Chongqing Audit Bureau**") released an announcement that two accountants of Pan-China's Chongqing branch were found to have failed to maintain due professional care, inadequately performed their audit tasks and failed to spot significant concealed losses of its audited company, Chongqing Shixian Taibai Liquor (Group) Co., Ltd. (重慶詩仙太白酒業(集團)有限公司) ("**Chongqing Audit Bureau Reprimand**"). Chongqing Audit Bureau, among others, ordered Pan-China to demote the two accountants within a time limit.

Pan-China confirmed that as of the date of this Offering Circular, the Chongqing Audit Bureau Reprimand has been concluded and it has not been subject to any further investigations by any regulatory authorities. It also confirmed that the abovementioned investigations and penalties are not related to the relevant Pan-China team serving as the Group's independent auditors for the year ended 31 December 2019. Such investigations and penalties do not render any member of such team disqualified to serve as the Group's independent auditors or obstruct any of them from participating in the offering of the Bonds. These investigations and penalties do not have any impact on Pan-China giving unqualified audit opinion for the Group's Audited Financial Statements. Nonetheless, potential investors should consider the abovementioned investigations and penalties prior to making any investment decision.

Certain facts and statistics derived from government and third-party sources contained in this Offering Circular may not be reliable.

The Group has derived certain facts and other statistics in this Offering Circular, particularly those relating to the PRC, the PRC economy and the industry in which the Group operates, from information provided by the PRC and other government agencies, industry associations, independent research institutes or other third-party sources. While the Group has taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by the Group, the Joint Lead Managers or any of the Group's or their respective affiliates or advisers and, therefore, the Group cannot assure investors as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economics and investors should not place undue reliance on them. Furthermore, the Group cannot assure investors that the statistics herein are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, investors should consider carefully how much weight or importance investors should attach to, or place on, such facts or statistics.

RISKS RELATING TO THE ISSUER'S BUSINESS

The Issuer's businesses are highly regulated in Hong Kong.

The Issuer's business operations are subject to various applicable laws, regulations and codes of relevant regulatory authorities in Hong Kong. The government regulators of the financial services industry in Hong Kong, including the Securities and Futures Commission, have and may continue to promulgate and/or amend rules and regulations under laws such as the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") that apply to the Issuer's business. Such changes in applicable laws, regulations and codes resulted in, and may in the future result in, additional costs to or restrictions on the Issuer's business activities. Historically, some employees of the Issuer were involved in incidents of regulatory non-compliance, such as staff dealing. Moreover, in 2020, the SFC publicly reprimanded and fined Southwest Securities (HK) Brokerage Limited, a subsidiary of the Issuer, HK$5 million for breaches of anti-money laundering regulatory requirements. The Group's business, reputation and financial condition could be adversely affected if clients use its services for money-laundering or illegal or improper purposes. The Issuer has implemented enhanced internal control measures to prevent similar non-compliances. If the Issuer fails to comply with the applicable rules and regulations, it may become subject to enquiries and/or investigations by the relevant regulatory bodies and if the results of any investigations or enquiries are adverse to the Issuer, the Issuer may be subject to penalties including fines and/or restrictions on its business activities. In extreme cases, it may be hampered or prevented from conducting business in a normal manner and some or all of the Issuer's business licences may become suspended or revoked. Where penalties are substantial or protracted litigation is involved, the Issuer's reputation and financial position may be jeopardised. In such cases, there may be material and adverse impact on its business, financial condition, results of operations and prospects.

The Issuer faces increasing competition in the financial services industry in Hong Kong.

The financial services industry in Hong Kong has a large number of participants and is highly competitive. The Issuer faces increasing competition from Chinese securities institutions with product and service offerings which are similar to the Issuer, multinational financial institutions, including banks, and investment banks with global networks and local securities institutions in the financial services industry in Hong Kong.

The Issuer's subsidiaries are currently engaged in Type 1, Type 2, Type 4, Type 6 and Type 9 regulated activities in Hong Kong. One other subsidiary is licensed by the Insurance Authority as an insurance broker company and registered with the Mandatory Provident Fund Schemes Authority as a principal intermediary in Hong Kong. New participants may enter the industry or the same regulated activities as the Issuer, provided that they have engaged professionals with the appropriate skills and have obtained the requisite licences and permits.

Generally, competition in the traditional brokerage business in Hong Kong has been fierce. The Issuer expects that competition in all areas of the Issuer's business operations will continue to be intense. Moreover, the Issuer may not be able to compete effectively and successfully in all the business areas in which it currently operates or plans to operate. Increased competitive pressure may adversely affect the Issuer's business, financial condition and results of operations by, amongst other things, reducing the Issuer's market share in its principal lines of businesses; decreasing the Issuer's net interest margins and spreads; decreasing the Issuer's fee and commission income; increasing non-interest expenses, such as sales and marketing expenses; and increasing competition for qualified employees.

There is no assurance that the Issuer can compete effectively against its competitors and any failure by the Issuer to maintain and grow its business against such competition in the market may materially and adversely affect its business, financial condition and results of operations.

The Issuer recorded net losses in recent years.

The Issuer recorded a net loss of HK$201.7 million, HK$344.6 million and HK$127.2 million for the years ended 31 December 2018 and 2019 and for the six months ended 30 June 2020, respectively. The net loss in 2018 resulted from a net loss in proprietary trading. The net loss in 2019 and the first half of 2020 was mainly due to expected credit losses on accounts receivable arising from its margin financing business. There is no assurance that the Issuer will not suffer further or increased losses in the future and there is no guarantee the Issuer's business or financial performance will improve in future. If so, its business, financial condition and results of operations could be materially and adversely affected.

The Issuer has substantial indebtedness and may incur substantial additional indebtedness in the future.

The Issuer currently has, and will continue to have after the issuance of the Bonds, a substantial amount of indebtedness. As of 30 June 2020, the Issuer had US$-denominated bonds in an aggregate principal amount of US$200,000,000 issued in April 2019 (the "**2019 USD Bonds**"). The Issuer's financial assets at fair value through profit or loss and cash and bank balance amounted to HK$1,684.2 million as of 30 June 2020, which were insufficient to repay the 2019 USD Bonds at maturity. There is no assurance that the Issuer will generate sufficient cash flow either through its operations or its financing plans or measures. For the six months ended 30 June 2020, the Issuer used net cash on operating activities in the amount of HK$199.0 million. The Issuer's financial condition, liquidity and business operations will be adversely affected to the extent it is not able to repay its debt in a timely manner because of the lack or unavailability of internal resources or inability to obtain external financing. Even if the Issuer is 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 Issuer's ability to obtain any necessary financing in the future for working capital, strategic investment, debt service requirements, or other purposes;
- limiting the Issuer's flexibility in planning for, or reacting to, changes in its business;
- placing the Issuer at a competitive disadvantage relative to its competitors who have lower levels of debt;
- increasing the Issuer's financing cost;
- making the Issuer more vulnerable to a downturn in its business or the general economic condition; and
- subjecting the Issuer to the risk of being forced to refinance its debts at higher interest rates.

The Issuer's proprietary trading business is subject to volatility.

The performance of the Issuer's proprietary trading business is largely affected by, among others, macroeconomic conditions, general market conditions, performance of underlying instruments and its investment decisions. Any change in the performance of the Issuer's proprietary investments may have a large impact on the Issuer's overall performance, and cause its results of operations to fluctuate substantially from time to time. For the year ended 31 December 2019, the Issuer's proprietary trading recorded a revenue of HK$86.4 million, while for the year ended 31 December 2018, the Issuer recorded a loss of HK$22.3 million. For the six months ended 30 June 2019 and 2020, the Issuer recorded a revenue of HK$47.7 million and HK$102.6 million, respectively. There can be no assurance that such fluctuations will not occur in the future and that the Issuer may suffer substantial decreases in revenue and net losses in future periods. Historical results of the Issuer are not necessarily indicative of the results that may be achieved by it for any future period, as some of the results may not recur in the future.

The Issuer's businesses and prospects may be materially and adversely affected if its efforts to maintain its risk management and internal control systems prove to be ineffective or inadequate.

The Issuer has established risk management and internal control systems. The Issuer's businesses and prospects may be materially and adversely affected if its efforts to maintain these systems are proved to be ineffective or inadequate. However, the Issuer's risk management and internal control systems may require constant monitoring, maintenance and continual improvements by its senior management and staff. Deficiencies in the Issuer's risk management and internal control systems may adversely affect its ability to record, process, summarise and report financial and other data in an accurate and timely manner, as well as adversely impact on its ability to identify any reporting errors and non-compliance with rules and regulations.

There is no assurance that the Issuer's employees will not commit offences under the SFO when performing their duties due to the nature of the Issuer's business. These offences may include market manipulation, false trading and price rigging. Accordingly, commission of offences by the Issuer's employees resulting from such activities or any allegation of such activities could have an adverse effect on the Issuer's reputation.

There is no assurance that the Issuer's risk management and internal control systems are sufficient or effective. The Issuer's internal control system, no matter how sophisticated in design, contains inherent limitations caused by its dependence on human misjudgement and exposure to human fault. Any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or even prosecution being taken against the Issuer and/or its employees, disruption to its risk management system, and material and adverse effects on the Issuer's financial condition and results of operations.

The Issuer may be indirectly affected by the Guarantor's reputation.

The Guarantor is the controlling shareholder of the Issuer and currently owns 74.10% of the interest in the Issuer as of the date of this Offering Circular. As such, the Guarantor has substantial influence over the Issuer's business, including decisions regarding mergers, consolidations and the sale of all or substantial all of its assets, election of directors, timing and amount of dividends or other distributions and other significant corporate actions. In the event that there is any negative impact on the Guarantor's reputation, the Issuer as its subsidiary may be left in a disadvantageous position.

RISKS RELATING TO THE PRC

Changes in the PRC's economic, political and social conditions as well as governmental policies could affect the Group's businesses, financial condition and results of operations.

A substantial part of the Group's revenue is derived from the PRC and the growth of the Group's businesses depends significantly on the continuation of economic development and growth in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including the structure of the economy, level of government involvement, level of development, growth rate, control of capital investment, control of foreign exchange and allocation of resources. Although the PRC has experienced rapid economic growth over the past decades, its continued growth has slowed since the second half of 2008 and its GDP growth rate has declined from 6.9% in 2017 to 6.7% in 2018 and further to 6.1% in 2019. As a result of the COVID-19 pandemic, the PRC economy encountered enormous challenges during the first half of 2020 and, to a lesser extent, the second half of 2020 and GDP growth rate slowed down further to 2.3% for the year based on preliminary data published by the National Bureau of Statistics of China. There is no assurance that future growth will be sustained at similar rates or at all.

The PRC's economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC Government has implemented economic reform measures to emphasise the utilisation of market forces in economic development. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country. As a result, the Group may not continue to benefit from all, or any, of these measures. In addition, the Group cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on the Group's current or future businesses, financial condition and results of operations. To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group's businesses and results of operations could be materially and adversely affected.

The PRC's economy is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world, such as the United States and the EU. The political, social and macroeconomic impact of post-Brexit is uncertain, which could potentially lead to volatility in the global markets. In addition, it is also unclear the foreign policies the U.S. President Joe Biden and his administration will take towards the PRC and whether the trade disputes between the PRC and the United States will be fully resolved. Failure of trade negotiations between the United States and the PRC may lead to additional costs and unexpected consequences on the Group's business. The adoption and expansion of trade restrictions, the occurrence of a trade war, or other governmental action related to sanctions, tariffs or trade agreements or policies has the potential to adversely impact the PRC's economy, which in turn could adversely impact the Group's business, financial condition and results of operations.

Investors should be aware that there is a recent history of financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Group. In addition, the Group remains subject to the risks posed by the indirect economic effect of the global credit crisis, some of which cannot be anticipated and the vast majority of which are not under its control. The Group also remains subject to counterparty risk arising from financial institutions that can fail or are otherwise unable to meet their obligations under their contractual commitment to the Group. If there is another global or regional financial crisis or a downturn in the economic condition of the Group's primary markets, this would likely have a material adverse effect on the Group's businesses, financial condition and results of operations.

The PRC legal system is continuously evolving and has uncertainties and the legal protections available to the Bondholders may be limited.

Some members of the Group are incorporated in the PRC and a substantial part of the Group's businesses are conducted in the PRC. Hence, a substantial part of the Group's operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes and prior court decisions can only be cited as a reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade with a view to developing a comprehensive system of commercial laws. However, due to the fact that these laws and regulations have not been fully developed and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a significant degree of uncertainty and is less developed than those applicable to companies incorporated in Hong Kong, the United States, the United Kingdom and other developed countries or regions.

On 1 January 2006, substantial amendments to the PRC Company Law (中華人民共和國公司法) and the PRC Securities Law (中華人民共和國證券法) came into effect. Since then, the PRC Company Law was further amended on 28 December 2013 (and came into effect on 1 March 2014) and on 26 October 2018 (and came into effect on the same day) and the PRC Securities Law was further amended on 29 June 2013, 31 August 2014 and 28 December 2019 (and came into effect on 1 March 2020). As a result, the State Council and the CSRC may revise the special regulations and mandatory provisions and adopt new rules and regulations to implement and to reflect the amendments to the PRC Company Law and the PRC Securities Law. The Group cannot guarantee that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have an adverse effect on the rights of the Bondholders.

Under the EIT Law, the Issuer, the Guarantor or any of the offshore members of the Group may be classified as a "resident enterprise" of the PRC, which could result in unfavourable tax consequences to its financial condition and the Bondholders.

Under the EIT Law, an enterprise established outside the PRC with a "de facto management organisation" located within the PRC will be considered a "resident enterprise" and consequently will be treated in a manner similar to a Chinese enterprise for EIT Law purposes. The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting and properties" of the enterprise. However, it is still unclear how the PRC tax authorities will determine whether an entity will be classified as a "resident enterprise".

If the PRC tax authorities determine that the Issuer or any of the offshore members of the Group is a "resident enterprise" for PRC enterprise income tax purposes, a number of unfavourable PRC tax consequences could follow. For example, the Issuer or the relevant offshore member of the Group may be subject to EIT Law at a rate of 25 per cent. on its worldwide taxable income as well as EIT Law reporting obligations. This would mean that income such as interest from any investment of any portion of the offering proceeds and other income sourced from outside the PRC would be subject to EIT Law at a rate of 25 per cent.

If the Issuer is considered a "resident enterprise", interest payable to certain "non-resident enterprise" Bondholders may be treated as income derived from sources within the PRC and be subject to withholding tax at a rate of 10 per cent. or a lower rate for holders who qualify for the benefits of a double-taxation treaty with the PRC, and capital gains realised by the Bondholders may be treated as income derived from sources within the PRC and be subject to a 10 per cent. withholding tax. For example, for Bondholders that reside in Hong Kong, according to the Arrangement between the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the withholding tax rate is up to 7 per cent. on the payments of interest and certain other amounts on the Bonds.

If the Issuer is required under the EIT Law to withhold tax on its interest payable to the Bondholders who are "non-resident enterprises", it will be required to pay such additional amounts as will result in receipt by a Bondholder of such amounts as would have been received by such Bondholder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Bonds and could have a material adverse effect on the Issuer's ability to pay interest on, and repay the principal amount and premium (if any) of, the Bonds, as well as their profitability and cash flow. The requirement to pay such additional amounts may, in certain circumstances, also give rise to a right of the Issuer to redeem all the Bonds at 100 per cent. of their principal amount plus accrued and unpaid interest to the date of redemption. For more information, see "*Terms and Conditions of the Bonds – Taxation*".

Furthermore, under the EIT Law, the profits of a foreign invested enterprise generated in 2008 and onwards, which are distributed to its immediate holding company outside the PRC, will be subject to a withholding tax rate of 10 per cent. or a lower treaty rate, as contained in any income tax treaty or agreement to which the PRC is a party. Pursuant to a special arrangement between Hong Kong and the PRC, such rate is lowered to 5 per cent. if a Hong Kong resident enterprise owns 25 per cent. or more equity interest in a PRC company. Some of the Group's PRC subsidiaries are currently wholly owned by Hong Kong subsidiaries. However, according to the Administrative Measures for Granting Treaty Benefits to Non-residents (非居民納稅人享受協定待遇管理辦法) promulgated by SAT, which became effective on 1 January 2020, the 5 per cent. withholding tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation treaties. Moreover, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. The PRC tax authorities might not grant approvals on the 5 per cent. withholding tax rate on dividends received by the Group's subsidiaries in Hong Kong from the Group's PRC subsidiaries, which could materially and adversely affect the Group's results of operations and financial condition as a whole.

In addition to the uncertainty as to the application of the "resident enterprise" classification and the receipt of the approval from PRC tax authorities on the 5 per cent. withholding tax rate on dividends received by the Group's subsidiaries in Hong Kong from the Group's PRC subsidiaries, the PRC government could amend or revise the taxation laws, rules and regulations to impose stricter tax requirements, higher tax rates or apply the EIT Law or any subsequent changes in PRC tax laws, rules or regulations retroactively. If such changes occur or are applied retroactively, there could be a material adverse effect on the Group's business, financial condition and results of operations.

In addition, according to the Interim Regulation of the People's Republic of China on Value Added Tax (2017 Revision), which took effect on 19 November 2017, and the Circular or Overall Implementation of the Pilot Program of Replacing Business Tax with Value-added Tax ("**Circular 36**") issued by the Ministry of Finance and the State Administration of Taxation, which took effect on 1 May 2016, entities and individuals providing services within the PRC are subject to value-added tax ("**VAT**"). The services are treated as being sold 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. Circular 36 further clarifies that "loans" refer to the activity of lending capital for another's use and receiving interest income thereon.

Based on the definition of "loans" under Circular 36, the issuance of Bonds is likely to be treated as a "loan" provided by the Bondholders to the Issuer, which thus shall be regarded as financial services for VAT purposes. In general, income derived from the provision of loans will not be subject to VAT in the PRC if neither the Issuer nor the Bondholders is within the PRC. However, it is uncertain whether a foreign incorporated company which is deemed to be a PRC resident enterprise would be regarded as being within the PRC. In the event that the Issuer is deemed to be a PRC resident enterprise and is deemed to be within the PRC by the PRC tax authorities, the Bondholders may be deemed to be providing financial services to the Issuer within the PRC, and consequently, the amount of interest on the Bonds payable by the Issuer to any non-resident Bondholders may be subject to VAT at the rate of 6.0 per cent. plus related surcharges.

As at the date of this Offering Circular, the Issuer has not been notified by the competent tax bureau that it is a PRC resident enterprise. As a result, it is expected that, in practice it will not be required to withhold VAT or local levies from interest payments to Bondholders.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise by the PRC tax authorities in future. Pursuant to the EIT Law, Individual Income Tax Law of the PRC, the Business Tax Laws and the VAT reform detailed above, the Issuer may need to withhold EIT Law or individual income tax (should such tax apply) from the payments of interest in respect of the Bonds for any non-PRC-resident Bondholders and the Issuer may need to withhold business tax or VAT (should such tax apply) from the payments of interest in respect of the Bonds for any Bondholders located outside of the PRC.

No PRC stamp duty will be imposed on non-PRC Bondholders either upon issuance of the Bonds or upon a subsequent transfer of the Bonds to the extent that the register of holders of the Bondholders is maintained outside the PRC and the issuance and the sale of the Bondholders is made outside the PRC.

It may be difficult to effect service of process or to enforce any judgments obtained from non-PRC courts against the Group or its management residing in the PRC.

The Conditions and the transaction documents are governed by Hong Kong law and the Issuer and the Guarantor have submitted to the exclusive jurisdiction of the Hong Kong courts. However, some members of the Group are incorporated in the PRC and a substantial amount of the Group's assets and companies are located in the PRC. Further, most of the Group's management reside in the PRC, together with their personal assets. Therefore, investors may encounter difficulties in effecting service of process from outside PRC upon the Group or its management.

Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which the Group is subject are also relatively undeveloped and untested. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most other jurisdictions. Therefore, it may not be possible for investors to effect service of process upon the Group or its management in the PRC.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Arrangement**"), which is still in full force and effect as of the date of this Offering Circular and will be replaced by and become invalid when the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and Hong Kong (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**New Arrangement**"), which was signed on 18 January 2019, comes into effect. Pursuant to the New Arrangement, if the parties have already signed the choice of court agreement in writing under the Arrangement before the New Arrangement enter into force, the Arrangement shall still apply. Under the Arrangement, where any designated People's Court of the Mainland or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, the rights under the Arrangement are limited and the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Unlike other bonds issued in the international capital markets where holders of such bonds would typically not be required to submit to an exclusive jurisdiction, the Bondholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts. Thus, the Bondholders' ability to initiate a claim outside Hong Kong will be limited.

In addition, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by a Hong Kong court and governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area.

Any occurrence of force majeure events, natural disasters, contagious disease outbreaks or other adverse incidents in the PRC may materially and adversely affect the Group's businesses, financial condition and results of operations, particularly as a result of the COVID-19 pandemic.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, may materially and adversely affect the Group's businesses and results of operations. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may in turn adversely affect the Group's businesses. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts in the past few years. As the Group's businesses are dependent on economic conditions in the PRC as a whole, any future occurrence of severe natural disasters in the PRC may adversely affect its economy and, in turn, the Group's businesses and results of operations. There is no assurance that any future occurrence of natural disasters or outbreak of avian influenza, severe acute respiratory syndrome, swine influenza or other epidemics or the measures taken by the PRC government or other countries in response to such events will not seriously disrupt the Group's operations or those of the Group's business partners or prospective investors in the Group's, which may have a material adverse effect on the Group's results of operations.

Since December 2019, COVID-19 has spread globally and there have been increased infection and fatality rates across the world. On 11 March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The COVID-19 pandemic and policies implemented by governments to deter the spread of the disease have had and may continue to have an adverse effect on consumer confidence and the general economic conditions the Group's business is subject to. Governments of many countries (including the PRC) have declared a state of emergency, closed their borders to international travellers and issued stay-at-home orders with a view to containing the pandemic. There is no assurance that such measures will be effective in ending or deterring the spread of COVID-19. As COVID-19 continues to affect many countries across the world, there is significant uncertainty as to when the pandemic will end and governments may extend or implement further restrictive measures to contain the pandemic. Businesses have already faced significant disruptions as shops, offices and factories have been closed, restrictions on public gatherings have been put in place and major events have been suspended in many affected countries including the PRC. Even when restrictions are lifted or loosened, there may continue to be disruptions to the supply chain and reduced levels of consumption, commercial activities and industrial production in countries that re-open. The reduced economic activities in countries affected by the COVID-19 pandemic may soon precipitate an economic slowdown in those economies which, if prolonged, could cause a global recession.

The Group's labour costs may increase for various reasons including the implementation of the PRC Labour Contract Law or inflation in the PRC.

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008 in the PRC and was amended on 28 December 2012 and became effective on 1 July 2013. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts and dismissal of employees. Pursuant to the PRC Labour Contract Law, the employer is required to make a compensation payment to a fixed-term contract employee when the term of their employment contract expires, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same or better than those stipulated in the current employment contract. In general, the amount of compensation payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. In addition, unless otherwise prohibited by the PRC Labour Contract Law or objected to by the employees themselves, the employer is also required to enter into non-fixed-term employment contracts with employees who have previously entered into fixed-term employment contracts for two consecutive terms.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to paid annual leave ranging from 5 to 15 days, depending on the length of the employees' service. Employees who consent to waive such annual leave at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each day being waived. As a result of the PRC Labour Contract Law and the Regulations on Paid Annual Leave for Employees, the Group's labour costs (inclusive of those incurred by contractors) may increase. Further, under the PRC Labour Contract Law, when an employer terminates its PRC employees' employment, the employer may be required to compensate them for such amount which is determined based on their length of service with the employer, and the employer may not be able to efficiently terminate non-fixed-term employment contracts under the PRC Labour Contract Law without cause. In the event the Group decides to significantly change or decrease its workforce, the PRC Labour Contract Law could adversely affect its ability to effect these changes in a cost-effective manner or in the manner that the Group desires, which could result in an adverse impact on the Group's businesses, financial condition and results of operations.

Further, if there is a shortage of labour or for any reason the labour cost in the PRC rises significantly, the costs of production of the Group's products is likely to increase. This may in turn affect the selling prices of products, which may then affect the demand of such products and thereby adversely affect the Group's sales and financial condition. Increase in costs of other components required for production of the products may cause similar adverse effects, particularly if the Group is unable to identify and employ other appropriate means to reduce the costs of production. In such circumstances, the profit margin may decrease and the financial results may be adversely affected.

In addition, inflation in the PRC has increased in recent years. According to the National Bureau of Statistics of the PRC, consumer price inflation in the PRC was 2.1%, 2.9% and 2.5% in 2018, 2019 and 2020, respectively. Inflation in the PRC increases the costs of labour and the costs of raw materials the Group must purchase for production. Rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's PRC-based operations and therefore negatively impact the Group's profitability.

RISKS RELATING TO THE BONDS AND THE GUARANTEE

Any failure to complete the relevant filings under the NDRC Circular and the relevant registration with SAFE within the prescribed time frame following the completion of the issue of the Bonds may have adverse consequences for the Issuer, the Guarantor and/or the Bondholders.

NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued outside the PRC with a tenor of more than one year with NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. The Guarantor has obtained the NDRC pre-issuance registration on 16 October 2020. Similarly, the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular is unclear. In the worst-case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Guarantor to perform or comply with any of its obligations under the Bonds and the Bonds might be subject to enforcement as provided in Condition 8 (Events of Default) of the Conditions. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions. The Guarantor has undertaken to file or cause to be filed with the NDRC the particulars of the issue of the Bonds within 10 PRC Business Days after the Issue Date.

The Guarantor is required to submit the Deeds of Guarantee to the local SAFE for registration in accordance with, and within the time period prescribed by, the Provisions on the Foreign Exchange Administration on Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014. Although non-registration with SAFE does not render the Guarantee ineffective or invalid under the PRC laws, SAFE may impose penalties on the Guarantor if registration is not carried out within the stipulated time frame. In addition, if the Guarantor fails to complete the SAFE registration, there may be logistical hurdles at the time of remittance of funds (if any cross-border payment is to be made by the Guarantor under the Guarantee) as domestic banks may require evidence of SAFE registration in connection with the Guarantee in order to effect such remittance. As a result, there is no assurance that the Guarantor can remit money outside of the PRC to comply with its obligations under the Deeds of Guarantee.

There is no assurance that the CSRC will not issue further implementation rules or notices which may require additional administrative procedures in connection with the Guarantee.

On 25 September 2018, the CSRC promulgated the Order No. 150 in relation to the Securities Companies and Securities Investment Fund Management Companies (the "**CSRC Order**"). According to the CSRC Order, to increase the capital of the overseas subsidiaries or to provide financing, guarantee or other similar credit enhancement measures for the overseas subsidiaries, the securities fund business institutions shall perform their internal decision-making procedures and shall file with the CSRC for record within 5 working days from the date of the resolutions. The Guarantor has filed with the CSRC and obtained the letter from CSRC in respect of the Guarantee on 25 November 2020.

Since the CSRC Order is new and without any detailed implementation procedures, there is no assurance that the CSRC will not issue further implementation rules or notices which may require additional administrative procedures.

The Bonds and the Guarantee are unsecured obligations.

As the Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively, the repayment of the Bonds and payment under the Guarantee may be 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 the Guarantor's (as the case may be) assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

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

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

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it, (b) the Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Bonds. Financial institution investors should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

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

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

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

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

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

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

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Although an application will be made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonds by way of debt issue to professional investors only, no assurance can be given that such application will be approved, or even if the Bonds become so listed, an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds. The liquidity of the Bonds will be adversely affected if the Bonds are held or allocated to limited investors. None of the Joint Lead Managers is obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

Investment in the Bonds may be subject to foreign exchange risks.

The Bonds are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to a fluctuation in the exchange rate of U.S. dollars and the investors' reporting currencies. The value of U.S. dollars is affected by many economic, political and other factors over which the Group has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the value of the Bonds and a decrease in the effective yield of the Bonds below their stated coupon rates, causing a loss when the return on the Bonds is translated into such currency.

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

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

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

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

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

The Bondholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Bonds, resulting in a capital loss for the Bondholders. However, the Bondholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Bonds may rise. The Bondholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

As the Bonds will carry a fixed interest rate, the trading price of the Bonds will consequently vary with the fluctuations in the U.S. dollars interest rates. If the Bondholders propose to sell their Bonds before their maturity, they may receive an offer lower than the amount they have invested.

The Issuer or the Guarantor may be unable to redeem the Bonds.

On certain dates, including but not limited to the occurrence of a Relevant Event and at maturity of the Bonds, the Issuer may, and at maturity will, be required to redeem all of the Bonds. If such an event were to occur, the Issuer or the Guarantor may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments.

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

The Bonds will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's existing and future subsidiaries, whether or not secured. The Bonds will not be guaranteed by any of the Issuer's subsidiaries, and the Issuer may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer is subject to various restrictions under applicable law. The Issuer's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Bonds or make any funds available therefore, whether by dividends, loans or other payments. The Issuer's right to receive assets of any of the Issuer's subsidiaries 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 is a creditor of that subsidiary). Consequently, the Bonds will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's subsidiaries and any subsidiaries that the Issuer may in the future acquire or establish.

The Bonds are the Issuer's unsecured obligations, and will (i) rank equally in right of payment with all the Issuer's other present and future unsecured and unsubordinated indebtedness; (ii) be effectively subordinated to all of the Issuer'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 present and future subordinated obligations. As a result, 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 bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Bonds, these assets will be available to pay obligations on the Bonds only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Bondholders rateably. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Bonds then outstanding would remain unpaid.

The insolvency laws of Bermuda and the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar.

As the Issuer and the Guarantor were incorporated under the laws of Bermuda and the PRC, respectively, any insolvency proceedings relating to the Issuer or the Guarantor, even if brought in other jurisdictions, would likely involve Bermuda or PRC insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

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

If either of the Issuer or the Guarantor is unable to comply with its current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements, and the Bonds, contain (or may in the future contain) cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, there can be no assurance that their assets and cash flows would be sufficient to repay in full all of their indebtedness, or that they would be able to find alternative financing. Even if alternative financing could be obtained, there can be no assurance that it would be on terms that are favourable or acceptable to them.

The Bonds will be initially evidenced by a Global Bond Certificate and holders of a beneficial interest in a Global Bond Certificate must rely on the procedures of the Clearing Systems.

The Bonds will be initially evidenced by beneficial interests in a Global Bond Certificate. Such Global Bond Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear and Clearstream (the "**Clearing Systems**"). Except in the circumstances described in the Global Bond Certificate, investors will not be entitled to receive definitive Bond Certificates. The Clearing Systems will maintain records of the beneficial interests in the Global Bond Certificate. While the Bonds are initially evidenced by the Global Bond Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

Unless otherwise stated, owners of book-entry interests will not be considered owners or holders of the Bonds for purposes of the Trust Deed. A nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the Global Bond Certificate. Accordingly, holders of a beneficial interest in a Global Bond Certificate must rely on the procedures of Euroclear or Clearstream, and if such holder is not a participant in Euroclear or Clearstream, on the procedures of the participant through which such holder owns its interest, to exercise any rights and obligations of a holder of the Bonds under the Trust Deed.

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

In certain circumstances (including without limitation the giving of notice to pursuant to Condition 8 (*Events of Default*) of the Conditions and the taking of steps and/or actions and/or instituting proceedings pursuant to Condition 13 (*Enforcement*) of the Conditions), the Trustee may (at its sole discretion) request the Bondholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any steps and/or action and/or institutes any proceedings on behalf of Bondholders. The Trustee shall not be obliged to take any such steps and/or actions and/or institute any proceedings if not first indemnified and/or secured and/or pre-funded to its satisfaction.

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

Decisions that may be made on behalf of all Bondholders may be adverse to the interests of individual holders of the Bonds.

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

Modifications and waivers may be made in respect of the Conditions, the Trust Deed and/or the Deed of Guarantee by the Trustee without the consent of the Bondholders.

The Conditions also provide that the Trustee may, without the consent of Bondholders, agree to any modification of the Conditions, the Trust Deed and/or the Deed of Guarantee (other than in respect of certain reserved matters) which is in the opinion of the Trustee, not be materially prejudicial to the interests of Bondholders and to any modification of the Conditions, the Trust Deed and/or the Deed of Guarantee which in the opinion of the Trustee, is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provisions of law.

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

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

No assurances are made by the Issuer as to whether or not payments on the Bonds may be made without withholding taxes or deductions on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Bermuda, the PRC or Hong Kong or any political subdivision or any authority therein or thereof having power to tax. Although pursuant to the Conditions, the Issuer is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Bonds at any time in the event it is or will become obliged to pay Additional Amounts (as defined in the Conditions) as a result of any change in, or amendment to, the laws or regulations of Bermuda, Hong Kong or the PRC or any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) after 3 February 2021 provided certain requirements are met.

The Issuer may issue additional Bonds in the future.

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

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

Under the EIT Law and its implementation rules, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. However, there remains uncertainty as to whether gains realised on the transfer of the Bonds be treated as income derived from sources within China and be subject to the PRC tax. This will depend on how the PRC tax authorities interpret, apply or enforce the relevant tax laws and rules. According to an arrangement between the PRC and Hong Kong for the avoidance of double taxation, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

If a Bondholder, being a non-resident enterprise is required to pay any PRC income tax on gains on the transfer of the Bonds (such enterprise income tax being currently levied at the rate of 10% of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which the non-resident enterprise holder of the Bonds resides that reduces or exempts the relevant tax), the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

Similarly, if a Bondholder, as a non-resident individual holder, is required to pay any PRC income tax on gains on the transfer of the Bonds (such individual income tax is currently levied at the rate of 20% of the gross proceeds, unless there is an applicable tax treaty between the PRC and the jurisdiction in which relevant non-resident individual holder of the Bonds resides that reduces or exempts the relevant tax), the value of his investment in the Bonds may be affected.

On 23 March 2016, the MOF and the SAT issued Circular 36 which stipulates that the business tax will be completely replaced with VAT from 1 May 2016 onwards. Therefore, income derived from the provision of financial services, which previously incurred business tax, will now be subject to VAT.

Circular 36 has much uncertainty remains as to its application. The following statements regarding Circular 36 may be subject to further changes following clarification from the competent tax authority.

While still subject to the competent tax authority's further clarification or interpretation, when a holder of the Bonds is an entity located outside of the PRC, and such holder resells the Bonds to an individual or entity located outside of the PRC and derives a gain on such sale, neither the service provider nor the service recipient, both being located outside the PRC, are likely to be impacted by Circular 36. Further, when a holder of the Bonds, who is an individual, resells the Bonds, VAT may be exempted pursuant to Circular 36 if the resale of the Bonds is treated as resale of financial products. However, where an entity is a holder of the Bonds and resells the Bonds, to either an entity or an individual, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located within the PRC.

There could be conflicts of interest arising out of the different roles played by different members in the Group, and activities of other members of the Group may affect the value of the Bonds.

Southwest Securities (HK) Brokerage Limited, which has been appointed as one of the Joint Global Coordinators, is also a subsidiary of the Guarantor. Investors should note that potential and actual conflicts of interest may arise from the different roles played by different members in the Group in connection with the Bonds and that, although the Group has internal control policies and procedures to minimise any potential conflict of interest, it owes no duty to investors to avoid such conflicts, and the economic interests in each role may be adverse to the investors' interests in the Bonds.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds which (subject to modification and except for the paragraphs in italics) will be endorsed on the definitive Bond Certificates issued in respect of the Bonds:

The issue of the US$178,000,000 4.0 per cent. guaranteed bonds due 2024 (the "**Bonds**", which expression includes any further bonds issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) was authorised by a resolution of the board of directors of Southwest Securities International Securities Limited (the "**Issuer**") passed on 27 January 2021 and the guarantee of the Bonds was authorised by a resolution of the board of directors of Southwest Securities Co., Ltd. (西南證券股份有限公司) (the "**Guarantor**") passed on 24 July 2020 and the shareholders' resolutions of the Guarantor passed on 13 August 2020.The Bonds are constituted by a trust deed dated on 9 February 2021 (as amended and/or supplemented from time to time, the "**Trust Deed**") between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) as trustee for itself and the holders of the Bonds. The Bonds have the benefit of a deed of guarantee (as amended and/or supplemented from time to time, the "**Deed of Guarantee**") dated on 9 February 2021 executed by the Guarantor and the Trustee relating to the Bonds. An agency agreement dated on 9 February 2021 (as amended and/or supplemented from time to time, the "**Agency Agreement**") relating to the Bonds has been entered into between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch 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 Bonds), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Bonds) and as transfer agent (the "**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Bonds), the other 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 Bonds) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them.

Certain provisions of these terms and conditions (these "**Conditions**") are summaries of the Trust Deed, the Agency Agreement and the Deed of Guarantee and are subject to their detailed provisions. The Bondholders (as defined below) have the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Deed of Guarantee and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed, the Agency Agreement and the Deed of Guarantee are available for inspection by Bondholders upon prior written request and satisfactory proof of holding and identity at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m. from Monday to Friday (other than public holidays)) at the principal place of business for the time being of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the Specified Office (as defined in the Trust Deed) of the Principal Paying Agent.

All capitalised terms that are not defined in these Conditions have the meanings given to them in the Trust Deed.

1 FORM, DENOMINATION, STATUS OF THE BONDS AND GUARANTEE

(a) *Form and Denomination*: The Bonds are in registered form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof (an "**Authorised Denomination**").

*Upon issue, the Bonds will be represented by a global bond certificate (the "**Global Bond Certificate**") substantially in the form scheduled to the Trust Deed. The Global Bond Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). These Conditions are modified by certain provisions contained in the Global Bond Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".*

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

(b) *Status of the Bonds*: The Bonds constitute direct, general, unconditional, unsubordinated and (subject to Condition 3(a) (*Negative pledge*)) unsecured obligations of the Issuer which rank *pari passu* without any preference or priority among themselves and will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of applicable laws.

(c) *Guarantee*: The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds. Its obligations in that respect (the "**Guarantee**") are contained in the Deed of Guarantee. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable laws and subject to Condition 3(a) (*Negative pledge*), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

2 REGISTER, TITLE AND TRANSFERS

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

(b) *Title*: The Holder of each Bond shall (except as ordered by a court of competent jurisdiction or as otherwise required by law) be treated as the absolute owner of such Bond for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Bond Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Bond Certificate) and no person shall be liable for so treating such Holder.

(c) *Transfers*: Subject to the Agency Agreement and Condition 2(f) (*Closed periods*) and Condition 2(g) (*Regulations concerning transfers and registration*) below, a Bond may be transferred upon surrender of the relevant Bond 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 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 Bond may not be transferred unless the principal amount of Bonds transferred and (where not all of the Bonds held by a Holder are being transferred) the principal amount of the balance of Bonds not transferred are Authorised Denominations. Where not all the Bonds represented by the surrendered Bond Certificate are the subject of the transfer, a new Bond Certificate in respect of the balance of the Bonds will be issued to the transferor.

So long as the Bonds are represented by this Global Bond Certificate and the Global Bond Certificate is held by or on behalf of Euroclear or Clearstream or any Alternative Clearing System, transfers of the beneficial interests in the Bonds represented by the Global Bond Certificate will be effected in accordance with the rules and operating procedures of Euroclear or Clearstream or any Alternative Clearing System and their respective participants.

(d) *Registration and delivery of Bond Certificates*: Within five business days of the surrender of a Bond Certificate in accordance with Condition 2(c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Bond Certificate of a like principal amount to the Bonds 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 Condition 2(d) (*Registration and delivery of Bond Certificates*), "**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.

(e) *No charge*: The transfer of a Bond will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but (i) against such payment (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require) in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer, (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application, and (iii) the Registrar or the relevant Transfer Agent being satisfied that the regulations concerning transfer of Bonds have been complied with.

(f) *Closed periods*: Bondholders may not require transfers to be registered (i) during the period of seven business days ending on (but excluding) the due date for any payment of principal (or premium) in respect of that Bond; (ii) during the period of seven business days ending on (and including) any Record Date (as defined in Condition 6(a)(ii)); (iii) after any such Bonds have been called for redemption by the Issuer pursuant to Condition 5(b); or (iv) after any such Bond has been put for redemption pursuant to Condition 5(c).

(g) *Regulations concerning transfers and registration*: All transfers of Bonds and entries on the Register are subject to the detailed regulations concerning the transfer and registration of Bonds, the initial form of which is scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar, and by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available for inspection to the Holders at all reasonable times during normal business hours (being between 9:00 a.m. (local time) to 3:00 p.m. (local time) from Monday to Friday (other than public holidays)) by the Registrar at its specified office to any Bondholder who requests in writing a copy of such regulations with satisfactory proof of holding and identity.

3 COVENANTS

(a) *Negative Pledge*

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and each of the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any 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 to secure any guarantee of or indemnity of Relevant Indebtedness, without at the same time or prior thereto (A) according to the Bonds equally and rateably the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (B) providing such other security for the Bonds as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders, *provided that* this Condition 3(a) (*Negative Pledge*) shall not apply to limit the Issuer, the Guarantor or any of their respective Subsidiaries from creating or permitting to subsist any Permitted Security Interest.

(b) *Notification to NDRC*: The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission of the PRC (the "**NDRC**") the requisite information and documents of the Bonds within 10 PRC Business Days after the Issue Date (as defined below) and in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知) promulgated by the NDRC on 14 September 2015 which came into effect immediately and any implementation rules as issued by the NDRC from time to time (the "**Post-Issuance Filing**") and comply with all applicable PRC laws and regulations in relation to the issue of the Bonds and the Guarantee.

(c) *Undertaking relating to SAFE Filing*: The Guarantor undertakes to submit for registration or cause to be submitted for registration with the relevant branch of the State Administration of Foreign Exchange ("**SAFE**"), the Deed of Guarantee within 15 PRC Business Days after the execution of the Deed of Guarantee in accordance with the Provisions on the Foreign Exchange Administration of Cross-Border Guarantees (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 which came into effect on 1 June 2014 (the "**Cross-Border Security Registration**"). The Guarantor shall use its best endeavours to complete the Cross-Border Security Registration and obtain a registration certificate from SAFE (or any other document evidencing the completion of registration issued by SAFE) on or before the Registration Deadline.

(d) *Notification of Completion of the Post-Issuance Filing*: The Guarantor shall within ten PRC Business Days after the completion of the Post-Issuance 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 of the Guarantor confirming (A) the completion of the Post-Issuance Filing and (B) that no Change of Control, Event of Default (as defined in the Trust Deed) or Potential Event of Default (as defined in the Trust Deed) has occurred; and (ii) copies of the relevant documents evidencing the completion of the Post-Issuance Filing (if any), certified in English by an Authorised Signatory of the Guarantor as being a true and complete copy of the original. In addition, the Guarantor shall procure that within ten PRC Business Days after the documents specified in this Condition 3(d) are delivered to the Trustee, the Issuer gives notice to the Bondholders (in accordance with Condition 15 (*Notices*)) confirming the completion of the Post-Issuance Filing.

(e) *Notification of Completion of the Cross-Border Security Registration*: The Guarantor shall on or before the Registration Deadline and within ten PRC Business Days after the receipt of the registration certificate from SAFE (or any other document evidencing the completion of the Cross-Border Security Registration), provide the Trustee with (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory of the Guarantor confirming (A) the completion of the Cross-Border Security Registration and (B) that no Change of Control, Event of Default (as defined in the Trust Deed) or Potential Event of Default (as defined in the Trust Deed) has occurred; and (ii) copies of the registration certificate from SAFE or any other document evidencing the completion of the Cross-Border Security Registration and the particulars of registration, certified in English by an Authorised Signatory of the Guarantor as being a true and complete copy of the original (the certificate and documents referred to in (i) and (ii) of this Condition 3(e) together, the "**Registration Documents**"). In addition, the Guarantor shall procure that within ten PRC Business Days after the Registration Documents are delivered to the Trustee, the Issuer gives notice to the Bondholders (in accordance with Condition 15 (*Notices*)) confirming the completion of the Cross-Border Security Registration.

The Trustee may rely conclusively on the Registration Documents and shall have no obligation or duty to monitor, assist with or ensure the Post-Issuance Filing with the NDRC and/or Cross-Border Security Registration with SAFE on or before the Registration Deadline or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the Post-Issuance Filing and the Cross Border Security Registration and/or the Registration Documents or the accuracy or completeness of the translation into English of any such certificate, confirmation or other document or to procure that any Registration Document or any other document in relation thereto not in English be translated into English or to give notice to the Bondholders confirming the completion of the Post-Issuance Filing and the Cross-Border Security Registration, and shall not be liable to Bondholders or any other person for not doing so.

(f) *Compliance Certificates and Financial Reports*: So long as any Bond remains outstanding (as defined in the Trust Deed):

(i) the Issuer shall:

(A) provide the Trustee with a Compliance Certificate (as defined in the Trust Deed) of the Issuer (on which the Trustee may rely as to such compliance) within 14 days of receipt of a written request by the Trustee and at the same time it provides a copy of the Issuer Audited Financial Reports (as defined in the Trust Deed) and Issuer Interim Financial Reports (as defined in the Trust Deed) to the Trustee pursuant to sub-paragraph (i)(D) below;

(B) make the relevant Issuer Audited Financial Reports publicly available within the time limit as allowed by The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") or its listing rules, prepared in accordance with Hong Kong Financial Reporting Standards (audited by a nationally or internationally recognised firm of independent accountants);

(C) make the relevant Issuer Interim Financial Reports publicly available within the time limit as allowed by the Hong Kong Stock Exchange or its listing rules, prepared in accordance with Hong Kong Financial Reporting Standards; and

(D) provide a copy to the Trustee of each of such Issuer Audited Financial Reports and Issuer Interim Financial Reports within 10 Business Days of making the same publicly available as aforesaid; and

(ii) the Guarantor shall:

(A) provide the Trustee with a Compliance Certificate (as defined in the Trust Deed) of the Guarantor (on which the Trustee may rely as to such compliance) within 14 days of receipt of a written request by the Trustee and at the same time it provides a copy of the Guarantor Audited Financial Reports (as defined in the Trust Deed) and Guarantor Interim Financial Reports (as defined in the Trust Deed) to the Trustee pursuant to sub-paragraph (ii)(D) below;

(B) make the relevant Guarantor Audited Financial Reports within the time limit as allowed by the Shanghai Stock Exchange or its listing rules, prepared in accordance with the Accounting Standards for Business Enterprises in the PRC ("**PRC GAAP**") (audited by a nationally or internationally recognised firm of independent accountants);

(C) make the relevant Guarantor Interim Financial Reports within the time limit as allowed by the Shanghai Stock Exchange or its listing rules, prepared in accordance with PRC GAAP; and

(D) provide or procure to provide a copy to the Trustee of each of such Guarantor Audited Financial Reports, Issuer Audited Financial Reports, Guarantor Interim Financial Reports and Issuer Interim Financial Report within 10 Business Days of making the same publicly available as stated in this Condition 3(f).

(iii) if any of the financial reports provided to the Trustee by the Guarantor pursuant to Condition 3(f)(ii) shall be in the Chinese language and if requested by any Bondholder or if the Trustee considers it necessary or desirable in the course of performance of its functions and/or exercise of its duties, trusts, authorities, rights, powers and discretions as Trustee under the Trust Deed, the Deed of Guarantee, the Agency Agreement, the Bonds and/or any other transaction documents or by operation of law, as soon as reasonably practicable upon the Trustee's written request provide, at its own cost, it shall provide the Trustee an English translation of such financial reports translated by (x) a nationally or internationally recognised firm of accountants or (y) a professional translation service provider and checked by a nationally or internationally recognised firm of accountants, together with a certificate signed by an Authorised Signatory of the Guarantor certifying that such translation is complete and accurate.

(g) *In these Conditions*:

"**Group**" means the Issuer, the Guarantor and their respective Subsidiaries;

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

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

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

(i) any Security Interest over any or affecting any asset of a member of the Group created for the purposes of that member of the Group's equities, derivatives and structured products issuance business *provided that*, in each case, the holders of such Security Interest do not have recourse against any member of the Group;

(ii) any Security Interest created for the securities margin financing business, fixed income business, stock borrowing and lending business (including, without limitation, pursuant to transactions entered into under global master securities lending agreements consistent with the form of the Global Master Securities Lending Agreement published, from time to time, by the International Securities Lending Association (or any successor person) and under global master repurchase agreements consistent with the form of the Global Master Repurchase Agreement published, from time to time, by the International Capital Market Association (or any successor person)) or any back-to-back financial instrument created for client transactions of a member of the Group, *provided that*, in each case, such Security Interest does not otherwise have recourse against any member of the Group and shall be limited to the underlying shares or instruments under the relevant securities margin financing, stock borrowing and lending or fixed income scheme in accordance with the Group's margin financing, stock borrowing or lending or fixed income policy, as the case may be;

"**Person**" means any 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;

"**Relevant Indebtedness**" means any indebtedness issued 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 for the avoidance of doubt, does not include any loans) 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);

"**PRC"** means the People's Republic of China, which, for the purposes of these Conditions, shall not include Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan;

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

"**Registration Deadline**" means the day falling 120 PRC Business Days after the Issue Date;

"**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; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person:

(i) whose affairs and policies the first Person controls or has the power to control; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

For the purposes of this definition, "**control**" means the right to appoint and/or remove all or the majority of the members of the board of directors or other governing body of a Person, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

4 INTEREST

The Bonds bear interest on their outstanding principal amount from, and including, 9 February 2021 (the "**Issue Date**") at the rate of 4.0 per cent. per annum, (the "**Rate of Interest**"), payable semi-annually in arrear in equal instalments of US$20.0 per Calculation Amount (as defined below) on 9 February and 9 August in each year (each, an "**Interest Payment Date**"), commencing on 9 August 2021.

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

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

Interest in respect of any Bond shall be calculated per US$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be equal to the product of the Rate of Interest, the Calculation Amount and the day-count fraction for the relevant period determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

5 REDEMPTION AND PURCHASE

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 9 February 2024, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders and in writing to the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, if, immediately before giving such notice, the Issuer and/or the Guarantor (as the case may be) satisfies the Trustee that:

(i) the Issuer (or, if the Guarantor were called, the Guarantor) has or will become obliged to pay Additional Amounts (as defined in Condition 7 (*Taxation*)) as a result of any change in, or amendment to, the laws or regulations of Bermuda, Hong Kong or the PRC (each a "**Relevant Jurisdiction**") or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 3 February 2021; and

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

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

Prior to the publication of any notice of redemption pursuant to this Condition 5(b) (*Redemption for tax reasons*), the Issuer (or the Guarantor, as the case may be) shall deliver or procure that there is delivered to the Trustee (A) a certificate signed by an Authorised Signatory of the Issuer (or by an Authorised Signatory of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 5(b) (*Redemption for tax reasons*) cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and (B) an opinion, addressed to and in form and substance satisfactory to the Trustee, of independent tax or legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendments.

The Trustee shall be entitled (but shall not be obliged) to accept and rely upon (without further investigation or query) such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above of this Condition 5(b) (*Redemption for tax reasons*), in which event such evidence shall be conclusive and binding on the Bondholders and the Trustee shall be protected and shall have no liability to any Bondholder or any other person for so accepting and relying on such certificate and opinion.

Upon the expiry of any such notice period as is referred to in this Condition 5(b) (*Redemption for tax reasons*), the Issuer (or the Guarantor, as the case may be) shall be bound to redeem the Bonds in accordance with this Condition 5(b) (*Redemption for tax reasons*).

(c) *Redemption for Relevant Event*: At any time following the occurrence of a Relevant Event, the Holder of any Bond will have the right, at such Holder's option, to require the Issuer to redeem all but not some only of that Holder's Bonds on the Put Settlement Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Registration Event) of their principal amount, together with accrued interest to but excluding such Put Settlement Date. To exercise such right, the Holder of the relevant Bond must 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 (a "**Put Exercise Notice**"), together with the Bond Certificates evidencing the Bonds to be redeemed by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 15 (*Notices*).

The "**Put Settlement Date**" shall be the 14th day (in the case of a redemption for a Change of Control) or fifth day (in the case of a redemption for a No Registration Event) after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Bondholders in accordance with Condition 15 (*Notices*) and in writing to the Trustee and the Principal Paying Agent by not later than 14 days (in the case of a redemption for a Change of Control) or five days (in the case of a redemption for a No Registration Event) following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Bonds pursuant to this Condition 5(c) (*Redemption for Relevant Event*).

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

In this Condition 5(c) (*Redemption for Relevant Event*):

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

(i) the Guarantor ceases to be Controlled by the Controlling Person(s) in aggregate; or

(ii) the Guarantor ceases to own or control directly or indirectly 50 per cent. or more of the voting rights of the issued share capital of the Issuer and ceases to have the power to appoint and/or remove 50 per cent. or more of the members of the Issuer's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise; or

(iii) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of its assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the Guarantor or the successor entity, as the case may be, ceasing to be Controlled by the Controlling Person(s);

"**Control**" means (a) the ownership or control of, directly or indirectly, not less than 35 per cent. of the voting rights of the issued share capital of the Guarantor and (b) being the single largest direct or indirect shareholder or shareholder group of the voting rights of the issued share capital of the Guarantor and (c) the possession of the right to approve the appointment and/or removal of not less than 50 per cent. of the members of the Guarantor's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise and the term "**Controlled**" has meanings correlative to the foregoing;

"**Controlling Person**" means (a) SASAC or the central government of the PRC and (b) any entity whose single largest shareholder, directly or indirectly, is SASAC or the central government of the PRC;

"**issued share capital**" means issued and outstanding ordinary shares having voting rights, but does not include ordinary or preference shares without voting rights;

a "**No Registration Event**" occurs when the Registration Conditions have not been satisfied in full on or before the Registration Deadline;

a "**Person**", as used in this Condition 5(c) (*Redemption for Relevant Event*), includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Controlling Person;

"**Registration Conditions**" means the receipt by the Trustee of the Registration Documents;

a "**Relevant Event**" means a Change of Control or a No Registration Event; and

"**SASAC**" means the State-owned Assets Supervision and Administration Commission of the PRC (including its local counterparts) or its successor.

(d) *No other redemption*: Neither of the Issuer and the Guarantor shall be entitled to redeem the Bonds otherwise than as provided in Condition 5(a) (*Scheduled redemption*) to Condition 5(c) (*Redemption for Relevant Event*) (both inclusive).

(e) *Purchase*: The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any of their respective Subsidiaries, shall not entitle the Holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Bondholders or for the purposes of Condition 8 (*Events of Default*), Condition 12(a) (*Meetings of Bondholders*) and Condition 13 (*Enforcement*).

(f) *Cancellation*: All Bonds so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries shall be surrendered for cancellation by surrendering the Bond Certificate representing such Bonds to the Registrar and shall be cancelled forthwith. Any Bond Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

6 PAYMENTS

(a) *Method of Payment*

(i) *Principal and premium*: Payments of principal and premium shall be made (subject to surrender of the relevant Bond Certificates at the Specified Office of any Paying Agent or of the Registrar if no further payment falls to be made in respect of the Bonds represented by such Bond Certificates) in the manner provided in subparagraph below.

(ii) *Interest*: Payments of interest shall be made on the due date to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made by transfer to an account in US dollars maintained by the payee with a bank.

*Whilst the Bonds are represented by the Global Bond Certificate and so long as the Global Bond Certificate is held on behalf of Euroclear, Clearstream or any other clearing system, each payment in respect of the Global Bond 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 record date which shall be the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(iii) If the amount of principal being paid upon surrender of the relevant Bond Certificate is less than the outstanding principal amount of such Bond Certificate, the Registrar will annotate the Register with the amount of principal so paid and will (if so requested in writing by the Issuer or a Bondholder) issue a new Bond Certificate with a principal amount equal to the remaining unpaid outstanding principal amount. If the amount of premium or interest being paid is less than the amount then due, the Registrar will annotate the Register with the amount of premium or interest so paid.

(b) *Payments subject to fiscal laws*: All payments in respect of the Bonds are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment but without prejudice to the provisions of Condition 7 (*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, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(c) *Payment Initiation*: Payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the due date for payment or, in the case of payments of principal where the relevant Bond Certificate has not been surrendered at the Specified Office of any Paying Agent or of the Registrar, on a Payment Business Day on which the Principal Paying Agent is open for business and on which the relevant Bond Certificate is surrendered.

(d) *Delay in Payment*: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, or if the Bondholder is late in surrendering or cannot surrender its Bond Certificate (if required to do so).

(e) *Non-Payment Business Days*: If any date for payment in respect of any Bond is not a Payment Business Day, the Holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 6 (*Payments*), "**Payment Business Day**" means a day (other than a Saturday or a Sunday or a public holiday) on which commercial banks and foreign exchange markets are open for general business in New York City, London, Hong Kong and (if surrender of the relevant Bond Certificate is required) the relevant place of presentation.

7 TAXATION

All payments of principal, premium and interest in respect of the Bonds or under the Guarantee by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without set-off or counterclaim and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of a Relevant Jurisdiction (as defined in Condition 5(b) (*Redemption for tax reasons*)) or, in each case, any political subdivision or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer or the Guarantor (as the case may be) by or within the PRC up to and including the aggregate rate applicable on 3 February 2021 (the "**Applicable Rate**"), the Issuer or the Guarantor (as the case may be) will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or the Guarantor (as the case may be) is required to make (i) a deduction or withholding by the laws of or within the PRC in excess of the Applicable Rate, or (ii) a deduction or withholding by the laws of Bermuda or Hong Kong, in such event, the Issuer or the Guarantor (as the case may be) shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Bondholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Bond or the Guarantee (as the case may be):

(i) to a Holder (or to a third party on behalf of a Holder) which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond 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 Bond; or

(ii) to a Holder (or to a third party on behalf of a Holder) 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, after having been requested to make such a declaration or claim, such Holder fails to do so within any applicable period prescribed by such relevant tax authority; or

(iii) in respect of which the Bond Certificate representing it is surrendered (where required to be surrendered) more than 30 days after the Relevant Date except to the extent that the relevant Bondholder would have been entitled to such Additional Amounts if it had presented such Bond for payment on the last day of such period of 30 days; or

(iv) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of the payment to the extent that a payment would be required to be included in the income, under the tax laws of the Relevant Jurisdiction, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

For the avoidance of doubt, the obligation of the Issuer or the Guarantor (as the case may be) to pay additional amounts in respect of taxes, duties, assessments and other governmental charges will not apply to (a) any estate, inheritance, gift, sales, transfer, personal property or any similar tax, duty, assessment or other governmental charge or (b) any tax, duty, assessment or other governmental charge which is payable otherwise than by deduction or withholding from payments of principal of, or interest on, the Bonds.

"**Relevant Date**" means 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 by the Principal Paying Agent in accordance with the provision of the Agency Agreement on or prior to such due date, the date on which the full amount has been received and notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal, premium or interest shall be deemed to include any Additional Amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer or the Guarantor (as the case may be) becomes subject at any time to any taxing jurisdiction other than Bermuda, Hong Kong or the PRC, references in these Conditions to Bermuda, Hong Kong or the PRC shall be construed as references to Bermuda, Hong Kong or, as the case may be, the PRC, and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 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 Bondholder 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, interest or other amount under or in respect of the Bonds or the Guarantee without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

8 EVENTS OF DEFAULT

If any of the following events occurs, then the Trustee at its discretion may and, if so requested in writing by Holders of at least 25 per cent. of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject in every such case to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer and the Guarantor declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with any accrued but unpaid interest without further action or formality:

(a) *Non-payment*: there has been a failure to pay (i) any amount of principal or premium in respect of the Bonds on the due date for payment thereof or (ii) any amount of interest in respect of the Bonds within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of their respective other obligations under or in respect of the Bonds, the Trust Deed or the Deed of Guarantee (other than those obligations referred to in Condition 8(a) (*Non-payment*)) and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issue or the Guarantor, as the case may be, *provided that* an event which merely gives rise to a right of redemption pursuant to Condition 5(c) *(Redemption for Relevant Event)* shall not constitute a default by the Issuer or the Guarantor within the meaning of this Condition 8(b) (*Breach of other obligations*); or

(c) *Cross-default of the Issuer, the Guarantor or Subsidiaries*:

(i) any Indebtedness of the Issuer, the Guarantor or any of their respective Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer, the Guarantor or any of their respective Subsidiaries fails to pay when due any amount payable by it under any guarantee or indemnity of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above of this Condition 8(c) (*Cross-default of the Issuer, the Guarantor or Subsidiaries*) and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above of this Condition 8(c) (*Cross-default of the Issuer, Guarantor or Subsidiaries*) individually or in the aggregate exceeds US$30,000,000 (or its equivalent in any other currency or currencies); 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 or the Guarantor or any of their respective Material Subsidiaries; or

(e) *Unsatisfied judgment*: one or more judgment(s) or order(s) is rendered against the Issuer, the Guarantor or any of their respective Subsidiaries for the payment of an aggregate amount in excess of US$30,000,000 (or its equivalent in any other currency or currencies), and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any material part of the undertaking, assets and revenues of the Issuer or the Guarantor or any of their respective Material Subsidiaries and such action is not discharged within 30 days after the date thereof; or

(g) *Insolvency, etc.*: (i) the Issuer, the Guarantor or any of their respective Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, or the Guarantor or any of their respective Material Subsidiaries or the whole or any material part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries is appointed (or application for any such appointment is made), (iii) the Issuer, the Guarantor or any of their respective Material Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any guarantee or indemnity of any Indebtedness given by it or (iv) the Issuer, the Guarantor or any of their Material Subsidiaries ceases or threatens to cease to carry on all or any material part of its business, except (a) in the case of any Material Subsidiary, where the cessation is for the purpose of and followed by a solvent winding up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor and/or another Subsidiary or (b) on terms approved by an Extraordinary Resolution of the Bondholders; or

(h) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any of their respective Material Subsidiaries, except (i) in the case of any Material Subsidiary, for the purpose of and followed by a solvent winding up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor and/or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Bondholders; or

(i) *Government intervention*: (i) all or any material part of the undertaking, assets and revenues of the Issuer, the Guarantor or any of their respective Material Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any of their respective Material Subsidiaries is prevented by any such person from exercising normal control over all or any material part of its undertaking, assets and revenues; or

(j) *Analogous event*: any event occurs which under the laws of Bermuda, Hong Kong or the PRC has an analogous effect to any of the events referred to in Condition 8(e) (*Unsatisfied judgment*) to Condition 8(i) (*Government intervention*) (both inclusive); or

(k) *Authorisations and consents*: any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor, as the case may be, lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement admissible in evidence in the courts of Bermuda, Hong Kong and the PRC is not taken, fulfilled or done; or

(l) *Unlawfulness*: it is or will become unlawful for any of the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Bonds, the Trust Deed, the Deed of Guarantee or the Agency Agreement; or

(m) *Unenforceability of Guarantee*: the Guarantee becomes unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Guarantor.

In this Condition 8:

"**Material Subsidiary**" at any time shall mean any Subsidiary of a Person:

(i) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statement is at least 10 per cent. of the consolidated revenue as shown by the latest audited consolidated income statement of such Person and its Subsidiaries; or

(ii) whose net profit or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit, as shown by its latest audited income statement is at least 10 per cent. of the consolidated net profit as shown by the latest audited consolidated income statement of such Person and its Subsidiaries including, for the avoidance of doubt, such Person and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(iii) whose gross assets or (in the case of a Subsidiary which itself has Subsidiaries) consolidated gross assets, as shown by its latest audited balance sheet are at least 10 per cent. of the consolidated gross assets as shown by the latest audited consolidated balance sheet of such Person and its Subsidiaries including, for the avoidance of doubt, the investment of such Person in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of such Person and after adjustment for minority interests; or

(iv) 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 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 cease to be a Material Subsidiary at the date on which the first audited accounts (consolidated, if appropriate) of such Person prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Material Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (i), (ii) or (iii) above of this definition;

provided that, in relation to paragraphs (i), (ii) and (iii) above of this definition:

(A) 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 such Person relate, the reference to the then latest consolidated audited accounts of such Person for the purposes of the calculation above shall, until consolidated audited accounts of such Person 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 such Person adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(B) if at any relevant time in relation to such Person or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, net profit or gross assets of the Person and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Person;

(C) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, net profit or gross 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 such Person; and

(D) if the accounts of any subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of such Person, 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 Person;

A certificate signed by an Authorised Signatory of the Guarantor or the Issuer (as the case may be) stating that, in his/her opinion, a Subsidiary is or is not, or was or was not, a Material Subsidiary of the Guarantor or the Issuer (as the case may be) shall, in the absence of manifest error, be conclusive and binding on all parties. The certificate shall, if there is a dispute as to whether any Subsidiary of the Guarantor or the Issuer (as the case may be) is or is not a Material Subsidiary, be accompanied by a report by an internationally recognised firm of accountants addressed to the Guarantor or the Issuer (as the case may be) as to proper extraction of the figures used by the Guarantor or the Issuer (as the case may be) in determining the Material Subsidiaries of the Guarantor or the Issuer (as the case may be) and the mathematical accuracy of the calculation.

9 PRESCRIPTION

Claims against the Issuer and/or the Guarantor for payment in respect of the Bonds and the Guarantee shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 REPLACEMENT OF BOND CERTIFICATES

If any Bond Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer Agent, subject to all applicable laws and stock exchange 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 or such Agent may require. Mutilated or defaced Bond Certificates must be surrendered before replacements will be issued.

11 TRUSTEE AND AGENTS

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or pre-funded to its satisfaction and to be relieved from responsibility in certain circumstances and to be paid its fees, costs, expenses, indemnity payments and other amounts in priority to the claims of the Bondholders. In addition, the Trustee and its affiliates 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.

In the exercise of its rights, powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual Holders of Bonds as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Bonds, 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 Bondholders.

The Issuer and the Guarantor reserve the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint additional or successor agents; *provided*, *however*, *that* the Issuer and the Guarantor shall at all times maintain a principal paying agent, a transfer agent, a registrar and such other agents as may be required by any other stock exchange on which the Bonds may be listed.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given by the Issuer (failing whom, the Guarantor) to the Bondholders.

None of the Trustee or any of the Agents shall be responsible or liable for the performance by the Issuer, the Guarantor and/or any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer and/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 Bondholder, the Issuer, the Guarantor or any other person for any action taken by the Trustee or any such Agent in accordance with the instructions, direction, request or resolution of the Bondholders. The Trustee shall be entitled to rely conclusively on any instruction, direction, request or resolution of Bondholders given by Bondholders holding the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed (by way of written resolution or Electronic Consent (as defined in the Trust Deed)).

The Trustee and the Agents shall have no obligation to monitor compliance with the provisions of the Trust Deed, the Deed of Guarantee, the Agency Agreement or these Conditions, or to ascertain whether an Event of Default or a Relevant Event has occurred, and shall not be liable to the Bondholders or any other person for not doing so.

Each Bondholder 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 Guarantor or any of their respective Subsidiaries, and the Trustee shall not at any time have any responsibility or liability for the same and each Bondholder shall not rely on the Trustee in respect thereof.

12 MEETINGS OF BONDHOLDERS; MODIFICATION AND WAIVER

(a) *Meetings of Bondholders*: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions, the Trust Deed or the Deed of Guarantee. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee upon the request in writing of Bondholders holding at least 10 per cent. of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; *provided*, *however*, *that* certain proposals (including but not limited to any proposal (i) to modify the maturity of the Bonds or the dates on which interest, principal or premium is payable on them; or (ii) reduce or cancel the principal amount of, any premium payable on redemption of, or interest on the Bonds; or (iii) change the currency of payment of the Bonds or method of calculating the amount of any payment in respect of the Bonds; or (iv) cancel, or make any modification that is materially prejudicial to the interests of the Bondholders to, the Deed of Guarantee (other than as provided in Condition 12(b)); (v) make any modification to Condition 3 (*Covenants*) that is materially prejudicial to the interests of the Bondholders; or (vi) modify the provisions concerning the quorum required at a meeting of Bondholders or the majority required to pass an Extraordinary Resolution; or (vii) effect exchange, conversion or substitution of the Bonds; (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which two or more persons holding or representing not less than 75 per cent. or, at any adjourned meeting, 25 per cent. of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

In addition, a resolution (A) in writing signed by or on behalf of Holders holding not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding or (B) passed by Electronic Consent (as defined in the Trust Deed) shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) *Modification and waiver*: The Trustee may (but shall not be obliged), without the consent of the Bondholders agree to any modification of these Conditions, the Trust Deed, the Bonds, the Agency Agreement or the Deed of Guarantee which is, in the opinion of the Trustee, not materially prejudicial to the interests of Bondholders and to any modification of these Conditions, the Bonds, the Trust Deed, the Agency Agreement or the Deed of Guarantee which is, in its opinion, of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provisions of law.

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

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Bondholders as soon as practicable thereafter and shall be binding on all Bondholders.

(c) *Directions from Bondholders*: Notwithstanding anything to the contrary in these Conditions, the Trust Deed, the Deed of Guarantee or the Agency Agreement, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed, the Deed of Guarantee or the Agency Agreement to exercise any discretion or power, take or refrain from taking 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 or refrain from taking any such decision, or giving any such direction or certification, to seek directions or clarification of any directions from the Bondholders by way of an Extraordinary Resolution and to be indemnified and/or secured and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which in its opinion it may be or become liable and all costs, charges, damages, expenses (including legal expenses) and liabilities which in its opinion may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in it exercising such discretion or power, taking or refrain from taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions or clarification of any directions from the Bondholders or no direction or clarification is given to the Trustee by the Bondholders.

(d) *Certificates and Reports*: The Trustee and the Agents may each rely conclusively and without liability to Bondholders, the Issuer, the Guarantor or any other person on any report, confirmation, certificate or information from or any advice or opinion of any lawyers, accountants, financial advisers, financial institution, any other expert or professional adviser, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, information, advice or opinion and such report, confirmation, information, certificate, advice or opinion shall be binding on the Bondholders. The Trustee and the Agents shall not be responsible or liable to the Issuer, the Guarantor, the Bondholders or any other person for any loss occasioned by acting on or refraining from acting on any such report, information, confirmation, certificate, opinion or advice.

13 ENFORCEMENT

The Trustee may at any time, at its absolute discretion and without notice, institute such proceedings, actions or steps as it thinks fit to enforce its rights under the Trust Deed, the Bonds or the Deed of Guarantee, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least 25 per cent. of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Bondholder 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.

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

14 FURTHER ISSUES

The Issuer may from time to time, without the consent of the Bondholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the issue price, the first payment of interest and the timing for complying with the Registration Conditions, the making or submission of the Post-Issuance Filing and the completion of the Cross-Border Security Registration) so as to form a single series with the Bonds.

15 NOTICES

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

So long as the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held by or on behalf of Euroclear and Clearstream or any Alternative Clearing System, any notice to the Holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by these Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16 CURRENCY INDEMNITY

If any sum due from the Issuer or the Guarantor in respect of the Bonds 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 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 Bonds or the Guarantee, the Issuer or the Guarantor (as the case may be) shall indemnify the Trustee and each Bondholder, on the written demand of the Trustee or such Bondholder addressed to the Issuer or the Guarantor (as the case may be) and delivered to the Issuer or the Guarantor (as the case may be), 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 the Trustee or such Bondholder 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.

This indemnity constitutes a separate and independent obligation of the Issuer and the Guarantor and shall give rise to a separate and independent cause of action.

17 GOVERNING LAW AND JURISDICTION

(a) *Governing law*: The Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement are governed by the laws of Hong Kong.

(b) *Jurisdiction*: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement, and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Trust Deed, the Deed of Guarantee and the Agency Agreement (the "**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

(c) *Waiver of immunity*: Each of the Issuer and the Guarantor hereby waives any right to claim sovereign, crown, state or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

(d) *Agent for Service of Process*: The Guarantor has irrevocably appointed in the Trust Deed the Issuer at 40/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong as its agent for service of process in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such agent (whether or not, it is forwarded to and received by the Guarantor). If for any reason the Issuer shall cease to be such agent for service of process or have a place of business in Hong Kong, the Guarantor shall forthwith appoint a new agent for service of process in Hong Kong and shall deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of such cessation. If the Issuer ceases to have a place in Hong Kong, the Issuer will forthwith appoint a process agent to receive service of process in any Proceedings in Hong Kong and shall deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of such cessation.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ORDINANCE (CAP. 623)

Unless otherwise specified, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Ordinance (Cap. 623).

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond Certificate contains provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Conditions set out in this Offering Circular. The following is a summary of certain of those provisions. Terms defined in the Conditions have the same meaning in the paragraphs below.

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

So long as the Bonds are represented by the Global Bond Certificate, the Issuer will, for value received, promise to pay to the Registered Holder of the Bonds represented by the Global Bond Certificate (subject to surrender of this Global Bond Certificate if no further payment falls to be made in respect of such Bonds) the amount payable upon redemption under the Conditions in respect of the Bonds on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions), and interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by the Global Bond Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Owners of interests in the Bonds in respect of which the Global Bond Certificate is issued will be entitled to receive individual definitive Bond Certificates if either Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon the registered holder may give notice to the Registrar of its intention to require the exchange of a specified principal amount of the Global Bond Certificate (which may be equal to or less than the outstanding principal amount of Bonds represented hereby) for definitive Bond Certificates on or after the Exchange Date specified in the notice. "**Exchange Date**" means a day falling not less than 30 days after that on which the notice requiring exchange is given and on which banks are open for business in Hong Kong or, if relevant, the city in which the Alternative Clearing System, is located.

PAYMENT

So long as the Bonds are evidenced by the Global Bond Certificate, each payment in respect of the Global Bond Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

So long as the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from 9 February 2021 in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by the Global Bond Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

NOTICES

So long as the Bonds are represented by the Global Bond Certificate and the Global Bond Certificate is held by or on behalf of Euroclear or Clearstream or any Alternative Clearing System, any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

TRANSFERS

Transfers of the beneficial interests in the Bonds represented by the Global Bond Certificate will be effected through the records of Euroclear or Clearstream or any Alternative Clearing System and their respective participants in accordance with the rules and operating procedures of Euroclear or Clearstream or any Alternative Clearing System and their respective participants.

CANCELLATION

Cancellation of any Bond represented by the Global Bond Certificate which is required by the Conditions to be cancelled will be effected by a reduction in the principal amount of the Bonds in the Register and the Global Bond Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in the Schedule to the Global Bond Certificate.

REDEMPTION AT THE OPTION OF BONDHOLDERS

The option of the Bondholders provided for in Condition 5(c) (*Redemption for Relevant Event*) of the Conditions may be exercised by the Registered Holder giving notice to any Paying Agent within the time limits relating to the surrender of Bond Certificate set out in that Condition, in accordance with the rules and procedures of Euroclear and Clearstream, and stating the principal amount of Bonds in respect of which the option is exercised and at the same time presenting the Global Bond Certificate to or to the order of the Registrar for a notation (for information only) in the Schedule to the Global Bond Certificate.

MEETINGS

For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Bond Certificate shall (unless the Global Bond Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each integral currency unit of the currency of the Bonds.

TRUSTEE'S POWERS

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

USE OF PROCEEDS

The gross proceeds from this offering, before deducting the underwriting commissions and without taking into account the private banking rebates and other estimated expenses payable in connection with this offering, will be US$178 million. The Issuer intends to use the net proceeds from this offering for refinancing existing offshore indebtedness due within one year.

EXCHANGE RATE INFORMATION

CHINA

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

The PRC Government has made further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Centre ("**CFETS**"), a sub-institutional organisation of the PBOC, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and the balance of payments situation in China, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced but the PBOC will place more emphasis on reflecting the market supply and demand with reference to a basket of currencies. On 12 April 2012, the PBOC announced that on 16 April 2012, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar would be enlarged from 0.5% to 1.0% around the central parity rate, allowing the Renminbi to fluctuate against the U.S. dollar by up to 1.0% above or below the central parity rate published by the PBOC. The PBOC announced on 15 March 2014 that since 17 March 2014, the floating band for the trading prices in the inter-bank foreign exchange spot market of Renminbi against the U.S. dollar was further expanded from 1% to 2% On each business day, the spread between the Renminbi and U.S. dollar buying and selling prices offered by the designated foreign exchange banks to their clients shall be within 3.0% of the published central parity of the U.S. dollar on that day, instead of 2.0% On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change at primary international currencies. For three conservative days commencing 11 August 2015, the PBOC devalued the Renminbi against the U.S. dollar, leading to declines in the value of the Renminbi versus the U.S. dollar of up to 2.8% in currency markets and representing the largest single-day drop in the value of the Renminbi since 1994. On 11 December 2015, CFETS published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. In January and February 2016, Renminbi experienced further fluctuations in value against the U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The International Monetary Fund announced on 30 September 2016 that the Renminbi joins its Special Drawing Rights currency basket. Since October 2016, Renminbi experienced significant fluctuation in value against the U.S. dollar but in 2017 and 2018 rebounded and appreciated significantly against the U.S. dollar. On 5 August 2019, the PBOC set the Renminbi's daily reference rate below RMB7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. There remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in further and more significant depreciation of the Renminbi against the U.S. dollar. The PRC government may from time to time make further adjustments to the exchange rate system in the future.

The following table sets forth the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board for the periods indicated. On 30 June 2020, the exchange rate was RMB7.0651 to US$1.00.

	Exchange rate			
Period	**Period end**	**Average(1)**	**High**	**Low**
	(RMB per U.S.$1.00)			
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9027	7.1786	6.6822
2020				
August	6.8474	6.9270	6.9799	6.8474
September	6.7896	6.8106	6.8474	6.7529
October	6.6919	6.7254	6.7898	6.6503
November	6.5760	6.6029	6.6899	6.5556
December	6.5250	6.5393	6.5705	6.5208
2021				
January (through 22 January)	6.4810	6.4698	6.4810	6.4550

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

HONG KONG

The H.K. dollar is freely convertible into the U.S. dollar. Since 1983, the H.K. dollar has been linked to the U.S. dollar. Under existing Hong Kong law, there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of payments to U.S. residents. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong. Although the market exchange rate of the H.K. dollar against the U.S. dollar was and continues to be determined by forces of supply and demand in the foreign exchange markets, between 1983 and May 2005 Hong Kong maintained a fixed rate system which sets the rate of exchange at HK$7.80 per U.S. dollar (the "**Linked Exchange Rate System**"). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK$7.80 per U.S. dollar to a new range varying between HK$7.75 and HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the Linked Exchange Rate System. The Hong Kong government has also stated that it has no intention of imposing exchange controls and that the H.K. dollar will remain freely convertible into other currencies, including the U.S. dollar.

However, no assurance can be given that the Hong Kong government will maintain the trading band at HK$7.75 to HK$7.85 per U.S. dollar or at all. As a result of the Linked Exchange Rate System, exchange rates between the H.K. dollar and other currencies are influenced by the value of the U.S. dollar.

The following table sets forth the exchange rates set forth in the H.10 statistical release of the Federal Reserve Board for the periods indicated. On 30 June 2020, the exchange rate was HK$7.7501 to US$1.00.

	Exchange rate			
Period	**Period end**	**Average[(1)]**	**High**	**Low**
	(HK$ per U.S.$1.00)			
2016	7.7534	7.7620	7.8270	7.7505
2017	7.8128	7.7926	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8333	7.8499	7.7850
2020				
August	7.7501	7.7502	7.7506	7.7498
September	7.7500	7.7500	7.7504	7.7499
October	7.8393	7.8375	7.8433	7.8260
November	7.8244	7.8286	7.8365	7.8205
December	7.7534	7.7519	7.7539	7.7505
2021				
January (through 22 January)	7.7519	7.7536	7.7555	7.7517

Source: Federal Reserve H.10 Statistical Release

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets forth on an actual basis the Issuer's consolidated borrowings and capitalisation as of 30 June 2020 and as adjusted to give effect to the issuance of the Bonds in this offering before deducting the Joint Lead Managers' discounts and commissions and without taking into account any private banking rebates or other estimated expenses payable in connection with this offering. The following table should be read in conjunction with the Issuer Group's Unaudited Interim Financial Statements, including the notes related thereto, included elsewhere in this Offering Circular.

	As of 30 June 2020			
	Actual		As Adjusted	
	HK$ (unaudited)	US$ (unaudited)	HK$ (unaudited)	US$ (unaudited)
	(in thousands)			
Borrowings				
Bonds payable	1,545,378	199,401	1,545,378	199,401
Bonds to be issued	–	–	1,379,518	178,000
Total borrowings	**1,545,378**	**199,401**	**2,924,896**	**377,401**
Equity				
Share capital	366,182	47,249	366,182	47,249
Reserves	(651,363)	(84,046)	(651,363)	(84,046)
Other equity instrument	580,000	74,838	580,000	74,838
Total equity	**294,819**	**38,041**	**294,819**	**38,041**
Total capitalisation[1]	**1,840,197**	**237,442**	**3,219,715**	**415,442**

Note:

(1) Total capitalisation equals total borrowings plus total equity.

There has been no material change in the Issuer's capitalisation since 30 June 2020.

CAPITALISATION AND INDEBTEDNESS OF THE GROUP

The following table sets forth on an actual basis the Group's consolidated borrowings and capitalisation as of 30 June 2020 and as adjusted to give effect to the issuance of the Bonds in this offering before deducting the Lead Managers' discounts and commissions and without taking into account any private banking rebates and other estimated expenses payable in connection with this offering. The following table should be read in conjunction with the Group's Unaudited Interim Financial Statements, including the notes related thereto, included elsewhere in this Offering Circular.

	As of 30 June 2020			
	Actual		As Adjusted	
	RMB (unaudited)	US$ (unaudited)	RMB (unaudited)	US$ (unaudited)
	(in thousands)			
Borrowings				
Short-term debt instruments	3,883,705	549,703	3,883,705	549,703
Bonds payable	14,279,560	2,021,141	14,279,560	2,021,141
Bonds to be issued	–	–	1,257,588	178,000
Total borrowings	**18,163,265**	**2,570,843**	**19,420,853**	**2,748,843**
Total equity	**19,509,671**	**2,761,415**	**19,509,671**	**2,761,415**
Total capitalisation(1)	**37,672,936**	**5,332,258**	**38,930,524**	**5,510,258**

Note:

(1) Total capitalisation equals total borrowings plus total equity.

Since 30 June 2020, there has been the following material changes in the Group's capitalisation:

- on 14 July 2020, the Guarantor issued corporate bonds in the aggregate principal amount of RMB2,000 million with a term of three years to professional investors;
- on 22 July 2020, the Guarantor completed an issuance of 1,000 million new ordinary shares to certain existing shareholders, including related parties;
- on 23 July 2020, the Guarantor redeemed its 5.37% corporate bonds issued in 2014 (second tranche) in the aggregate principal amount of RMB1,949.530 million at maturity;
- on 15 December 2020, the Guarantor issued subordinated bonds in the aggregate principal amount of RMB2,000 million with a term of three years; and
- on 21 December 2020, the Guarantor redeemed its subordinated bonds issued in 2017 (first tranche) in the aggregate principal amount of RMB1,000 million at maturity.

Except as otherwise disclosed above, there has been no material adverse change in the Group's capitalisation since 30 June 2020. The Group will continue to incur indebtedness from time to time for general corporate purposes, including but not limited to refinancing of existing indebtedness and funding its operations in the ordinary course of business.

DESCRIPTION OF THE ISSUER

OVERVIEW

The Issuer is an integrated financial institution that offers a wide range of financial products and services in Hong Kong. The Issuer has developed a robust business model with diversified sources of income and strives to achieve international standards in its product and service offerings. The Issuer received the ISO 9001 (Quality Management System) and ISO 10002 (Complaints Management System & Customer Satisfaction) accreditations in 2008. The Issuer's principal business lines currently include:

- ***Brokerage and Margin Financing***. The Issuer engages in agency trading of securities, futures and options trading, and provision of insurance brokerage services, margin financing services, financial products business and one-stop integrated investment and financing services for high-net-worth clients.

- ***Corporate Finance***. The Issuer provides corporate finance services, including sponsor services, underwriting and placement services, financial advisory services and financing arrangement services to corporate clients.

- ***Asset Management***. The Issuer provides asset management services.

- ***Proprietary Trading***. The Issuer engages in the trading of various financial products for its own account.

The Issuer's origins can be traced back to 1990 when Southwest Securities (HK) Futures Limited (formerly known as Tanrich Futures Limited) was first established. The Issuer was incorporated in Bermuda on 3 September 1998 as an exempted company with limited liability and listed on the Main Board of the Hong Kong Stock Exchange in January 2002. The Issuer was acquired by the Guarantor in January 2015 and rebranded itself by changing its name to Southwest Securities International Securities Limited on 14 April 2015. The Guarantor acquired a majority interest in the Issuer in order to expand and develop the Issuer as the Guarantor's overseas platform. The Guarantor intends to continue to develop the Issuer's existing business in anticipation of market developments and opportunities, such as the Shanghai-Hong Kong Stock Connect (滬港通) programme, under which the Shanghai Stock Exchange and the Hong Kong Stock Exchange enable investors to trade eligible shares listed on the other's market through local securities firms or brokers. The acquisition by the Guarantor has improved the Issuer's liquidity and financial position, in particular, its working capital and cash flow position, and strengthened its cash reserves to facilitate its on-going development.

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Issuer's revenue was HK$122.2 million, HK$232.5 million, HK$131.5 million and HK$128.9 million, respectively.

As of 30 June 2020, the Issuer had 84 employees and net assets of HK$294.8 million. As of the date of this Offering Circular, the Issuer's total authorised share capital and issued share capital were 4,000,000,000 and 3,661,830,613 shares, both of HK$0.1 each, respectively.

HISTORY

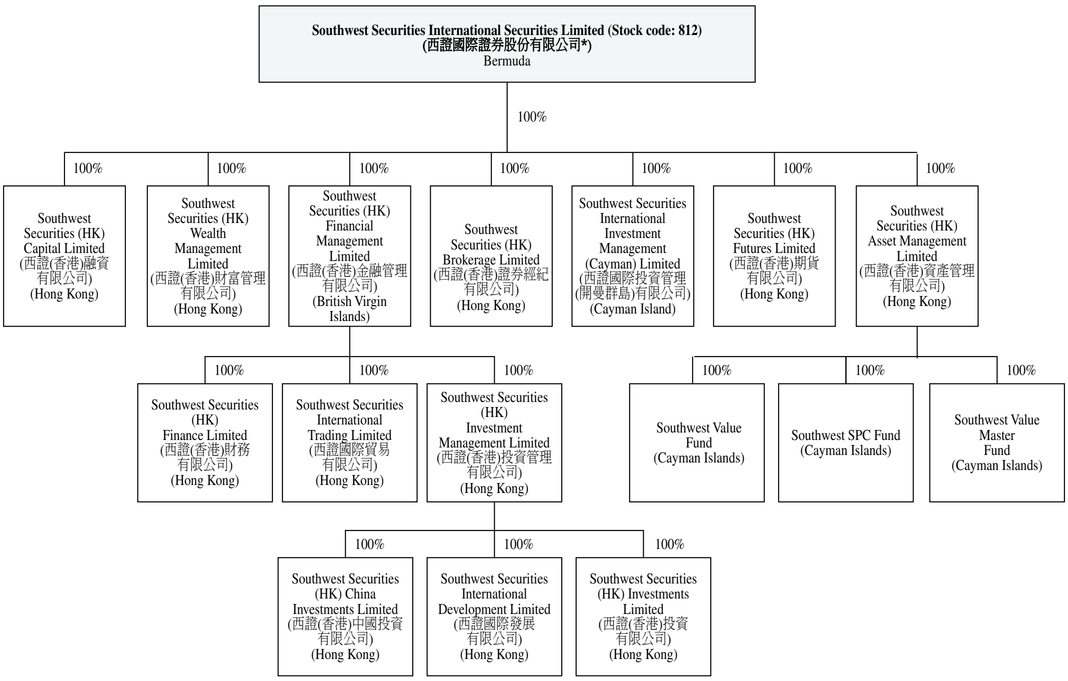
The following highlights the Issuer's key milestone events:

Year	Key Milestone
1990	In August, Southwest Securities (HK) Futures Limited (formerly known as Tanrich Futures Limited) was incorporated and began to provide brokerage services for the trading of financial futures in 1992.
1992	In June, Southwest Securities (HK) Finance Limited (formerly known as Tanrich Finance Limited) was incorporated and began to provide personal loan financing and securities margin financing services in 1995 and 1997, respectively.
1993	In June, Southwest Securities (HK) Brokerage Limited (formerly known as Tanrich Securities Company Limited) was incorporated and began to carry out securities brokerage business in 1994 and asset management services in 1997.
1997	In April, Southwest Securities (HK) Asset Management Limited (formerly known as Tanrich Asset Management Limited) was incorporated and began to engage in asset management business.
1998	In September, Southwest Securities International Securities Limited (formerly known as Tanrich Financial Holdings Limited) was incorporated.
2002	In January, the Issuer successfully listed on the Main Board of the Hong Kong Stock Exchange.
	In August, Southwest Securities (HK) Capital Limited (formerly known as Tanrich Capital Limited) was incorporated to provide corporate finance services to its clients.
2006	In February, Southwest Securities (HK) Wealth Management Limited (formerly known as Tanrich Wealth Management Limited) was incorporated to provide wealth management and insurance broking services to its clients.
2015	On 6 January 2015, the Guarantor completed its acquisition of the majority voting rights in the Issuer, being not less than 51% of the Issuer's enlarged issued share capital at the time. Pursuant to the Codes on Takeovers and Mergers issued by the SFC, the Guarantor made an offer for all of the Issuer's issued shares, which was completed on 27 January 2015, resulting in the Guarantor becoming the beneficial holder of approximately 73.8% of the Issuer's total issued share capital of 2,441,220,409 shares.
	On 14 April 2015, as a result of the Guarantor becoming its controlling shareholder, the Issuer's company name was changed from Tanrich Financial Holdings Limited to Southwest Securities International Securities Limited (西證國際證券股份有限公司).
2018	The Guarantor invested HK$570 million in Southwest Securities International Investment, the immediate holding company of the Issuer.

Year	Key Milestone
2019	In April, the Issuer completed a rights issue at a price of HK$0.131 per rights share on the basis of one rights share for every two shares. The net proceeds from the rights shares totalled approximately HK$156.9 million and were capitalised to improve the Issuer's current ratio and gearing ratio. In October, the Issuer issued perpetual securities in the aggregate principal amount of HK$580 million to Southwest Securities International Investment, the immediate holding company of the Issuer. The issuance of the perpetual securities is expected to enhance the Issuer's working capital positions, strengthen its capital base and improve its financial position to support the Issuer's ongoing operations and further business development.

CORPORATE STRUCTURE

The following chart shows the structure of the Issuer as of the date of this Offering Circular:



* *For identification purposes only*

COMPETITIVE STRENGTHS

The Issuer believes its success and prospects are attributable to the following competitive strengths:

The sole overseas platform of the Group, a leading PRC financial service institution

The Issuer is the first and sole overseas platform that was acquired by the Group to allow the Group to capture the growing cross-border business opportunities in the financial products and services market. The Issuer serves as a key gateway for the Group to not only provide its services, namely brokerage and margin financing, corporate finance, asset management and proprietary trading, to the overseas market, but also build a strong foundation for its strategy of international expansion by acquiring professional talent and gaining expertise and experience in the Hong Kong market. Since the Group is the only national securities firm that is over 30% indirectly owned by the SASAC Chongqing, the Issuer also serves as a model for other enterprises based in Chongqing to enter the Hong Kong market. Consequently, given its significance to the Group and the SASAC Chongqing, the Issuer is able to leverage the Group's resources in the PRC, in-depth industry experience and competitive advantage to further develop its businesses. As of 30 June 2020, the Group's sales network spanned 29 provinces, municipalities and autonomous regions with 126 service locations providing securities brokerage services to 1,407,930 retail and 4,515 institutional clients. As the Group's only overseas platform, the Issuer believes that it will be able to grow its customer base by leveraging the "Southwest Securities" brand name and its broad client base in the PRC.

Well-positioned to capture growth opportunities provided by increasing cross-border investments

The strategic location of Hong Kong places the Issuer in an advantageous position to capture the cross-border business opportunities from and investments needs of the Group's clients in China. Hong Kong is a major international financial centre that links the international capital markets with PRC's capital markets. In recent years, the PRC central government and the Hong Kong government have entered into a number of memoranda of understanding and agreements to enhance collaboration and further develop the cross-border financial and securities industries, such as the Mainland and Hong Kong Closer Economic Partnership Arrangement and the recently introduced Shanghai-Hong Kong Stock Connect programme (滬港通) and Shenzhen-Hong Kong Stock Connect programme (深港通). Such government initiatives that strengthen Hong Kong's status as an international financial centre present opportunities to securities firms such as the Issuer, given the Issuer's role as the Group's only overseas platform. To take advantage of the investment opportunities overseas for its clients, the Group utilises the Issuer's infrastructure and platform in Hong Kong, thus generating significant business opportunities for the Issuer from the PRC market. The Issuer believes that its platform in Hong Kong and the synergies from its merger with the Group will allow it to capture and benefit from the fast-growing cross-border opportunities.

Integrated financial services company with a diversified business model

The Issuer offers a wide range of financial services and products to individual and corporate clients. The Issuer's brokerage and margin financing segment offers its high-net-worth clients the opportunity to purchase a wide range of financial products, trade securities in major markets around the world and invest in securities on a margin basis. The Issuer serves corporate clients by acting as a sponsor and underwriter in equity listings and advising on mergers and acquisitions and other transactions. The Issuer's corporate clients can also rely on the Issuer to provide financial advisory services and financing arrangement services.

Technologically advanced online trading platforms

The Issuer has established advanced online trading platforms which allow its clients to have access to major financial markets, including Hong Kong, New York, Chicago, London, Frankfurt, Tokyo, Sydney, Toronto, Singapore, Busan and Bangkok, through its website and mobile application. The Issuer's online trading platforms also allow its clients to trade securities and futures in multiple markets via a single account and provide them with information such as the latest market analysis. The Issuer is committed to continue investing in its technology infrastructure and improve its trading platforms.

Prudent and effective risk management and internal control systems

The Issuer has established strong risk management and internal control systems to monitor risks associated with interest, credit and liquidity in its major business lines. The Issuer's dedicated risk control department is responsible for establishing and reviewing credit policies and procedures to minimise systematic and non-systematic credit and financial risks. The Issuer's legal and compliance department and the audit committee of the Issuer's board of directors oversee its internal control system to facilitate effective and efficient operations, to protect its assets and to ensure the accuracy and reliability of the financial information that the Issuer employs in its business or releases to the public. The Issuer conducts regular risk assessment and internal control reviews to ensure the effectiveness of its risk monitoring efforts. The Issuer is dedicated to maintaining and continuously improving its risk management and internal control systems.

BUSINESS STRATEGIES

The Issuer intends to implement the following business strategies to achieve its goal of becoming one of the leading integrated financial institutions in Hong Kong:

Strengthen its "investment" + "corporate finance" business portfolio and capture cross-selling opportunities

The Issuer believes the Group's strong investment banking business in China is a significant asset for the Issuer to further develop its own corporate finance business in Hong Kong. By keeping a foothold in the PRC and eyeing the global market, the Issuer goal is to develop into a boutique global financial institution featuring "investment" + "corporate finance". The Issuer will implement a service philosophy that gives priority to pursuing long-term goals and customer interests and a commitment to brand building. In particular, the Issuer aims to attract capital into its asset management products, increasing the scale of the assets under its management. As the Issuer builds up its capital-based business, it will switch its focus away from the high risk project financing business. Further, an expansion of the Issuer's asset management business provides valuable cross-selling opportunities with its corporate finance business for mutual growth, satisfying its asset management clients' needs for quality products to invest and its corporate finance clients' needs for financing.

Further leverage the Group's strength and experience in the PRC brokerage industry and explore new business opportunities and clienteles

With its own strong expertise and experience in corporate finance transactions, the Issuer intends to fully leverage the Group's strong market position and broad corporate clientele in China, and capture opportunities to connect PRC firms, especially those based in the Southwest China region, with the international capital markets and investors. In particular, the Issuer plans to focus on winning mandates to assist firms based in the Southwest China region to list on the Hong Kong Stock Exchange and conduct other types of corporate transactions, which the Issuer believes will generate revenue and growth opportunities for the Issuer's corporate finance business while at the same time bring capital to companies based in the Southwest China region and stimulate the region's economic growth. The Issuer will also target Hong Kong clients by enhancing market awareness of its product and service offerings under the "Southwest Securities" brand and of the Group's strength and support in the PRC. As part of the Group, the Issuer aims to capture business opportunities through cross-sales and referrals among the Group's clients, enhance the integrated investment service platform offered to these clients and provide clients with the wide selection of financial products and services offered by the Group. The Issuer will continue to enhance synergies across its various business platforms in Hong Kong with respect to its products and service offerings together with those offered by the Group.

Continue to attract talented professionals in Hong Kong

The Issuer believes its future success depends on its ability to retain and attract professional and experienced personnel in Hong Kong. The Issuer plans to further enhance its professional training, career advancement path and comprehensive development opportunities provided to its employees, improve the existing merit-based compensation system across all business lines and strengthen its market-driven compensation system that rewards performance and results.

Enhance risk management and internal controls to support its business operations

The Issuer intends to further enhance its overall risk management and internal control capabilities to keep abreast of prevailing international standards and market risks. The Issuer also intends to optimise its organisational structure, models and information systems to better monitor, evaluate and manage its risk exposure. The Issuer will also focus on reinforcing the culture of compliance and risk control, particularly when carrying out innovative business to ensure risks associated with such business are under control and the business is fully compliant. Further, the Issuer intends to strengthen its audit committee, legal and compliance department and risk control department to ensure full compliance with applicable laws and regulations.

DESCRIPTION OF THE ISSUER'S BUSINESS

The Issuer's financial products and services primarily include (i) brokerage and margin financing, (ii) corporate finance, (iii) asset management and (iv) proprietary trading. These business segments are conducted through the Issuer's wholly-owned subsidiaries, which currently possess Type 1, Type 2, Type 4, Type 6 and Type 9 licences under the SFO to engage in the regulated activities of dealing in securities, dealing in futures contracts, advising on securities, advising on corporate finance and asset management, respectively. One of the Issuer's subsidiaries is a licensed insurance broker company under the Insurance Ordinance and Mandatory Provident Fund Schemes Ordinance and is engaged in the insurance broking business.

The following table sets forth the breakdown of Issuer's revenue by business segment for the years indicated:

	Year ended 31 December				Six months ended 30 June			
	2018		2019		2019		2020	
	(HK$)	(%)	(HK$)	(%)	(HK$) (unaudited)	(%)	(HK$) (unaudited)	(%)
	(in thousands, except for percentages)							
Brokerage and margin financing	100,839	82.5	109,037	46.9	67,164	51.1	16,876	13.1
Corporate finance	40,922	33.5	36,604	15.7	16,113	12.2	9,365	7.3
Proprietary trading	(22,258)	(18.2)	86,386	37.2	47,699	36.3	102,637	79.6
Asset management	2,669	2.2	507	0.2	507	0.4	–	–
Revenue	122,172	100.0	232,534	100.0	131,483	100.0	128,878	100.0

Brokerage and Margin Financing

The Issuer's brokerage and margin financing business mainly includes: agency trading of securities, futures and options trading, and provision of insurance brokerage services, margin financing services, financial products business and one-stop integrated investment and financing services for high-net-worth customers. The general trend in the Hong Kong securities market has had a direct impact on the performance of the Issuer's brokerage and margin financing segment. For the years ended 31 December 2018, 2019 and 2020, the average daily turnover of the Hong Kong equity market was HK$107.4 billion, HK$87.2 billion and HK$129.5 billion, respectively, according to the market data published on the Hong Kong Stock Exchange website.

(i) Securities brokerage

The Issuer offers brokerage service for trading securities and futures in markets such as Hong Kong, China, the United States and other international markets through its wholly-owned subsidiaries, Southwest Securities (HK) Brokerage Limited, a corporation licensed under the SFO to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities, and Southwest Securities (HK) Futures Limited, a corporation licensed under the SFO to engage in Type 2 (dealing in future contracts) regulated activity. The Issuer's online trading platform (including both its website and mobile application) allows for trading of securities and futures in multiple markets via a single account and provide other information such as the latest market analysis to its clients. The Issuer also provides underwriting and placing services in primary and secondary markets.

The Issuer's income from brokerage business mainly included commission income from providing brokerage services for securities, futures and options dealings and providing underwriting and placing services in primary and secondary markets. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Issuer's commission revenue from brokerage business was HK$19.1 million, HK$18.1 million, HK$10.2 million and HK$6.3 million, respectively.

(ii) Margin financing

The Issuer's margin financing business is complementary to its brokerage services as it offers clients financing to purchase securities on a margin basis. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Issuer's interest income from margin financing was HK$81.7 million, HK$91.0 million, HK$56.9 million and HK$10.5 million, respectively. Benefiting from the strong customer network of the Guarantor, the Issuer is able to reach a large number of quality margin business customers. With an aim to further improve the Issuer's capital utilisation rate and return on the premise of strict monitoring of credit risk and stock concentration risk, the margin financing business is mainly targeted for high-net-worth customers with large principal amount available for investment.

Corporate Finance

The Issuer's corporate finance business is conducted through its wholly-owned subsidiaries, Southwest Securities (HK) Capital Limited and Southwest Securities (HK) Brokerage Limited, to provide provision of sponsor services, underwriting and placement services, financial advisory services and financing arrangement services to corporate clients. Southwest Securities (HK) Capital Limited is licensed under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities in Hong Kong and Southwest Securities (HK) Brokerage Limited is licensed under the SFO to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities in Hong Kong. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Issuer's revenue from corporate finance segment were HK$40.9 million, HK$36.6 million, HK$16.1 million and HK$9.4 million, respectively.

During the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, Southwest Securities (HK) Capital Limited acted as sponsor for six successful listings on the Hong Kong Stock Exchange and completed four financial advisory projects. As at the date of this Offering Circular, successful listings and transfer of listing include Tak Lee Machinery Holdings Limited (2102.HK), Shandong Fengxiang Co., Ltd. (9977.HK), Hong Kong Johnson Holdings Co., Ltd. (1955.HK), Hevol Services Group Co., Ltd. (6093.HK), Universal Star (Holdings) Limited (2346.HK), Design Capital Limited (1545.HK), AB Builders Group Limited (1556.HK) and Grace Wine Holdings Limited (8146.HK). During the same period, it also acted as underwriter for eight initial public offerings and five bond issuances. As of 30 June 2020, the Issuer had a total of eight ongoing advisory services projects.

Asset Management

The Issuer provides asset management services. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, services fee income from the Issuer's asset management segment was HK$2.7 million, HK$0.5 million, HK$0.5 million and nil, respectively.

The Issuer's first hedge fund commenced operation at the end of 2016 with a total investment of HK$230 million. The hedge fund was closed in 2019, with its overall returns outperforming the market. The Issuer also established a structured fund at the end of 2017. As at 30 June 2020, the Issuer had completed the operations of five investment portfolios as part of the said structure fund and has put into operation a sixth investment portfolio that will target equity and futures investment on the secondary market.

Proprietary Trading

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, the Issuer recorded proprietary trading losses of HK$22.3 million, and proprietary trading gain of HK$86.4 million, HK$47.7 million and HK$102.6 million, respectively. The Issuer explores investment strategies and directions based on careful research and study and dedicated investment personnel on the premise of balancing risks and returns, in hope of generating decent returns from its proprietary trading business.

MAJOR CLIENTS

The Issuer primarily serves individual and corporate clients. The Issuer provides corporate finance service mainly to companies listed on the Hong Kong Stock Exchange and private corporations with PRC or Hong Kong background. Clients for the Issuer's brokerage and margin financing are generally individuals.

COMPETITION

Due to the large number of market participants in securities and insurance broking, corporate finance and asset management services, the financial services industry in Hong Kong is highly competitive. The Issuer's main competitors are other Hong Kong based securities firms with PRC and Hong Kong background and capabilities.

To compete effectively in the future, the Issuer intends to utilise the Group's brand awareness and distribution network in PRC and Hong Kong to target new clients and elevate its services for existing clients. The Issuer will also continue to recruit, train and maintain suitable professionals and management personnel to optimise its products and services, market strategies, internal control, IT infrastructure and technical expertise in order to improve its competitiveness.

REGULATORY REQUIREMENTS

Under the licensing regime of the SFC, the Issuer's relevant subsidiaries and their responsible personnel are required to obtain and hold the relevant licences and to be in compliance with the relevant regulatory requirements from time to time in order to provide services such as securities brokerage and corporate finance services. A summary of licenses currently held by the Issuer's subsidiaries is set forth below:

Name of licensed subsidiary	Type 1 (dealing in securities)	Type 2 (dealing in future contracts)	Type 4 (advising on securities)	Type 6 (advising on corporate finance)	Type 9 (asset management)	Number of responsible officers
Southwest Securities (HK) Brokerage Limited	Yes		Yes			10
Southwest Securities (HK) Futures Limited		Yes				6
Southwest Securities (HK) Capital Limited	Yes			Yes		7
Southwest Securities (HK) Asset Management Limited			Yes		Yes	4

Southwest Securities (HK) Wealth Management Limited is licensed by the Insurance Authority and registered with the Mandatory Provident Fund Schemes Authority as a principal intermediary in Hong Kong, allowing it to offer insurance products to individual and corporate clients.

INTERNAL CONTROL

The legal & compliance department ("**L&C**") of the Issuer Group is responsible for setting and monitoring internal control systems, policies and procedures to ensure the Issuer Group's compliance with the relevant and latest laws, rules and regulations. L&C also manages against material legal and compliance risks associated with the business activities of the Issuer Group. The Issuer Group's risk management mechanism is also embodied by the three lines of defence for risk management. All executing units serve as the main responsible parties for their respective business risks and are taken as the front line and also the first line of defence for risk management. L&C and the Group's risk control department ("**RCM**") together constitute the second line of defence for risk management. Different from the business supporting units, L&C and RCM perform their management functions independently of the business units. Charged with the major duty of independent oversight of risks, L&C is responsible for managing compliance risks, whereas RCM is tasked with overall management of financial risks. The internal audit department instead serves as the third line of defence. The board of directors of the Issuer is responsible for overseeing the Issuer Group's risk management and internal control systems and reviews the effectiveness of such systems periodically through the audit committee of the board of directors of the Issuer.

RISK MANAGEMENT

The Issuer's activities expose itself to a variety of financial risks, including interest rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. The Issuer's overall risk control focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on its financial performance. The Issuer's senior management is responsible for maintaining and reviewing the effectiveness of the Issuer's risk control procedures and protocols, including the design, implementation and maintenance of the risk control to safeguard assets and investments of the Issuer. It also monitors the business activities closely and reviews regular risk control reports. Proper controls are in place for the recording of complete, accurate and timely management information. Further, the Issuer's Risk Control Committee ("**RCC**") is responsible for establishing and reviewing credit policies and procedures to minimise systematic and non-systematic credit and financial risks. The RCC is also responsible for assessing the risk of long-term investments and proprietary trading.

Interest rate risk

The Issuer has short-term borrowings for providing margin financing to clients, with interest rates fixed with the banks upon withdrawal. Hence, the Issuer has minimal interest rate risk exposure in this regard. The interest rate risk exposure arises mainly from margin financing to the Issuer's securities margin clients and loans and advances to entities. The interest rates charged and margin ratio allowed to the Issuer's securities margin clients are determined with reference to the terms from the banks while the interest rate for loans and advances is fixed. The Issuer determines the interest rate for loans and advances with appropriate premium to deal with interest rate risk. The Issuer's investments in debt securities being classified as financial assets at fair value through profit or loss and bonds payable bear fixed interest rates. Therefore, in the opinion of the directors, the interest rate risk arising from the debt securities and bonds payable are considered to be minimal.

Credit risk

The Issuer is exposed to credit risk for all financial assets that a client or counterparty in a transaction may default on settlement. Accounts receivable from the Issuer's margin financing clients are secured by their pledged securities, which are repayable on demand and bear interests at commercial rates. Credits extended to the Issuer's margin financing clients are subject to the marginable value of the listed securities pledged with the Issuer.

Accounts receivable arising from the Issuer's ordinary course of business of broking in index, commodity and currency futures contracts represent the margin deposits maintained with futures clearing house, options clearing house or brokers to meet the margin requirements of open contracts. Margin calls from clearing house and brokers are settled on a daily basis. The excess amounts over the required margin deposits stipulated are repayable on demand. The maximum exposure equals the carrying amount of the account receivables less the market value of the underlying pledged securities.

The Issuer's other financial assets, including bank balances, loans and advances, other non-current assets and deposits, prepayment and other receivables have a maximum exposure of credit risk without taking account of any collateral held or other credit enhancements equal the carrying amounts of these instruments. The Issuer's bank balances are placed with credit-worthy banks and financial institutions in Hong Kong and China.

Foreign currency risk

The Issuer's foreign currency exposures arise mainly from the exchange rate movements of United States dollar. The Issuer considers the risk exposure to foreign currency fluctuation in U.S. dollar would be minimal as long as the H.K. dollar remains pegged to the U.S. dollar.

Liquidity risk

The Issuer manages to maintain its liquidity position at a prudent and adequate liquidity level. The Issuer monitors the cash flows daily to ensure that it has sufficient funds available. The Issuer's senior management would also review the liquidity level to ensure compliance with statutory requirements for the licensed subsidiaries.

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Issuer is exposed to equity price risks arising from individual equity investments classified as available-for-sale investments and investments held for trading. The Issuer's listed investments are listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of each reporting period.

EMPLOYEES

As of 30 June 2020, the Issuer had a total of 84 employees. The Issuer has established clear policies on its employees' remuneration. Base salary is reviewed on an annual basis. Discretionary performance bonus is paid by making references to market conditions, business results, departmental and individual performance. The discretionary performance bonus aims to reward employees for their contributions and to retain and inspire talented and experienced employees. Other benefits offered by the Issuer include overtime allowance, mandatory provident fund scheme, occupational retirement scheme, medical and dental insurance.

The Issuer provides training programs for its staff to enhance their skills and knowledge in products, regulations and compliance matters. Most of the Issuer's in-house training are qualified for claiming Continuous Professional Training hours for its licensed persons as required by the SFC.

LEGAL PROCEEDINGS

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, there were no legal, arbitration or administrative proceedings against the Issuer or any of its directors or senior management members which may have a material adverse effect on its business, financial condition and results of operations.

DESCRIPTION OF THE GROUP

OVERVIEW

The Group is an integrated securities group that offers a wide range of financial services and products in the PRC and Hong Kong. The predecessor of the Guarantor was established on 28 December 1999 with CSRC's approval and the Guarantor became listed on the Shanghai Stock Exchange (SHA: 600369) in February 2009. The Guarantor is a leading financial service provider in the PRC and the only national securities firm that is over 30% indirectly owned by the SASAC Chongqing.

The Group is primarily engaged in securities brokerage, investment banking, asset management and securities proprietary trading businesses. The Group also operates an in-house research centre which provides analysis services to its clients and supports the Group's other core businesses. The Group carries out its business activities primarily through its subsidiaries, including the Issuer, in the PRC and Hong Kong. Set forth below is an overview of each of the Group's key subsidiaries held by the Guarantor that operate in the PRC and Hong Kong:

- Southwest Securities Equity Investment (西證股權投資有限公司) – Southwest Securities Equity Investment is a wholly-owned subsidiary of the Guarantor. It was incorporated in March 2010 in Chongqing, China and is principally engaged in equity investments.

- Southwest Securities Innovation Investment (西證創新投資有限公司) – Southwest Securities Innovation Investment is a wholly-owned subsidiary of the Guarantor. It was incorporated in April 2013 in Chongqing, China and is principally engaged in investments and asset management, investment consulting services and enterprise financial consulting services. It is also engaged in equity investment management and lending, bill discounting and asset transfer businesses through two subsidiaries that it controls.

- Southwest Securities International Investment (西證國際投資有限公司) – Southwest Securities International Investment is a wholly-owned subsidiary of the Guarantor and an investment holding company. It was incorporated in November 2013 in Hong Kong. As of the date of this Offering Circular, Southwest Securities International Investment held 74.10% of the shares of the Issuer.

- Southwest Futures (西南期貨有限公司) – Southwest Futures is a wholly-owned subsidiary of the Guarantor. It was incorporated in June 1995 in Chongqing, China and acquired by the Guarantor in October 2013. It is primarily engaged in commodity futures brokerage, financial futures brokerage and futures investment consulting services.

- Yinhua Fund (銀華基金管理股份有限公司) – Yinhua Fund was a 44.10% owned associate of the Guarantor as of 30 June 2020 and incorporated in Shenzhen, China. It is primarily engaged in fund raising, fund sales and wealth management.

- Southwest Securities International Securities Limited (西證國際證券股份有限公司*) – the Issuer is an indirect majority-owned subsidiary of the Guarantor. It was incorporated in Bermuda in 1998 and listed on the Main Board of the Hong Kong Stock Exchange in January 2002. For further information on the Issuer, see "*Description of the Issuer*".

HISTORY

The Guarantor was founded on 28 December 1999 and as of the date of this Offering Circular has a registered capital of RMB6,645.1 million. The following highlights the key milestone events of the Guarantor:

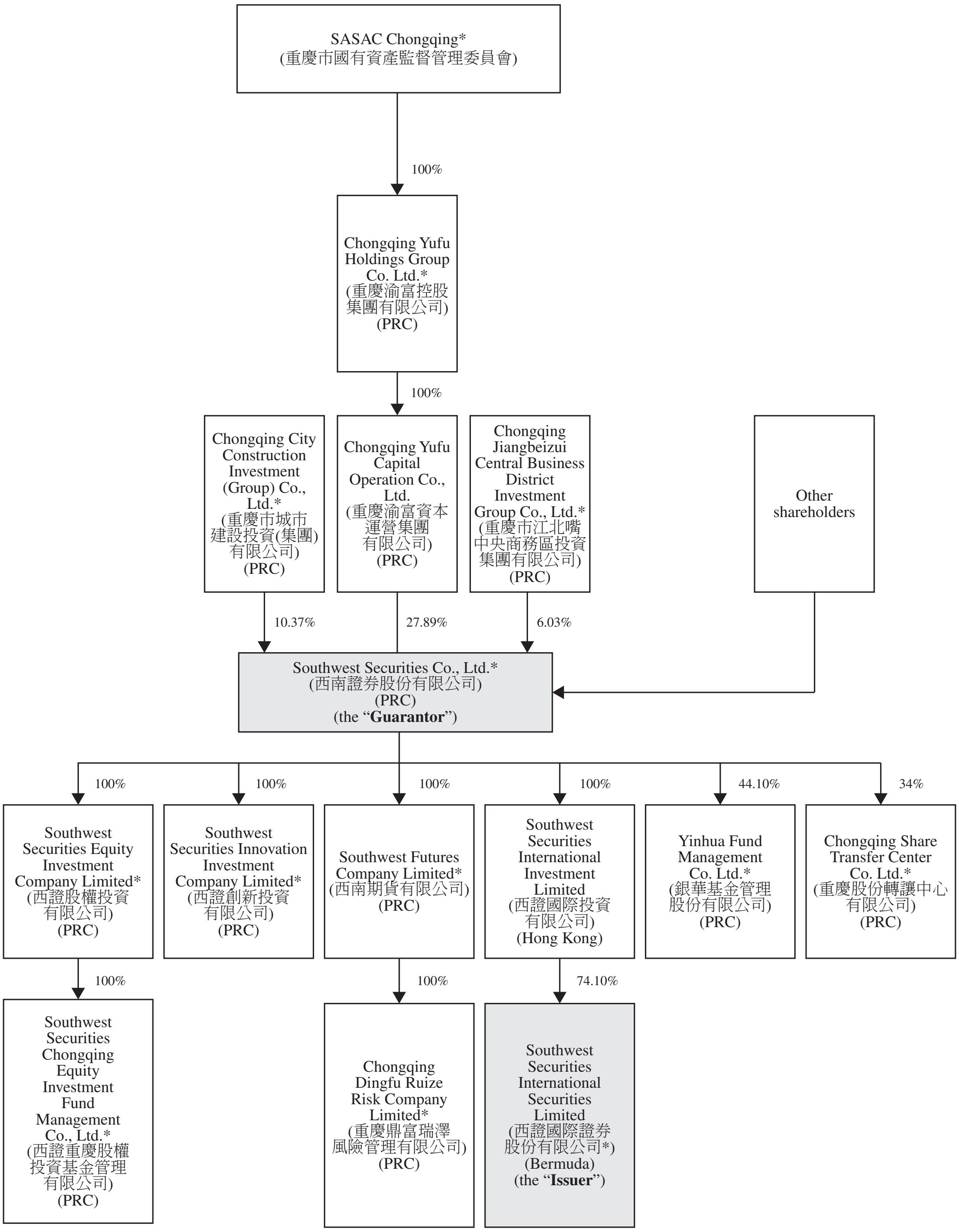
Year	Key Milestone
1999	Southwest Securities Company Limited (西南證券有限責任公司) ("**Southwest Securities**") was founded on 28 December 1999 with an initial registered capital of approximately RMB1,128.2 million.
2002	Southwest Securities issued a limited amount of new shares on 14 November 2002, and its registered share capital increased to approximately RMB1,630.4 million.
2006	Southwest Securities first reduced its registered share capital on 7 August 2006 to approximately RMB815.2 million and later increased its registered share capital on 23 October 2006 to approximately RMB2,336.6 million.
2009	Chongqing Changjiang River Water Transport Company Limited (重慶長江水運股份有限公司), which was listed on the Shanghai Stock Exchange, merged with Southwest Securities and obtained the qualifications for various brokerage and securities businesses previously held by Southwest Securities in February 2009. The merged entity was renamed as Southwest Securities Co., Ltd. (西南證券股份有限公司), which remains a listed company on the Shanghai Stock Exchange (SHA: 600369), and its registered share capital was changed to approximately RMB1,903.9 million.
2010	In March, the Company obtained approval from the CSRC to establish Southwest Securities Equity Investment. In August, the Guarantor offered 418.7 million ordinary shares in a private placement and its registered share capital increased to approximately RMB2,322.6 million.
2013	In February, the Guarantor acquired the controlling stake of Chongqing Share Transfer Centre Co. Ltd. In April, the Guarantor obtained approval from the CSRC to establish Southwest Securities Innovation Investment. In October, after receiving approval from the CSRC, the Guarantor completed its acquisition of Southwest Futures Brokerage Company Limited (西南期貨經紀有限公司), which later changed its name to Southwest Futures in January 2014. In November, the Guarantor obtained approval from the CSRC to establish Southwest Securities International Investment.
2014	In February, the Guarantor offered 500 million ordinary shares in a private placement and its registered share capital increased to approximately RMB2,822.6 million.

Year	Key Milestone
2015	In January, the Guarantor completed its acquisition of the Issuer.
	In September, the Guarantor completed a capitalisation issue of 2,822.6 million new ordinary shares and its registered share capital increased to RMB5,645.1 million.
2016	Together with the Government of Xinjiang Uygur Autonomous Region of China, one subsidiary of the Guarantor, Southwest Innovation Capital (Shenzhen) Co., Ltd. (西證創新資本(深圳)有限公司), co-established the Xinjiang Silk Road equity fund with an asset size of RMB0.15 billion.
2017	Southwest Futures established a wholly-owned risk management company, Chongqing Dingfu Ruize Risk Management Co., Ltd. (重慶鼎富瑞澤風險管理有限公司), which is the only company in the Western China region qualified to provide all services of basis trading, warehouse receipts service, cooperation insurance and pricing service.
2018	The Guarantor invested HK$570 million in Southwest Securities International Investment, the immediate holding company of the Issuer.
2020	In July, the Guarantor issued 1,000 million new ordinary shares, thereby increasing its registered share capital to RMB6,645.1 million.

With its strong innovation and professional capabilities, the Group has received a number of awards from industry associations and governmental authorities, including the "Most Innovative Investment Bank Award" (最佳創新投行), the "Best Follow-on Offering Investment Bank Award" (最佳再融資投行) and the "Best Merger and Restructuring Investment Bank Award" (最佳併購重組業務投行) during the "2013 Best Investment Banks in China Selection" (2013中國區優秀投行評選), the "2013 Listed Company Brand Management Golden Shield Award" (2013年上市公司品牌管理金盾獎), the "Top Ten High-growth Investment Banks Award" (中國十佳高成長投行) from Eastmoney.com (東方財富網) and other media outlets in 2013, the "2014 Model Unit Award" (2014文明單位) from the SASAC Chongqing, the "Top Ten Small Cap and ChiNext Sponsor Award" (十佳中小板、創業板保薦機構) from the Value Line Magazine (價值線) in 2014, the "Best Brokerage Firm in China Award" (中國好券商) from media groups including Yama Finance (野馬財經) and China Development Press (中國發展出版社), the "Best Local Investment Bank Award" (本土最佳投行), the "Investment Bank with Most Growth Potential Award" (最具成長性投行), the "Investment Bank with Best Mergers and Acquisitions Business Award" (併購業務最佳投行) and the "Best Investment Bank in TMT Industry Award" (TMT行業最佳投行) from the New Fortune Magazine (新財富雜誌) in 2015 and the "2016 Most Breakthrough Broker in China in 2016" (2016中國最具突破證券經紀商) from the Securities Times (證券時報). From 2006 to 2012, the Guarantor was also recognised by the Chongqing government with the "Contribution to Chongqing's Financial Industry Award – First Class" Award (金融貢獻獎一等獎). In 2019, Hexun.com (和訊網) awarded the Guarantor the "Brokerage Brand of the Year for 2019" (2019年度券商品牌獎) and "Brokerage Fin-Tech Innovation Award of 2019" (2019年度券商科技金融創新獎). In 2020, the Guarantor received the Golden Tripod Awards (金鼎獎) for being the "Best Selected Service Provider for the National Equities Exchange and Quotations Market of 2020" (2020年度最佳新三板精選層服務商) and the "Gold Investment Advisory Team of 2020" (2020年度金牌投資顧問團隊) from National Business Daily (每日經濟新聞).

CORPORATE STRUCTURE

The following chart shows the structure of the Group and its principal shareholders as of the date of this Offering Circular.



Notes:

* *For identification purpose only.*

(1) The chart illustrates the shareholders who own more than 5% of the Guarantor's issued share capital. The shareholders holding less than 5% are not separately disclosed above.

(2) As of the date of this Offering Circular, Chongqing City Construction Investment (Group) Co., Ltd. (重慶市城市建設投資(集團)有限公司) had pledged 158,060,000 shares of the Guarantor, representing 2.38% of the Guarantor's issued share capital.

COMPETITIVE STRENGTHS

The Group believes its success and prospects are supported by a combination of the following key competitive strengths:

Headquartered in Chongqing and the Western China region, which provides economic growth and policy advantages

As the only Chongqing-registered securities firm and the only A-share listed financial services institution registered in Chongqing, the Guarantor has benefited from the opportunities offered by the economic growth of Chongqing and the Western China region. In recent years, with the implementation of policy initiatives such as China Western Development (西部大開發), the 12th Five-Year Plan (第十二個五年規劃) and the 13th Five-Year Plan (第十三個五年規劃) by the PRC central and local governments, both the economies of Chongqing and the Western China region have experienced rapid growth. With the adoption of the Belt and Road (一帶一路) Initiative and the establishment of the Yangtze River Economic Zone (長江經濟帶) by the PRC government, the Western China region is expected to continue developing at a fast pace and potentially become the new "engine" driving China's development.

Due to the strategic location of Chongqing in the Western China region, the Group believes Chongqing will become a pivotal part of the Belt and Road Initiative and the development of the Yangtze River Economic Zone. With the transformation and upgrade of Chongqing and the Western China region's industries, their financial service sectors have also developed healthily in recent years on the back of rising demand for financial services from businesses in Chongqing and the Western China region. In 2014, the Chongqing government further issued its own policy guidance to implement the Belt and Road Initiative, which detailed its plan to promote the financial industry in Chongqing and encourage qualified institutions to expand outside of the Southwest China region by establishing new branches and acquiring targets. The positionings of Chongqing as "the strategic fulcrum of Western Development" and "a connection point of The Belt and Road Construction and Yangtze River Economic Zone" have been further clarified during President Xi Jinping's visit of Chongqing in January 2016. Going forward, the Group expects to continue to benefit from the economic development in Chongqing and the Western China region with the support of the central and local government policies and initiatives.

A leading PRC financial service institution with a wide range of security products and services

The Guarantor is a leading financial service institution in the PRC. It is the ninth securities company to become listed on a stock exchange in the PRC and the first and only one from Chongqing, one of the four municipalities directly administered by the PRC central government (直轄市). As of the date of this Offering Circular, the Guarantor's registered capital is RMB6,645.1 million and employs approximately 3,184 employees. As of 30 June 2020, it operated 126 brokerage service locations and 21 investment banking service locations nationwide.

In recent years, the Guarantor benefited from the growth of the PRC capital market and the economic development of the Chongqing area. This growth presented significant business opportunities to the Group. The Group took a series of strategic moves including corporate reform and restructuring and equity fund raising to expand its business. Through its subsidiaries, the Guarantor offers securities products and services including sponsorship, brokerage, advisory, trading, underwriting and custodial services, asset management, margin trading, futures, funds and other financial products. It is also the largest shareholder of Yinhua Fund, one of the leading fund managers in the PRC, and holds 44.10% of Yinhua Fund's shares as of 30 June 2020. As a result, the Guarantor is able to provide a comprehensive range of products and services to its clients. The addition of the Issuer to the Group in January 2015 bolstered the Guarantor's cross-border operations and further strengthened the Guarantor's leading position as a full service securities firm in China.

Large and diverse client base

The Group provides services to a large and diverse client base, including enterprises, financial institutions, government and individuals, with various scales of financial services needs. As of 30 June 2020, the Group's sales network spanned 29 provinces, municipalities and autonomous regions with 126 service locations providing securities brokerage services to 1,407,930 retail and 4,515 institutional clients. These service locations are located in important economic areas in China including Beijing, Shanghai, Jiangsu and Guangdong. The Group's investment banking team maintains regular relationships with hundreds of companies across a broad range of sectors, including but not limited to, finance, energy, chemical engineering, TMT, equipment manufacturing, pharmaceuticals, healthcare, information technology, media and culture, consumer products, tourism, infrastructure and real estate. The Group also has a number of large institutional clients, including commercial banks, fund managers, insurance companies, trust companies and other domestic or foreign financial institutions, as well as qualified foreign institutional investors in China. A diverse client base with various needs serves as a strong support for the Guarantor's continuing development as a full service securities firm in China.

Strong ability to develop new products and services

The Guarantor has successfully captured development opportunities in recent years and has improved and expanded various business lines. The Guarantor has focused on developing itself into a "financial supermart" and has introduced new financial products and services, such as microfinancing, peer-to-peer business, financial leasing and internet finance to satisfy the diverse needs of its clients. Since 2015, the Group has received qualifications to carry out various innovative services, such as NEEQ (National Equities Exchange and Quotations) market making, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and OTC trading business. For example, in 2018, the Group maintained stable development of its NEEQ business, ranking 13th during the year. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2020, the Group sponsored 246 companies, 192 companies and 182 companies for their listings on the NEEQ, respectively, achieving a market share of 2.3%, 2.1% and 2.1% in the respective periods. Further, the Guarantor established Southwest Securities Innovation Investment in 2013 to carry out innovative investment in various areas. Investment focus of Southwest Securities Innovation Investment includes equity investment, private equity fund investment, merger and acquisitions fund investment, Hong Kong Stock Connect investment and investment in other assets such as immovable properties in Beijing, Greater Bay area, Chengdu-Chongqing region and Central China, supply-chain finance, non-performing assets and industrial parks. In addition to developing new products and services on its own, the Group has expanded its business operations with the acquisition of the Issuer in 2015. Such acquisition has allowed the Group to engage in international businesses. In 2018, the Group comprehensively promoted the prime brokerage business with 47 new products launched, amounting to 398 products in total.

Strong research capabilities

The Group is focused on developing strong research capabilities to serve its clients and support its other business lines. After establishing the Southwest Securities Research and Development Centre (西南證券研發中心) in 1999, the Group has invested considerable resources to assemble a capable research team. As of 30 June 2020, the Group's research team consisted of 42 research analysts, among whom two held doctorate degrees, 37 held master's degrees and three held bachelor's degrees. The research centre currently covers five main research fields, namely macro-economic and securities analysis, market trend and asset allocation, industry development and corporate finance analysis, financial tool innovation and policy development, and financing products analysis and rating. It provides regular research reports and updates to its brokerage clients. In addition, the research team provides valuable support to the Group's other business lines, such as its investment banking, proprietary trading and asset management segments. In 2020, the research centre published 2,194 research reports covering various industries. As a result of its success, the research team has received numerous industry awards over the years in recognition of its achievements. See "– *Research*".

Experienced management with extensive industry expertise

The Group has a highly committed management team with extensive experience in and in-depth knowledge of PRC securities industry. The board of directors and senior management members of the Group have extensive experience in the securities industry to lead the Group on business development and product positioning. Mr. Liao Qingxuan, the chairman and secretary of the party committee of the Guarantor, with more than 20 years of experience in the securities and banking industry, has played a key role leading the Group's business development. Mr. Wu Jian, the president and a director of the Guarantor, has over 20 years of experience in the financial regulation, investment management and securities industries. Mr. Pu Rui, the vice precedent of the Guarantor, has over 20 years of experience in investment, finance and securities market business. The members in the management team of the Guarantor have worked well together over the years, as evidenced by the proven track record of the Group. In addition, the directors and senior management have strong credentials and hold bachelor's degree or higher. See "*Directors and Senior Management of the Guarantor*".

BUSINESS STRATEGIES

The Group seeks to become a leading integrated financial group in the PRC. To achieve this goal, the Group intends to pursue the following core business strategies:

Further strengthen the Group's leading position in the Western China region

Amid introductions of government policy initiatives supporting the development of the Western China region and continuous business reforms as the Western China region develops, clients continue to demand for financial products and services that suit their development needs. The Group will further develop its products and services to satisfy such client needs, including for mergers and acquisitions, restructuring, listing, equity and debt financing, securities issuance, securitisation, and other financial services needs. In line with the China Western Development strategy, the Group has also set up dedicated funds to invest in enterprises in the renewable energy and waste management industries, which are promoted by the PRC central and local government agencies. The Group will continue to focus on the Chongqing market and further develop its business in nearby provinces, including Yunan, Guizhou and Sichuan, in order to become the leading financial service institution in the Western China region.

Continue to improve and advance the Group's integrated business platform to increase competitiveness

The Group will further strengthen internal synergies through promoting cooperation and resource and information sharing across its different departments, business segments and regional offices in order to further perfect its integrated business platform. This is in line with the Group's goal of offering its clients a full service experience. The Group will further develop its futures brokerage business. Taking advantage of the Group's client base in China, the Group aims to expand its investment banking business and further develop its futures business.

Enhance risk management and internal controls to meet new regulatory requirements and minimise business risks

The Group will continue to enhance its existing risk management and internal control systems in order to minimize business risks as it expands its operations and product and services offerings. The Group will also improve its financial management and information technology systems to support its development strategies. In addition, in light of the increasing number of laws and regulations affecting the business activities of securities firms in the PRC, the Group intends to further strengthen its compliance and internal audit functions to ensure full compliance with applicable laws and regulations and minimise the impact of regulatory changes on the Group's operations. Such new laws and regulations have also imposed additional obligations on PRC securities firms to enhance their capital management, diversify their funding sources and increase the quality of their capital in order to improve the overall competitiveness and risk management capabilities of securities firms in China. To meet such obligations, the Group plans to utilise the resources of its shareholders and subsidiaries to improve its capital management and ability to manage business risks.

Effectively attract, incentivise and retain talented employees

The Group believes its continued success depends on its ability to attract, incentivise and retain experienced and professional personnel. In particular, the Group's innovative businesses require it to attract talented professionals, including from more established competitors, in order to effectively compete against other market participants. In order to remain competitive as an employer, the Group intends to further pursue and optimise a performance-based and market-oriented compensation system, adopt a well-designed recruitment strategy for attracting talented professionals, especially for the Group's innovative businesses, and further incentivise and increase the loyalty of its employees through incentive schemes, such as employee stock ownership programs, subject to applicable laws and regulations.

DESCRIPTION OF THE GROUP'S BUSINESS

The Group provides a wide range of financial products and services to individuals, businesses, financial institutions and government entities. The Group's main products and services by business line include:

Business Lines	Main Products and Services
Brokerage	• Securities brokerage • Margin financing and securities lending
Investment banking	• Equity financing • Debt financing • Financial advisory
Proprietary trading	• Trading of bonds, stocks, funds and derivative products on its own account
Asset management	• Collective asset management scheme • Targeted asset management scheme
Other innovative business	• Futures brokerage • International business • Equity investment • Microfinance and e-commerce

The following table sets forth the breakdown of the Group's revenue by business line for the years indicated:

	Year ended 31 December				Six months ended 30 June			
	2018		2019		2019		2020	
	Amount	%	Amount	%	Amount (unaudited)	%	Amount (unaudited)	%
	(RMB in millions, except for percentage)							
Brokerage	1,098.9	40.0	1,493.3	42.8	922.2	53.9	873.2	53.8
Proprietary trading	833.9	30.4	1,566.2	44.9	697.0	40.8	666.1	41.1
Investment banking	450.0	16.4	277.8	8.0	132.3	7.7	100.3	6.2
Asset management	129.7	4.7	63.3	1.8	53.7	3.1	15.4	0.9
Other innovative business	231.7	8.5	88.2	2.5	(95.4)	(5.6)	(33.0)	(2.0)
Total	2,744.2	100	3,488.8	100	1,709.8	100	1,621.9	100

Brokerage

The Group's brokerage business provides securities brokerage and margin financing and securities lending services. Securities brokerage involves executing trades on behalf of clients in stocks, funds and bonds. For its margin financing and securities lending services, the Group provides financial leverage for its clients and enables them to engage in short selling by taking clients' collateral and providing them with financing in exchange. In 2018 and 2019, revenue from the Group's brokerage business amounted to RMB1,098.9 million and RMB1,493.3, respectively, representing 40.0% and 42.8% of the Group's total revenue in the respective period. In the first half of 2019 and 2020, the Group's revenue from its brokerage business amounted to RMB922.2 million and RMB873.2 million, respectively, accounting for 53.9% and 53.8% of the Group's total revenue in the respective period.

The Group ranked 38th in terms of revenue from its brokerage business as of 30 June 2020 among PRC securities firms according to Wind Info. Due to its strong track record in the brokerage business, the Group received the "Best Brokerage Firm in China Award" (中國好券商) from media groups including Yema Financial (野馬財經), China Development Press (中國發展出版社) in 2015 and the "Most Breakthrough Broker in China in 2016" (2016中國最具突破證券經紀商) from the Securities Times (證券時報). In 2019, Hexun.com (和訊網) awarded the Guarantor as "Brokerage Brand of the Year for 2019" (2019年度券商品牌獎) and "Brokerage Fin-Tech Innovation Award of 2019" (2019年度券商科技金融創新獎).

As of 30 June 2020, the Group's sales network spanned 29 provinces, municipalities and autonomous regions with 126 service locations (comprising 92 business outlets and 34 branches) providing securities brokerage services to 1,407,930 retail and 4,515 institutional clients. As of 30 June 2020, the Group operated 40 business outlets in Chongqing, seven business outlets in Zhejiang, seven business outlets in Beijing, five business outlets in Jiangsu, four business outlets in Hunan, four business outlets in Henan, three business outlets in Guangdong, three business outlets in Shanghai, two business outlets in Yunnan, two business outlets in Shanxi, two business outlets in Shandong, one business outlet in Anhui and seven business outlets in other provinces. The Group's securities brokerage service trades various securities products on behalf of clients, including shares of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange, funds such as listed funds and ETFs and bonds that include corporate bonds, treasury bonds and convertible bonds. In return, the Group receives commission and fee income from clients who trade through the Group's trading platforms.

The cap of the brokerage commission rate is 0.3% of the trading amount pursuant to the *Circular on Adjusting Charging Standards of Commission Rates of Securities Trading* (國家稅務總局關於調整證券交易傭金收取標準的通知) promulgated by the National Development and Planning Commission (國家發展

計劃委員會, the predecessor of the NDRC), CSRC and SAT in April 2002. Pursuant to this circular, the Group monitors and adjusts the structure and the level of its brokerage commission rates on a regular basis based on various factors, including but not limited to geographic location, asset size, trading pattern and loyalty of the clients. In addition, the Group charges different commission rates for different services in accordance with its internal rating and classification system.

The following table sets forth the Group's securities brokerage business by product type in terms of trading volume and market share for the years indicated:

	Year ended 31 December				Six months ended 30 June			
	2018		2019		2019		2020	
	Trading volume	Market share[(1)]	Trading volume	Market share	Trading volume	Market share	Trading volume	Market share
	(RMB in trillions, except for percentage)							
Trading volume								
Stock and Funds	1.30	0.64%	1.59	0.58%	0.92	0.63%	0.99	0.52%
Bonds	0.78	0.17%	0.71	0.15%	0.34	0.15%	0.36	0.14%
Total	2.08		2.30		1.26		1.35	

Note:

(1) Market share is calculated based on total trading volume of member securities firms of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

As of 30 June 2020, the Group offered margin financing and securities lending in 113 out of its 126 service locations. In margin financing, the Group takes collateral from brokerage clients to finance their securities purchases, thus enabling them to improve their investment returns using financial leverage. For securities lending, the Group lends securities from its own account to brokerage clients, thus enabling them to take advantage of potential short-selling opportunities in the market. For the years ended 31 December 2018 and 2019, the daily average balance of margin financing and securities lending was RMB7.6 billion and RMB9.0 billion, respectively. The Group's margin financing and securities lending business had approximately 38,900 clients as of 30 June 2020 and a daily average proprietary fund balance of RMB11.2 billion for the six months ended 30 June 2020.

The following table sets forth a summary of the key operating information of the Group's margin financing and securities lending business:

	Year ended 31 December		Six months ended 30 June	
	2018	2019	2019	2020
	(RMB in millions)			
Margin trading volume	126,408	168,351	101,474	113,553
Margin loan balance	8,387	10,268	9,634	10,400
Margin value of securities lent	43	42	64	32
Commission and fee income	84	105	64	62
Interest income.	722	814	429	371
Total interest and commission income . . .	806	919	493	433

Investment Banking

The Group's investment banking business provides corporate finance services including equity and debt financing and financial advisory services to its clients. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, revenue from the Group's investment banking business amounted to RMB450.0 million, RMB277.8 million, RMB132.3 million and RMB100.3 million, representing 16.4%, 8.0%, 7.7% and 6.2% of the Group's total revenue for the same periods, respectively.

The Group's investment banking received the "First Sponsorship Prize" (保薦工作一等獎) by the Shenzhen Stock Exchange in 2010, the "Serve the West Region Contribution Award" (服務西部貢獻獎) by the Shenzhen Stock Exchange in 2012, the "Most Innovative Investment Bank Award" (最佳創新投行), the "Best Follow-on Offering Investment Bank Award" (最佳再融資投行) and the "Best Merger and Restructuring Investment Bank Award" (最佳併購重組業務投行) during the "2013 Best Investment Banks in China Selection" (2013中國區優秀投行評選) in 2013, the "Top Ten Highgrowth Investment Banks Award" (中國十佳高成長投行) by Eastmoney.com (東方財富網) and other media outlets in 2013, the "Top Ten Small Cap and ChiNext Sponsor Award" (十佳中小板、創業板保薦機構) from the Value Line Magazine (價值線) in 2014, the "Best Local Investment Bank Award" (本土最佳投行), the "Investment Bank with Most Growth Potential Award" (最具成長性投行), the "Investment Bank with Best Mergers and Acquisitions Business Award" (併購業務最佳投行) and the "Best Investment Bank in TMT Industry Award" (TMT行業最佳投行) by the New Fortune Magazine (新財富雜誌) in 2015, the "Best Comprehensive Investment Bank Award in China" (中國區最佳全能投行), the "Best Merger and Acquisition Investment Bank Award in China" (中國區最佳併購投行), the "Best Follow-on Offering Investment Bank Award in China" (中國區最佳再融資投行) by the Securities Times (證券時報) in 2016. In 2020, the Guarantor received the Golden Tripod Awards (金鼎獎) for being the "Best Selected Service Provider for the National Equities Exchange and Quotations Market of 2020" (2020年度最佳新三板精選層服務商) and the "Gold Investment Advisory Team of 2020" (2020年度金牌投資顧問團隊) from National Business Daily (每日經濟新聞). The success of the Group's investment banking business is also reflected in its rankings among PRC securities firms based on the Group's achievements.

Equity financing

The Group underwrites IPOs, follow-on offerings and rights issues to assist its clients' equity financing activities. As of 30 June 2020, the Group had 32 sponsor representatives. The Group generally receives underwriting commissions and fees based on the size and type of financing, duration of the Group's engagement and complexity of the transaction as well as market conditions. The Group sponsored Beijing Yingtaijiahe Biotechnology Co., Ltd., one of the first companies to receive the approval from the listing committee of NEEQ and one of the first companies to be approved for public offering on the NEEQ Select. In 2018, the Group sponsored and underwrote follow-on offerings with an aggregated underwriting amount of RMB400 million and recorded a fee income of RMB19.3 million. For the six months ended 30 June 2020, the Group received a fee income of RMB1.9 million for its underwriting service of follow-on offerings.

Debt financing

The Group underwrites fixed-income securities such as corporate bonds and convertible bonds to assist its clients' debt financing activities. Similar to equity offerings, the Group's underwriting commissions and fees on debt offerings are based on comparable market fee rates, the size of the financing and market conditions. In 2018, the Group underwrote 24 debt offerings with an aggregated underwriting amount of RMB16.34 billion. In 2019, the Group underwrote 25 debt offerings with an aggregated underwriting amount of RMB19.80 billion. In the first half of 2020, the Group underwrote 17 debt offerings with an aggregated underwriting amount of RMB12.3 billion.

The following table sets forth a summary of the Group's debt underwriting activities for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2018	**2019**	**2019**	**2020**
	(RMB in millions, except for number of bonds)			
Bonds issuance				
– Number of bonds	24	25	5	17
– Total amount of bonds underwritten	16,341	19,798	2,620	12,303
– Total amount of underwriting income	119.2	102.5	33.9	67.6

Financial advisory

The Group provides financial advisory services including, among others, merger and acquisition and restructuring, to its corporate clients. Advisory fees for the Group are typically based on the type and size of the transactions as well as specific terms of each assignment.

The Group's investment banking business also covers preferred share financing, securities-backed lending, private debt offerings, financing for small and medium enterprises, merger and acquisition financing and securitisation.

Proprietary Trading

The Group engages in the trading of stocks, bonds, funds, derivatives and other financial products permitted by the CSRC for its own account. According to the *Regulations on Investment Scopes of the Proprietary Trading Business of Securities Companies and the Relevant Matters* (關於證券公司自營業務投資範圍及有關事項的規定) promulgated in April 2011 and amended in November 2012, PRC securities firms can invest in five categories of investment products, namely, (i) securities listed or eligible to be listed according to Shanghai or Shenzhen stock exchanges; (ii) securities traded on the national SMEs share transfer system; (iii) private placement bonds traded or eligible to be traded on eligible regional equity trading markets, and securities listed for transfer on eligible regional equity trading markets; (iv) securities traded and can be traded in the domestic inter-bank market; and (v) securities approved by or filed with the CSRC or its authorised institutions that are issued and traded over the counters of domestic financial institutions.

The Group traditionally emphasises prudent investment strategies and aims to achieve stable returns while minimising risks. The Group also formulates its investment strategy annually and determines the investment scale and risk exposure based on its financial condition, equity research and market conditions. Therefore, it has managed to successfully maintained its healthy investment returns by actively adjusting its trading strategies to focus on using hedging and derivative tools to reduce risks while selectively investing in the equity and fixed income markets. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, revenue from the Group's proprietary trading business amounted to RMB833.9 million, RMB1,566.2 million, RMB697.0 million and RMB666.1 million, representing 30.4%, 44.9%, 40.8% and 41.4% of the Group's total revenue for the same years, respectively.

Asset Management

The Group's asset management products and services are primarily offered through Southwest Securities. Southwest Securities obtained asset management qualification in June 2002 from CSRC. The Group's main asset management services include collective asset management, targeted asset management, special asset management, investment advisory and other CSRC approved asset management services. The Group provides asset management services to individuals as well as institutional clients.

For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, revenue from the Group's asset management business amounted to RMB129.7 million, RMB63.3 million, RMB53.7 million and RMB15.4 million, representing 4.7%, 1.8%, 3.1% and 0.9% of the Group's total revenue during the respective years. As of 30 June 2020, the Group managed an aggregate principal amount of RMB33.8 billion in assets, covering 32 collective asset management schemes with an aggregate principal amount of RMB6.1 billion in assets, 53 targeted asset management schemes with an aggregate principal amount of RMB25.1 billion in assets and four specific asset management schemes with an aggregate principal amount of RMB2.6 billion in assets. The Group's asset management business also covers new targeted asset management plans, structured products and new wealth management products. In addition, during the first half of 2020, the Group launched new types of asset management products including those that allowed for direct investment in enterprises, raising an additional capital in the amount of close to RMB1,900 million for enterprises. During 2020, the asset management business unit of the Group assisted in liaising with creditors to extend payment due dates for enterprises that had been heavily impacted by the COVID-19 pandemic. Further, the Group also proactively managed the liquidity of its products in order to satisfy the cash needs of its investors.

Other Innovative Businesses

The Group emphasises business diversification and has ventured into other innovative operations to benefit from business synergies utilising existing Group resources.

Futures brokerage

The Group provides futures brokerage services through its subsidiary, Southwest Futures, which is a member of the Shanghai Futures Exchange, the Zhengzhou Commodity Exchange, the Dalian Commodity Exchange, the China Financial Futures Exchange and Shanghai International Energy Exchange. The subsidiary was acquired in October 2013 to diversify the Group's product offerings and revenue source. Following the acquisition of Southwest Futures, in 2018, the registered capital of Southwest Futures was increased to RMB500.0 million. As of 30 June 2020, Southwest Futures had nine branches providing brokerage services. The Group has reformed the business, improved risk management measures, upgraded its information system and continued to expand its business and clientele. For the years ended 31 December 2018 and 2019 and the six months ended 30 June 2019 and 2020, Southwest Futures achieved revenue of RMB399.0 million, RMB157.6 million, RMB109.3 million and RMB74.1 million, respectively and net profit of RMB14.6 million, RMB16.7 million, RMB9.8 million and RMB20.4 million, respectively.

International business

Through Southwest Securities International Investment, the Group acquired the Issuer in January 2015 in order to expand and develop its overseas business platform. See "*Description of the Issuer*" for more information on the Issuer's business.

Equity investment

Through Southwest Securities Innovation Investment, the Group invested in Chongqing Southwest Securities Yufu Equity Investment Fund Management Co., Ltd. (重慶西證渝富股權投資基金管理有限公司), through which it engaged in equity investments in urban development projects, merger and acquisition activities of state-owned enterprises and other public projects.

Microfinance and E-commerce

The Group operates microfinance and e-commerce businesses through Southwest Microfinance (重慶西證小額貸款有限公司) and Southwest E-commerce (重慶西證電子商務有限責任公司). Southwest Microfinance focuses on providing services such as loans and bill financing to businesses based in Chongqing. Southwest E-commerce utilises the internet to provide consulting and software system development services to the Group's clients.

RESEARCH

The Group established the Southwest Securities Research and Development Centre (西南證券研發中心) in 1999. Its research team covers financial innovation, macro-economic analysis, industry sectors and listed companies, investment strategies, quantitative research and mergers and acquisitions. The centre's research covers sectors including finance, equipment manufacturing, consumer product, automobile, pharmaceutical, TMT, chemical and other industries and has strong coverage on listed companies based in Sichuan and other parts of Southwest China. Due to its strong expertise, local governments in Southwest China have frequently commissioned the centre to conduct research on topics relating to development of capital markets in Southwest China and national financial institutions such as the Shenzhen Stock Exchange and the Securities Association of China sought the centre's participation in various research studies. The Group's research team also provides research reports and regular updates to its brokerage clients and institutional clients, assisting them in identifying and evaluating investment opportunities based on their needs. In addition, its research team provides valuable support to the Group's other business lines, such as investment banking, proprietary trading and asset management segments.

As of 30 June 2020, the Group's research team consisted of 42 research analysts, among whom two persons held Ph.D degrees and 37 persons held master's degrees. The Group also encourages its research analysts to attend professional training programs to enhance their research expertise.

The centre's strong research coverage and capabilities have earned its research team a number of accolades. In 2019, the Group was ranked fourth for "Best Analysts" for its pharmaceutical sector research by Xincaifu (新財富). In 2020, the Group's pharmaceutical sector research team was shortlisted as one of the sell-side analysts at the 14th Crystal Ball Awards for Sell-side Analysts (第十四屆水晶球賣方分析師評選). The Group's research teams in the non-ferrous metal sector, electrical equipment, real estate, home appliances, construction and reconfiguration industries had been named as "Best Industry Research Team" on the 10th and 11th China Securities Industry Analyst Golden Bull Awards Lists (中國證券業分析師金牛獎). Members of the Group's research team for pharmaceutical, chemical, home appliances and light-manufacturing industries were named "Best Analysts" at the Sina Golden Kirin Awards (新浪金麒麟最佳分析師) in 2019 and 2020. At the 2020 Shanghai Securities News Best Analysts Awards (2020上證報最佳分析師), the Group's research team was named as "Best Analysts" in strategy, communications, public works and chemical industries and the Group's research centre received second place for "Best Improvement" category and was shortlisted as the "Most Influential Securities Institution".

SALES AND MARKETING

The Group's sales and marketing strategy focuses on building the "Southwest Securities" brand name and increasing public awareness of its products and services, particularly for the Group's brokerage business. The sales and marketing functions of the Group are mainly carried out by the Group's securities brokerage agents who have extensive experience in the finance industry and the Group's financial products and services. As of 30 June 2020, the Group had 884 qualified securities brokerage agents operating at its service locations throughout the PRC. As of the same date, 91 out of the Group's 126 service locations in the PRC were staffed with qualified securities brokerage agents, whose sales and marketing activities were directed and coordinated centrally by the Group's sales department. The Group intends to further expand its sales network by opening additional service locations in the PRC. The Group's securities brokerage agents and other sales personnel also work closely with commercial banks, funds and other financial institutions to jointly promote and sell securities products and services to clients.

The Group maintains a website where existing and prospective clients can obtain information on the Group's products and services and listed securities' information. As part of its continuous effort to expand its clientele, the Group regularly holds marketing events and investment conferences. The Group also offers assistance with existing and prospective clients through its website and a national hotline, in relation to enquiries, account setup information and technical support and after-sales services.

MAJOR CLIENTS

The Group serves a diverse base of individual and institutional clients. The Group's clients are primarily located in the PRC, including enterprises, financial institutions, government and individuals. Institutional clients include commercial banks, fund managers, insurance companies, trust companies and other domestic or foreign financial institutions, as well as qualified foreign institutional investors in China. A diverse client base with various needs serves as a strong support for the Guarantor's continuing development as a full service securities firm in China.

COMPETITION

Competition in the financial services industry in the PRC has been and is likely to remain intense. Competition is based on a number of factors, including price, products and services, innovativeness of the financial products, transaction execution capability, reputation, experience and knowledge of sales personnel, employee compensation and geographic scope. Competitors of the Group include over 34 PRC securities firms as well as other financial institutions, such as commercial banks and insurance companies, in various specific business lines in the PRC. The gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC's financial industry may also cause new competitors to enter into the securities industry, or allow the Group's current competitors to expand the scope of their business into new business lines. The deregulation of the PRC securities industry could also induce foreign financial institutions to enter into the PRC market, which are currently subject to PRC regulatory limitations and restrictions on their business activities. In addition, other innovative products and services may emerge in the PRC securities market as the PRC securities industry is gradually evolving. Since 2014, PRC securities firms began to launch online discount brokerage services, offering investors lower commission rates than conventional brokers. More online discount brokerage firms are expected to emerge in China and compete with traditional securities firms, including the Group.

Some of the Group's competitors may have certain competitive advantages over the Group, such as wider geographic coverage, greater financial resources, broader range of products and services offerings, stronger brand recognition and more advanced IT systems. The Group may also compete with specialised or regional competitors. While these competitors may not offer as broad a range of products and services or as wide a geographic coverage as the Group's other competitors do, they may have more extensive experience, stronger brand recognition and other competitive advantages in their specialised business lines or geographical regions.

The Group strives to improve competitiveness through optimizing its human resources and innovating in its product and services offerings. Through continuous evaluation and optimizing personnel structure, the Group was able to improve overall brokerage performance. In recent years, the Group has also introduced new financial products and services, such as sovereign bonds exchange traded funds, arbitrage business for gold, commodity and sovereign bond futures, interest rate swap business and securities-backed lending and securities repurchase businesses, and received qualifications to carry additional innovative services, such as NEEQ market making, Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and OTC trading business, in order to satisfy the diverse needs of its clients, and expects to continue to expand its offering of products and services. In addition, the Group plans to continue to expand its geographic coverage to increase its market penetration. As of 30 June 2020, the Group had a network of 126 brokerage service locations and 21 investment banking departments in the PRC.

EMPLOYEES

As of 30 June 2020, the Group had a total of approximately 3,184 employees (including brokerage agents), of which 24 held doctorate degrees, 830 held master's degrees and 1,774 held bachelor's degrees. The Group considers its employees an important asset, provides them with continuing education and on-the-job training and encourages them to pursue various financial and accounting qualifications.

The Group has maintained good relationships with its employees and has not experienced any significant labour disputes which have had or are likely to have a material and adverse effect on its business operations. The Group does not foresee any difficulties in the recruitment and retention of experienced staff.

REGULATORY REQUIREMENTS

The Group conducts its securities business in the PRC and is, therefore, subject to the restrictions and regulatory requirements of the PRC. The Group has obtained all material consents and licences necessary for its operations in accordance with applicable PRC laws and regulations. As of the date of this Offering Circular, all of the Group's employees and brokers have also obtained the relevant licences as required for their business activities. The Group and its employees have, from time to time, been involved in incidents of regulatory non-compliance and received notices and warnings from, or been fined by, the relevant regulatory authorities. For details of the regulatory non-compliance incidents, please see "*Risk Factors – Risks Relating to the Group's Business – The Group's business is highly regulated in China and other jurisdictions in which the Group operates. The Group's non-compliance with any applicable regulations may subject it to sanctions and regulatory actions taken by relevant regulators, which may negatively affect its business, financial condition and results of operations*".

For details regarding the Issuer's licensing requirements in Hong Kong, see "*Description of the Issuer – Regulatory Requirements*".

RISK MANAGEMENT

The Group's businesses face market risk, credit risk, liquidity risk and operational risk.

Market risk

Market risk relates to a risk of loss as a result of market price changes on securities held by the Group. It includes price risk, interest rate risk and foreign currency risk. Price risk primarily results from price changes in stocks, investment portfolios, futures contracts and other equity investments. Interest rate risk relates to fixed income products' investment yield changes as a result of interest rate volatility. Foreign exchange risk is associated with the potential for loss or reduction in income due to exchange rate fluctuations.

Credit risk

Credit risk relates to a risk of loss as a result of failure by the Group's contract counterparties, clients, intermediaries, debt issuers and other business partners to perform their duties.

Liquidity risk

Liquidity risk includes situations where the Group's core business is unable to produce sustainable income, or in the case of major events in the industry or market, securities or financial products held by the Guarantor cannot be quickly realized at reasonable prices leading to losses, or generally in cases of insufficient liquidity due to the use of funds.

Operational risk

Operational risk involves risk of internal processing errors, human errors, information system errors or inadequacy and trading errors.

Risk management policy and structure

The Group's risk management system focuses around the Group's net capital and the establishment of risk control indicators in each of its business segments and management activities. The risk management system aims to manage market and credit risks, control operational risk, and prevent liquidity risk in order to ensure the overall level of risk the Group faces is measurable, controllable and acceptable.

In accordance with the *Company Law of the People's Republic of China* (公司法) and *Securities Law of the People's Republic of China* (證券法) promulgated by the Standing Committee of National People's Congress, *Regulation on the Supervision and Administration of Securities Companies* (證券公司監督管理條例) and *Regulation on the Risk Disposal of Securities Companies* (證券公司風險處置條例) promulgated by the State Council, *Rules for Governance of Securities Companies* (證券公司治理準則), *Internal Control Guidance of Securities Companies* (證券公司內部控制指引), *Measures for the Risk Control Indexes of Securities Companies* (證券公司風險控制指標管理辦法) promulgated by CSRC and *Comprehensive Risk Management Practices of Securities Companies* (證券公司全面風險管理規範) and *Guidance of Liquidity Risk Management of Securities Companies* (證券公司流動性風險管理指引) promulgated by the SAC, the Group has established a set of comprehensive and systematic risk control policies and procedures to monitor, identify, evaluate, respond to and manage the various risks that the Group face in its operations.

The Group adopts a centralised management and hierarchical monitoring approach to overall risk management. Overall risk management is conducted through (i) the board of directors and the risk management committee of the Guarantor, (ii) senior management, the chief risk officer and the risk and compliance management committee, (iii) internal departments in risk management, compliance and internal audit, and (iv) the operation and business units. The board of directors of the Guarantor is responsible for supervision, inspection, evaluation of risk management activities, establishment of the RCC, formulation of the Group's risk management policies and measures, and the review and audit of risk management strategies and material risk management reports and solutions. The senior management is responsible for implementing the Group's risk management measures. The chief risk officer and the risk and compliance management department are independent of other departments and monitor, assess and report on risk management activities of the Group. They may also assist and guide the different departments of the Group on their risk management activities. The Group's finance and treasury department participates in the management of liquidity risk while the marketing department participates in reputational risk management.

LEGAL PROCEEDINGS

The Group may from time to time be involved in contract disputes or legal proceedings arising from the ordinary course of its business. Except as disclosed in this Offering Circular, see "*Risk Factors – Risks relating to the Group's Business – The Group's business is highly regulated in China and other jurisdictions in which the Group operates. The Group's non-compliance with any applicable regulations may subject it to sanctions and regulatory actions taken by relevant regulators, which may negatively affect its business, financial condition and results of operations*" and "*Risk Factors – Risks relating to the Group's Business – The Group may suffer significant losses from credit exposures from its clients and counterparties*" for details, for the 12 months preceding the date of this Offering Circular, there were no legal, arbitration or administrative proceedings against the Group or any of its directors or senior management members which may have a material adverse effect on its business, financial condition and results of operations.

DIRECTORS AND SENIOR MANAGEMENT OF THE ISSUER

The following table sets forth certain information with respect to the Issuer's directors and senior management as of the date of this Offering Circular:

Name	Age	Position
Executive Directors		
Wu Jian (吳堅)	56	Executive Director and Chairman of the Board and the Nomination Committee
Pu Rui (蒲鋭)	47	Executive Director and Chief Executive Officer
Zhao Mingxun (趙明勛)	42	Executive Director
Independent Non-executive Directors		
Meng Gaoyuan (蒙高原)	49	Independent Non-Executive Director and the Chairman of the Audit Committee
Guan Wenwei (關文偉)	52	Independent Non-Executive Director and the Chairman of the Remuneration Committee
Liang Jilin (梁繼林)	64	Independent Non-Executive Director
Senior Management		
Tam Kar Bo Carrie (譚嘉寶)	51	Vice President, Financial Controller and Company Secretary
Lo Wing Shing Steven (盧永成)	45	Vice President
Cheung Hei Choi (張喜財)	50	Chief Compliance Officer and Chief Risk Control Officer

EXECUTIVE DIRECTORS

Mr. Wu Jian (吳堅), aged 56, has been appointed as an executive director of the Issuer since 27 February 2015, the chairman of the Board and the chairman of the nomination committee since 1 November 2016, and a member of the remuneration committee since 25 March 2017. Mr. Wu graduated from Shanxi University of Finance and Economics (山西財經大學) in the PRC. He graduated from MBA Institute of Chongqing University with MBA degree in February 2001. Mr. Wu served in China Securities Regulatory Commission Chongqing Office consecutively as the deputy commissioner of division of investigation and enforcement department and commissioner of the listed company supervision department during 1997 to 2005. Mr. Wu was appointed as the deputy general manager of Chongqing Yufu Assets Management Group Co., Ltd. (重慶渝富資產經營管理集團有限公司) from December 2005 to November 2013 and was responsible for investment management. Mr. Wu was also appointed as the chief executive and director of Chongqing Share Transfer Centre Co., Ltd. (重慶股權轉讓中心有限責任公司), a subsidiary of the Guarantor from October 2013 to April 2016, and as the chairman of the Board of Chongqing Share Transfer Centre Co., Ltd. (重慶股權轉讓中心有限責任公司) from April 2016 to April 2020. Mr. Wu is currently a director and president of the Guarantor. He is currently a director of Southwest Securities International Investment, the immediate controlling shareholder of the Issuer. Mr. Wu has over 20 years of experience in investment and securities market.

Mr. Pu Rui (蒲鋭), aged 47, has been appointed as an executive director and the chief executive officer of the Issuer since 27 February 2015. He is also a director and legal representative of certain subsidiaries of the Issuer. During the period from 27 February 2015 to 27 February 2019 and since 30 April 2019, he was appointed as an authorised representative of the Issuer. Mr. Pu obtained his master's degree in economics majoring in monetary banking (貨幣銀行學) from Southwestern University of Finance and Economics (西南財經大學) in the PRC in June 1998. Mr. Pu served in the China Securities Regulatory Commission Sichuan Bureau (中國證券監督管理委員會四川監管局) consecutively as deputy commissioner of the listed company supervision department one (上市公司監管一處), commissioner of the listed company supervision department two (上市公司監管二處) and commissioner of the division of investigation and enforcement department two from August 1998 to September 2012. He had also been the assistant to mayor of Suining government of the PRC from May 2007 to May 2008. Mr. Pu served in the Guarantor consecutively as the member of the party committee, assistant to the chief executive and vice president since October 2012 and he is responsible for assisting the chief executive to manage the securities sales department, credit transaction department, institutional sales department, wealth management centre and operations management department. Mr. Pu is also currently a director and the general manager of Southwest Securities International Investment. He has abundant experience in investment, finance and securities market business.

Dr. Zhao Mingxun (趙明勛), aged 42, has been appointed as an executive director since 23 August 2019. He is also a director of a subsidiary of the Group. He has extensive experience in the financial industry. He served in China Investment Securities Co., Ltd (中國中投證券有限責任公司) from 2006 to 2011. From February 2011 to February 2015, he worked in various departments within the Guarantor and had held various positions including investment manager, project manager and deputy general manager. He served as the deputy general manager in Southwest Securities Innovation Investment, a wholly-owned subsidiary of the Guarantor, from February 2015 to June 2017, and the deputy general manager and chief risk officer in Southwest Securities Private Equity Investment, a wholly-owned subsidiary of the Guarantor, from June 2017 to April 2018. Dr. Zhao graduated from Pingdingshan Education College (平頂山教育學院) (currently known as PingDingShan Vocational and Technical College (平頂山職業技術學院)) in June 1998, with a major in mathematics. He obtained a master's degree in economics from Xiangtan University, Hunan in June 2003 and a doctorate degree in economics from Fudan University, Shanghai in June 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Meng Gaoyuan (蒙高原), aged 49, has been appointed as an independent non-executive director of the Issuer, the chairman of audit committee and a member of the remuneration committee and the nomination committee of the Issuer since 27 January 2015. Mr. Meng has been qualified as a certificated public accountant in the PRC since 1999. He has been also qualified as a certified public valuer and a registered land valuer since 1998 and 2006 respectively. Mr. Meng has served in Chongqing Kanghua Certified Public Accountants (重慶康華會計師事務所有限責任公司) consecutively as a department senior manager and deputy general manager since September 1998. Mr. Meng graduated from Jiangxi College of Finance and Economics (江西財經學院) (currently known as Jiangxi University of Finance and Economics (江西財經大學)) in the PRC with a bachelor's degree majoring in finance, accounting and auditing in July 1994. He obtained a master's degree in business administration from Chongqing University of Technology (重慶理工大學). He has abundant experience in accounting, audit and finance.

Dr. Guan Wenwei (關文偉), aged 52, has been appointed as an independent non-executive director of the Issuer and a member of audit committee, remuneration committee and nomination committee of the Issuer since 19 September 2016 and has been appointed as the chairman of remuneration committee of the Issuer since 14 July 2020. Dr. Guan graduated from Sun Yat-Sen University (中山大學) with a bachelor's degree in law in 1991. He obtained a master of laws degree from Peking University (北京大學) in 2001, a master of arts degree in Asia Pacific policy studies and a Ph.D in law from the University of British Columbia in 2004 and 2009 respectively. Dr. Guan served as a court clerk, junior judge in the Guangdong Provincial People's High Court, PRC, sessional lecturer in the Faculty of Law of the University of British Columbia, visiting assistant professor in the School of Law of City University of Hong Kong from July 1991 to July 2009. He has been an assistant professor in the School of Law of City University of Hong Kong since July 2009 and was promoted to associate professor since July 2018. He was qualified as a lawyer in the PRC since 2000 and has become an arbitrator of South China International Economic and Trade Arbitration Commission since 2015.

Mr. Liang Jilin (梁繼林), aged 64, has been appointed as an independent non-executive director of the Issuer and a member of audit committee, remuneration committee and nomination committee of the Issuer since 1 July 2020. Mr. Liang acted as the deputy general manager from June 2009 to September 2015 of and the chief economist from September 2015 to September 2016 of Zhong Fang Real Estate Corporation Limited (中房地產股份有限公司) (currently known as CCCG Real Estate Corporation Limited, SZSE stock code: 000736 (中交地產股份有限公司)). Mr. Liang consecutively served as the deputy general manager, general manager, chairman of the board of directors, branch secretary of Party and legal representative of Shenzhen Zhongzhu Huizhi Industrial Corporation Limited (深圳市中住匯智實業有限公司) (currently known as CCCG Rest Estate Industrial Corporation Limited (中交地產產業發展有限公司)) from March 1999 to October 2016. He was the chairman of the board of directors of Shenzhen Huahui Storage Corporation Limited (深圳市華匯倉儲有限公司) from October 2001 to December 2005. Mr. Liang graduated from the Chief of Staff of Army College of the Chinese People's Liberation Army (中國人民解放軍陸軍參謀學院) with a bachelor's degree in military science in July 1994, majoring in military theory, and obtained the qualification of Senior Planner of China Institute of Devising (中國策劃研究院) in February 2005.

SENIOR MANAGEMENT

Ms. Tam Kar Bo Carrie (譚嘉寶), aged 51, is the vice president, financial controller and company secretary of the Issuer. She is also a director of certain subsidiaries of the Issuer. Ms. Tam joined the Issuer in 2011 as the financial controller and has been appointed as the company secretary and authorised representative of the Issuer since November 2019. She was appointed as a member of executive committee of the Issuer from 15 October 2012 to 27 January 2015. She is currently in charge of finance and account department, company secretary and corporate communication department of the Issuer. Ms. Tam has worked for international accountancy firms and well-known securities houses for over 20 years and is experienced in the field of auditing and accounting in financial services industry. Ms. Tam obtained a bachelor's degree of arts in accountancy and a master's degree in professional accountancy from The Hong Kong Polytechnic University. She is a Certified Public Accountant of the HKICPA.

Mr. Lo Wing Shing Steven (盧永成), aged 46, is the vice president of the Issuer and a director of certain subsidiaries of the Issuer. Mr. Lo joined the Issuer in February 2016. He is currently in charge of corporate finance department and global capital markets Department of the Issuer. Mr. Lo has over 15 years of experience in investment banking field and participated in a number of IPO sponsor, corporate finance and financial consulting projects. Mr. Lo graduated with a bachelor of science degree in Mechanical Engineering from the University of British Columbia and obtained a master of business administration from Hong Kong University of Science and Technology. He is also a Chartered Financial Analyst charterholder.

Mr. Cheung Hei Choi (張喜財), aged 50, is the chief compliance officer and the chief risk control officer of the Issuer. Mr. Cheung joined the Issuer in January 2020 as the co-head of the legal and compliance department. He has been the head of the legal and compliance department of the Issuer since mid-April 2020 and the chief compliance officer and the chief risk control officer of the Issuer since June 2020. Mr. Cheung has worked for an international accounting firm, the Hong Kong Stock Exchange and a well-known mainland-based securities house over 20 years and is experienced in the field of auditing and compliance in the financial services industry. Mr. Cheung obtained a bachelor's degree of arts in accounting from The Hong Kong Polytechnic University. He is also a Certified Public Accountant of the HKICPA.

DIRECTORS AND SENIOR MANAGEMENT OF THE GUARANTOR

The following table sets forth certain information with respect to the Guarantor's directors, supervisors and senior management as of the date of this Offering Circular:

Name	Age	Position
Directors		
Liao Qingxuan (廖慶軒)	59	Chairman
Wu Jian (吳堅).	56	President and Director
Peng Zuofu (彭作富).	58	Director
Zhang Chunyong (張純勇).	54	Vice President and Director
Zhang Gang (張剛).	57	Director
Wan Shubin (萬樹斌)	56	Director
Zhao Rubing (趙如冰).	64	Independent Director
Luo Wei (羅煒)	45	Independent Director
Fu Daqing (傅達清)	53	Independent Director
Supervisors		
Ni Yuemin (倪月敏)	54	Supervisor (Chairman)
Xu Ping (徐平).	58	Supervisor
Yan Jie (嚴潔)	40	Employee Representative Supervisor
Senior Management		
Wu Jian (吳堅).	56	President
Zhang Chunyong (張純勇).	54	Vice President
Li Yong (李勇)	53	Vice President
Hou Ximeng (侯曦蒙).	49	Vice President
Pu Rui (蒲銳).	47	Vice President
Lin Lin (林林)	58	Chief Information Officer
Zhao Tiancai (趙天才).	48	Compliance Director
Zhang Hongwei (張宏偉)	56	Chief Risk Officer

DIRECTORS

Mr. Liao Qingxuan (廖慶軒), aged 59, is the chairman of the Guarantor and the secretary of the Party Committee. Mr. Liao worked at the People's Bank of China branch in Chongqing, Chongqing Branch of Industrial and Commercial Bank of China, Chongqing Branch of Huaxia Securities, preparatory group of Chongqing Securities Management Office, Chongqing Commercial Bank, SASAC Chongqing, Chongqing Yufu Asset Management Group Co., Ltd., (重慶渝富資產經營管理集團有限公司) Chongqing Municipal People's Government and other places. He served successively as president of Chongqing Commercial Bank, deputy director of SASAC Chongqing (director of the secretary level), deputy secretary-general of Chongqing Municipal People's Government (at the director level), chairman, secretary of Party Committee of Chongqing Yufu Asset Management Group Co., Ltd, and director and deputy party secretary of SASAC Chongqing.

Mr. Wu Jian (吳堅) is a director of the Guarantor. For details of his biography, see "*Directors and Senior Management of the Issuer*".

Mr. Peng Zuofu (彭作富), aged 58, is a director of the Guarantor. Mr. Peng holds a master's degree and is a senior economist and a CCP member. He is currently the general counsel of Chongqing Yufu Holding Group Co., Ltd. (重慶渝富集團有限公司), general counsel of the Disciplinary Committee of Chongqing Yufu Asset Management Group Co., Ltd. (重慶渝富資產經營管理集團有限公司), chairman of the board of supervisors of Chongqing Re-guarantee Co., Ltd. (重慶市再擔保有限責任公司) and chairman of the board of supervisors of Chongqing Financial Support Services Co., Ltd (重慶金融後援服務有限公司). Mr. Peng previously served as deputy head of Tongjia District Office in Sichuan Province, party secretary and director of Lezhi County Statistics Bureau (樂至縣統計局), deputy director of the third audit division of the Special Commissioner Office of the National Audit Office in Chongqing (審計署駐重慶特派員辦事處), chairman of the board of directors of Guizhou Yufu Energy Co., Ltd. (貴州渝富能源股份有限公司) and director of the board of supervisors of Chongqing Yufu Asset Management Group Co., Ltd.

Mr. Zhang Chunyong (張純勇), aged 54, is a director and vice president of the Guarantor. Mr. Zhang obtained his bachelor's degree in medicine from Sichuan Medical School (四川醫學院) in the PRC in April 1985 and obtained a master's degree in medicine from Third Military Medical University (第三軍醫大學) in the PRC in July 1989. Mr. Zhang served in Chongqing Financial Services Office (重慶市金融工作辦公室) as the commissioner of the listed companies department and securities department from July 2003 to April 2007. He has been the deputy chief executive of the Group since July 2007. He has also been a director of Southwest Securities Equity Investment, Southwest Securities Innovation Investment and Southwest Securities Chongqing Equity Investment Fund Management Co., Ltd. (西證重慶股權投資基金管理有限公司) since April 2013, March 2013 and July 2013, respectively. He has also been the chairman of Chongqing Southwest Securities Yufu Equity Investment Fund Management Co., Ltd. (重慶西證渝富股權投資基金管理有限公司), Southwest Futures and Southwest Microfinance since May 2013, December 2013 and August 2014, respectively. Mr. Zhang has over 13 years of experience in finance, fund management and securities market supervision.

Mr. Zhang Gang (張剛), aged 57, is a director of the Guarantor. He holds a bachelor's degree and is a senior economist. Mr. Zhang is currently the financial controller, director and a member of the party committee of Chongqing Jiangbeizui Central Business District Investment Group Co., Ltd. (重慶市江北嘴中央商務區投資集團有限公司). Mr. Zhang worked at the Agricultural Bank of China, China Great Wall Asset Management Co., Ltd., China Galaxy Securities, Asia Securities (亞洲證券), etc. He served successively as administrative officer, assistant general manager (cum administrative officer) of Chongqing Yufu Asset Management Group Co., Ltd. (重慶渝富資產經營管理集團有限公司) and member of the party committee, deputy general manager of Chongqing City Public Transport Station Group Co., Ltd. (重慶城市公共交通站場集團有限公司).

Mr. Wan Shubin (萬樹斌), aged 56, is a director of the Guarantor. He holds a bachelor's degree and is currently the general manager of risk management department of China Jianyin Investment Ltd. (中國建銀投資有限責任公司). Mr. Wan served successively as deputy director of finance division in accounting department, deputy director, director of financial planning department, senior manager of interest rate division in assets and liabilities department of China Construction Bank (中國建設銀行), deputy general manager of finance and accounting department and operations director of China Jianyin Investment Ltd., deputy secretary of the party committee, director, general manager of Zhongtou Kexin Technology Co., Ltd. (中投科信科技股份有限公司) and supervisor of centralised purchasing office, deputy general manager of asset management branch office, operations director of finance and fund department of China Jianyin Investment Ltd.

Mr. Zhao Rubing (趙如冰), aged 64, is an independent director of the Guarantor. He holds a master's degree in finance and is a senior engineer (research fellow level). Mr. Zhao is currently the vice chairman of Sunshine Asset Management Company Limited (陽光資產管理股份有限公司). He served successively as director of Gezhouba Water Power Plant (葛洲壩水力發電廠), the head, secretary of Gezhouba station of Gezhouba to Shanghai HDVC transmission project (葛洲壩至上海超高壓直流輸電葛洲壩站), the director of Office and the director of foreign affairs office of Gezhouba Water Power Plant, the secretary of leading party group and general manager of Huaneng South China Development Company (華能南方開發公司), the secretary of leading party group and general manager of Huaneng Real Estate Development Company (華能房地產開發公司), the director, vice chairman, the deputy secretary of the party committee of China Great Wall Securities Co., Ltd. (長城證券有限責任公司) and the chairman of Invesco Great Wall Fund Management Company Limited (景順長城基金管理有限公司).

Mr. Luo Wei (羅煒), aged 45, is an independent director of the Guarantor. He holds a Ph.D. in accounting and is currently the associate professor, associate department head of accountancy in Guanghua School of Management, Peking University, the independent director of Beijing Certificate Authority Co., Ltd., the independent director of Beijing IRTOUCH Systems Co., Ltd., the independent director of Brilliance Technology Co., Ltd. and the independent director of China Oil HBP Science & Technology Co., Ltd (華油惠博普科技股份有限公司). Mr. Luo served successively as a teaching assistant of the Faculty of Accountancy in Zhongnan University of Economics and Law and an assistant professor (lecturer) of the accountancy department in Guanghua School of Management, Peking University.

Mr. Fu Daqing (傅達清), aged 53, is an independent director of the Guarantor. He holds a master's degree in law and is currently the lawyer of Tahota Law Firm, the external director of Chongqing Grain Group Co., Ltd. (重慶糧食集團有限責任公司) and the arbitrator of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會). Mr. Fu served successively as an English lecturer of Chongqing Technology and Business University (重慶工商大學), lawyer of Chongqing Yuhe Law Firm (重慶渝和律師事務所) and external director of Chongqing City Transportation Development & Investment Group Co., Ltd. (重慶城市交通開發投資(集團)有限公司).

SUPERVISORS

Ms. Ni Yuemin (倪月敏), aged 54, is a supervisor and the chairman of the supervisory committee of the Guarantor. Ms. Ni holds a master's degree in business administration. Ms. Ni is a senior accountant and a CCP member. She is also currently the supervisory board chairman of Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行股份有限公司). Ms. Ni served successively as a member of the Shapingba District and as deputy division chief of the Enterprise Division I of the Chongqing Municipal Finance Bureau (重慶市財政局), director of Assessment and Distribution Division and director of Property Management Division of SASAC Chongqing (重慶市國有資產監督管理委員會), and executive director of Chongqing Bank Co., Ltd. (重慶銀行股份有限公司).

Mr. Xu Ping (徐平), aged 58, is a supervisor of the Guarantor. Mr. Xu holds a master's degree. He is a senior engineer and a CCP member. Mr. Xu is currently the deputy general manager of Chongqing Urban Construction Investment (Group) Co., Ltd. (重慶市城市建設投資(集團)有限公司), chairman and party secretary of board of directors of Chongqing Yu Development Co., Ltd. (重慶渝開發股份有限公司). He served successively as the head of project design and the head of hydraulic engineering of Guizhou Water Resources and Hydropower Survey and Design Institute (貴州省水利水電勘測設計院), director of the civil engineering of Chongqing Water Conservancy and Electric Construction Survey and Design Institute (重慶市水利電力建築勘測設計研究院), manager of the engineering department of Chongqing Urban Construction Investment Company (重慶市城市建設投資公司), manager of Shiqiaopu Interchange and Four-Kilometer Interchange Construction Project (石橋鋪立交、四公里立交建設項目), deputy general manager and party committee member of Chongqing Port Affairs (Group) Co., Ltd. (重慶港務(集團)有限責任公司), construction commander of Chongqing Port Cuntan Port District (重慶港寸灘港區), deputy general manager and party committee member of Chongqing Port Logistics Group Co., Ltd. (重慶港務物流集團有限公司), chairman of Chongqing Port Logistics Construction Investment Company (重慶港務物流建設投資公司), deputy general manager and party committee member of Chongqing Urban Construction Investment (Group) Co., Ltd. (重慶市城市建設投資(集團)有限公司) and chairman of Chongqing Yu Development Co., Ltd. (重慶渝開發股份有限公司).

Mr. Yan Jie (嚴潔), aged 40, is the employee representative supervisor of the Guarantor. He holds a master's degree in economics and is a CCP member. He is currently the deputy general manager of compliance department of the Guarantor. Mr. Yan is also the compliance director and chief risk officer of Southwest Securities Innovation Investment. He served successively as senior account manager of the securities department of Changjiang Second Road branch of the Guarantor, staff member of the compliance and risk management department of the Guarantor, assistant general manager of securities department, staff member of the compliance and risk management department, and deputy general manager of legal compliance department of Wuhan Zhongbei Road branch of the Guarantor.

SENIOR MANAGEMENT

Mr. Wu Jian (吳堅) is the president of the Guarantor. For details of his biography, see "– *Directors*".

Mr. Zhang Chunyong (張純勇) is a vice president of the Guarantor. For details of his biography, see "– *Directors*".

Mr. Li Yong (李勇), aged 53, is a vice president of the Guarantor. Mr. Li holds a post graduate degree and is a CCP member. He joined the workforce in 1988 and served successively as division chief of market division of non-bank department of the People's Bank of China (Chongqing Branch) (中國人民銀行重慶市分行非銀處市場科), deputy director of listing department of CSRC (Chongqing Bureau), a member of Party Committee, president of the union and general manager of integrated management department of Chongqing International Trust Investment Co., Ltd., head of the general office, vice president and compliance director of the Guarantor, director of Southwest Securities Equity Investment, director of Southwest Securities Innovation Investment and director of Southwest Securities Chongqing Equity Investment Fund Management Co., Ltd.

Ms. Hou Ximeng (侯曦蒙), aged 49, is a vice president of the Guarantor. Ms. Hou holds a master's degree and is a CCP member. She joined the workforce in 1993 and served successively as deputy general manager (managing) of human resources department, deputy general manager of brokerage business department, head of the general office of the Guarantor and director of President's Office of the Guarantor, director and general manager of Southwest Securities International Investment and director of Southwest Microfinance.

Mr. Pu Rui (蒲銳) is a director and chief executive officer of the Issuer. For details of his biography, see "*Directors and Senior Management of the Issuer*".

Mr. Lin Lin (林林), aged 58, is the chief information officer of the Guarantor. He holds a bachelor's degree in engineering and is a CCP member. Mr. Lin served successively as product manager and designer of the Design Institute of Jiangsu Nantong Radio Factory (江蘇南通無線電廠設計所), head of the radar room of the communications and navigation department of Chongqing Changjiang Shipping Company (重慶長江輪船公司), chief engineer of Chongqing Securities Company (重慶有價證券公司), technical director and general manager of the Computer Center, general manager of the Clearing Center, technical director of the operation management department, and technical director of the off-site business department of the Guarantor.

Mr. Zhao Tiancai (趙天才), aged 48, is the compliance director of the Guarantor. He holds a master's degree in computer and a master's degree in business administration. He currently also serves as chief anti-money laundering compliance officer and the general manager of compliance department. Mr. Zhao served successively as system administrator of the library in Southwest University (西南大學), system administrator of the sales department of Chongqing Securities Company (重慶有價證券公司), head of trading of securities operation department of Chongqing Shengli Road (重慶勝利路) branch, operation director of securities operations department, assistant to general manager of risk management department and assistant to general manager of compliance and risk management department of Xuzhou Huaihai Road West (徐州淮海西路) branch, assistant to general manager of compliance and risk management department, deputy general manager of risk control department, general manager and employee representative supervisor of the Guarantor.

Mr. Zhang Hongwei (張宏偉), aged 56, is the chief risk officer of the Guarantor. He holds a master's degree in business administration. He currently also serves as the general manager of risk control department of the Guarantor. Mr. Zhang served successively as general manager of the Nanping business department of Chongqing Securities Company (重慶有價證券公司), deputy manager of the securities department of the Nanping branch of Bank of Communications (交通銀行), general manager of the securities department of Chongqing Huigong Road branch of the Guarantor, general manager of the securities department of Chongqing Shengli Road branch (重慶勝利路) of the Guarantor, general manager the securities department of Shanghai Dingxi Road Branch (上海定西路) of the Guarantor, general manager of compliance and risk management department, general manager of legal compliance department, general manager of compliance department, and chief anti-money laundering compliance officer of the Guarantor.

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. In July 2009, the PRC adopted the *Measures for the Administration of Pilot Program of Renminbi Settlement of Cross-border Trades* (跨境貿易人民幣結算試點管理辦法) and commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau and Association of Southeast Asian Nations (ASEAN). The PRC government promulgated the *Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades* (關於擴大跨境貿易人民幣結算試點有關問題的通知), the *Circular on Expanding the Regions of Crossborder Trade Renminbi Settlement* (關於擴大跨境貿易人民幣結算地區的通知) and the *Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods* (關於出口貨物貿易人民幣結算企業管理有關問題的通知) (together as "**Circulars**") on 17 June 2010, 27 July 2011 and 3 February 2012, respectively. Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been lifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have reviewed and approved such list (the "**Supervision List**").

Accordingly, offshore enterprises are entitled to use Renminbi to settle imports of goods and services and other current account items. Renminbi remittance for exports of goods from the PRC may only be effected by (a) enterprises with the foreign trading right and incorporated in a province which has already submitted the Supervision List (for the avoidance of doubt, that PRC enterprises do not necessarily need to be included in the Supervision List) or (b) enterprises that have been approved as pilot enterprises for using Renminbi for exports before the Six Authorities reviewed and approved the Supervision List submitted by relevant province.

On 5 July 2013, PBOC promulgated the *Circular on Policies related to Simplifying and Improving Cross-border Renminbi Business Procedures* (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which, in particular, simplifies the procedures for cross-border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make or receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions on a need basis (noting that verification of underlying transactions is usually a precondition for cross border remittance).

On 6 December 2013, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Issues concerning Improving the Foreign Exchange Administration of Trade Financing Business of Banks (國家外匯管理局關於完善銀行貿易融資業務外匯管理有關問題的通知) ("**Circular 44**"), which aims to strengthen banks' review and examination of compliance in trade financing as well as the systematic management of foreign exchange receipts by enterprises.

As new regulations, the Circulars, the 2013 PBOC Circular and Circular 44 will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circulars, the 2013 PBOC Circular and Circular 44 and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement for capital account items were generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties were also generally required to make capital account payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

On 11 May 2013, SAFE promulgated the *Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors* (外國投資者境內直接投資外匯管理規定) (the "**SAFE Provisions**"), which became effective on 13 May 2013. According to the SAFE Provisions, foreign investors can use cross-border Renminbi (including Renminbi inside and outside the PRC held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make a payment for the transfer of an equity interest of an onshore enterprise by a PRC resident within the total investment amount approved by the competent authorities (for example, MOFCOM and/or its local counterparts as well as financial regulators). Capital account transactions in Renminbi must generally follow the current foreign exchange control regime applicable to foreign currencies.

On 3 December 2013, MOFCOM promulgated the *Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment* (商務部關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate Renminbi FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each Renminbi FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on Renminbi FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi, or in relation to certain industries such as financial guarantee, financial leasing, micro-credit, auction, foreign invested investment companies, venture capital and equity investment vehicles, cement, iron and steel, electrolyse aluminium, ship building and other industries regulated by the state. In addition, the MOFCOM Circular also clearly prohibits the Renminbi FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

Under current rules promulgated by SAFE, foreign debts borrowed and the foreign security provided by an onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt and foreign security regime. On 10 January 2014, to echo the policy changes by the PBOC and MOFCOM, the SAFE released the *Notice on Further Improvement and Adjustment of Foreign Currency Administration Policies for Capital Account Items* (國家外匯管理局關於進一步改進和調整資本項目外匯管理政策的通知) (the "**SAFE Notice**").

Pursuant to this SAFE Notice, the procedures for lending foreign debts by PRC onshore entities and profit remittance by foreign invested enterprises in the PRC have all been simplified. Furthermore, according to the 2013 PBOC Circular, upon enforcement of foreign security in Renminbi provided by onshore non-financial enterprises, PRC banks may provide Renminbi settlement services (i.e. remittance of enforcement proceeds) directly, which seems to indicate that SAFE approval for enforcement (which would be required in the case of the external guarantees in foreign currencies) is no longer required. However, SAFE has not amended its positions under the current applicable rules, nor has it issued any regulations to confirm the positions in the 2013 PBOC Circular. Therefore, there remain potential inconsistencies between the provisions of the SAFE rules and the provisions of the 2013 PBOC Circular and it is unclear how SAFE will deal with such inconsistencies in practice.

SAFE further innovates its registration procedures in capital account transactions by promulgating the *Notice on Further Simplification and Improvement of Foreign Currency Administration Policies* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated on 13 February 2015 and to be effective as of 1 June 2015. Pursuant to the Notice, (i) for both inbound and outbound investments, subject to certain exceptions, all foreign exchange registration procedures that need to be undertaken with SAFE under the current rules including the making of foreign invested enterprise information filings, the registration of pre-incorporation expenses and the registration of outbound investments and special purpose entities outside the PRC, will from 1 June 2015 be handled through foreign exchange banks directly, rather than through SAFE; (ii) in the case of inbound investments, the new rules exempt foreign investors from the need to make any filings (whether with SAFE or banks) of cash and non-cash capital contributions to PRC companies and payments made to domestic shareholders for the acquisition of PRC equity interests. Cash contributions made by foreign investors to foreign invested enterprises in the PRC still need to be recorded with SAFE, but rather than the investors having to make any filing, the payments will be automatically recorded by the banks with SAFE; (iii) in the case of outbound investments, foreign exchange registration will cease to be required for investments made by an entity outside the PRC which is established or controlled by a PRC entity.

The SAFE Provisions, the MOFCOM Circular and the PBOC FDI Measures, which are new regulations, have been promulgated to control the remittance of Renminbi for payment of transactions categorised as capital account items and such new regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Bonds, including such possible consequences under the laws of their country of citizenship, residence or domicile.

BERMUDA

The following is a discussion of certain Bermuda income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Bermuda law.

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Issuer or by its shareholders who are residents outside Bermuda in respect of its shares. The Issuer has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 (as amended) that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 31 March 2035, be applicable to the Issuer or to any of its operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda and holding such shares, debentures or other obligations of the Issuer or to land in Bermuda leased or let to the Issuer. The Issuer has been designated as non-resident in Bermuda for the purposes of the Exchange Control Act 1972 of Bermuda and as such is free to acquire, hold and sell foreign currency and securities without restriction.

The Issuer is exempt from all stamp duties except on transactions involving "Bermuda property". This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies under Bermuda law (as opposed to exempted companies).

PRC

The following summary describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC bondholders in this section. In considering whether to invest in the Bonds, 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. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

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 China 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% in respect of their income sourced from both within and outside China. If relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the Issuer's "de facto management body" is within the territory of the PRC, it 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% for its income sourced from both within and outside PRC. As of the date of this Offering Circular, the Issuer has not been notified or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law. On that basis, holders of the Bonds will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Bonds or any repayment of principal and payment of interest made thereon.

However, there is no assurance whether the Issuer will 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% 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 is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future or the interest with respect of the Bonds is regarded as income sourced inside the PRC, it shall withhold income tax from the payments of interest in respect of the Bonds for any non-PRC enterprise bondholder. However, despite the potential withholding of PRC tax by the Issuer, it has agreed to pay additional amounts to holders of the Bonds, subject to certain exceptions, so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in the Conditions.

According to the double taxation arrangement between the PRC and Hong Kong and relevant PRC tax regulations, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Bonds. Other non-PRC bondholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Bonds consummated outside mainland China between non-PRC bondholders, 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 bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10% of PRC withholding tax.

On 23 March 2016, the MOF and the SAT issued 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 stipulates that the business tax will be completely replaced with VAT from 1 May 2016 onwards. Therefore, income derived from the provision of financial services, which previously incurred business tax, will now be subject to VAT.

Circular 36 has much uncertainty remains as to its application. The following statements regarding Circular 36 may be subject to further changes following clarification from the competent tax authority.

While still subject to the competent tax authority's further clarification or interpretation, when a holder of the Bonds is an entity located outside of the PRC, and such holder resells the Bonds to an individual or entity located outside of the PRC and derives a gain on such sale, neither the service provider nor the service recipient, both being located outside the PRC, are likely to be impacted by Circular 36. Further, when a holder of the Bonds, who is an individual, resells the Bonds, VAT may be exempted pursuant to Circular 36 if the resale of the Bonds is treated as resale of financial products. However, where an entity is a holder of the Bonds and resells the Bonds, to either an entity or an individual, there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located within the PRC.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Bonds is maintained outside the PRC) of the Bonds.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Bonds 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

(iv) interest on the Bonds 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 Bonds 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 Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired 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

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN PRC GAAP AND IFRS

The consolidated financial statements of the Guarantor included in this Offering Circular have been prepared and presented in accordance with PRC GAAP. PRC GAAP are substantially in line with IFRS, except for certain modifications still exist between PRC GAAP and IFRS, which might be relevant to the financial information of the Guarantor included herein. The following is a general summary of certain differences between PRC GAAP and IFRS on recognition and presentation as applicable to the Guarantor. The Guarantor is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the summary. Had any such quantification or reconciliation been undertaken by the Guarantor, other potentially significant accounting and disclosure differences may have been required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future. Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and IFRS is complete.

In making an investment decision, each investor must rely upon its own examination of the Guarantor, the terms of the offering and other disclosure contained herein. Each investor should consult its own professional advisers for an understanding the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

(1) REVALUATION OF TANGIBLE ASSETS AND INTANGIBLE ASSETS

Under PRC GAAP, once a tangible asset or an intangible asset has been recognised by using the historical cost method, it cannot be revaluated in the future. However, under IFRS, a number of jurisdictions, particularly those with significant rates of inflation, do permit either full or selective revaluation. In addition, once a tangible asset or an intangible asset has been revaluated under IFRS, the accumulated depreciation should be revaluated accordingly.

(2) PROVISIONS OF IMPAIRMENT LOSS

Under PRC GAAP, once the provisions of impairment loss have been recognised, they cannot be reversed in the future. On the other hand, under IFRS, except for impairment losses for goodwill, all other provisions of impairment losses made can be reversed due to revaluation.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 3 February 2021 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer and the Guarantor have undertaken, among other things, that the Bonds will be issued on 9 February 2021, and the Joint Lead Managers have agreed to severally and not jointly, subscribe and pay for, or procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds indicated in the following table.

Joint Lead Managers	**Principal amount of the Bonds to be subscribed**
Southwest Securities (HK) Brokerage Limited	US$30,000,000
Haitong International Securities Company Limited	US$30,000,000
CMB International Capital Limited	US$25,000,000
BOSC International Company Limited	US$25,000,000
Huatai Financial Holdings (Hong Kong) Limited	US$25,000,000
BNP Paribas	US$25,000,000
BOCOM International Securities Limited	US$2,000,000
China CITIC Bank International Limited	US$2,000,000
China Everbright Bank Co., Ltd., Hong Kong Branch	US$2,000,000
China Securities (International) Corporate Finance Company Limited	US$2,000,000
CLSA Limited	US$2,000,000
CMBC Securities Company Limited	US$2,000,000
Guotai Junan Securities (Hong Kong) Limited	US$2,000,000
Orient Securities (Hong Kong) Limited	US$2,000,000
SPDB International Capital Limited	US$2,000,000
Total	US$178,000,000

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers and their affiliates against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Issuer and the Guarantor have agreed with the Joint Lead Managers that certain private banks will be paid a commission in connection with the purchase of the Bonds by their private bank clients.

The Joint Lead Managers and certain of their subsidiaries or affiliates may have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with the Issuer, the Guarantor or any member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor or any member of the Group and/or their respective subsidiaries and affiliates in the ordinary course of their business.

The Joint Lead Managers and their respective subsidiaries or affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and their respective subsidiaries and affiliates have, from time to time, performed, and may in the future perform, various such services for the Issuer, the Guarantor and/or the Group for which they have received or will receive customary fees and expenses.

In connection with the offering of the Bonds, the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor, may place orders, receive allocations and purchase Bonds for their own account (without a view to distributing such Bonds). Such entities may hold or sell such Bonds or purchase further Bonds 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 Bonds or other securities otherwise than in connection with the offering. Accordingly, references herein to the Bonds being 'offered' should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor 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 Bonds. If this is the case, liquidity of trading in the Bonds may be constrained. See "*Risk Factors – Risks Relating to the Bonds and the Guarantee – The liquidity and price of the Bonds following the offering may be volatile*". The Issuer, the Guarantor and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates make or hold 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 clients, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and/or the Guarantor, including the Bonds. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer and/or the Guarantor routinely hedge their credit exposure to the Issuer and/or the Guarantor consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's and/or the Guarantor's securities, including potentially the Bonds offered hereby. Any such short positions could adversely affect future trading prices of the Bonds offered hereby. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments.

In connection with the issue of the Bonds, the Stabilisation Manager(s) (or persons acting on behalf of the Stabilisation Manager(s)) may, to the extent permitted by applicable laws and directives, over-allot the Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilisation Manager(s) (or persons acting on behalf of the Stabilisation Manager(s)) will undertake stabilisation action. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Joint Lead Managers.

GENERAL

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Issuer, the Guarantor or the Joint Lead Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

If a jurisdiction requires that the offering be made by a licenced broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers are licenced brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

UNITED STATES

The Bonds and the Guarantee have not been and will not be registered under the Securities Act and, subject to certain exemptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S.

Each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold, and agrees that it will not offer or sell, any of the Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates nor any persons acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Bonds.

Terms used in the paragraph above have the meanings given to them by Regulation S under the Securities Act.

UNITED KINGDOM

Each of the Joint Lead Managers has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

HONG KONG

Each of the Joint Lead Managers has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong ("**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

THE PRC

Each of the Joint Lead Managers has represented, warranted and undertaken that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including Hong Kong, Macau or Taiwan), except as permitted by the securities laws of the PRC.

SINGAPORE

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

JAPAN

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**") and, accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

BERMUDA

Each of the Joint Lead Managers has represented that it has not, directly or indirectly, offered or sold and has agreed that it will not, directly or indirectly, offer or sell any Bonds to any person, firm or company regarded as a resident of Bermuda for exchange control purposes.

GENERAL INFORMATION

1. **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream under ISIN XS2289193810 and Common Code 228919381.

2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the execution, issue and performance of its obligations under the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by a resolution of the board of directors of the Issuer passed on 27 January 2021. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the entry into and performance of its obligations under the Trust Deed, the Agency Agreement and the Deed of Guarantee, and the entry into, delivery and performance of the Trust Deed, the Agency Agreement and the Deed of Guarantee in connection with the Bonds or the Guarantee was authorised by a resolution of the board of directors of the Guarantor on 24 July 2020 and the shareholders' meeting on 13 August 2020.

3. **No Material Adverse Change:** Save as disclosed in this Offering Circular, there has been no material adverse change since 30 June 2020 in the financial or trading position or prospects of the Issuer, the Guarantor or the Group.

4. **Litigation:** Save as disclosed in this Offering Circular, none of the Issuer, the Guarantor or any other member of the Group is involved in any litigation or arbitration proceedings which may have a material adverse effect on their business, financial condition and results of operations and each of the Issuer and the Guarantor is not aware that any such proceedings are pending or threatened which are material in the context of the Bonds or the Guarantee.

5. **Listing of the Bonds:** An eligibility letter has been received from the Hong Kong Stock Exchange for application of the listing of the Bonds. Application will be made to Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to Professional Investors.

6. **Available Documents:** Copies of the following documents will be available for inspection from the Issue Date at the Issuer's office at 40/F., Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. Copies of documents (c) to (e) will also be available for inspection by Bondholders upon prior written request and satisfactory proof of holding and identity at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m. from Monday to Friday (other than public holidays)) at the principal place of business for the time being of the Trustee (presently at One Canada Square, London E14 5AL, United Kingdom) and at the Specified Office (as defined in the Trust Deed) of the Principal Paying Agent.

   (a) the Issuer Group's Audited Financial Statements and the Issuer Group's Unaudited Interim Financial Statements;

   (b) the Group's Audited Financial Statements and the Group's Unaudited Interim Financial Statements;

   (c) the Trust Deed;

   (d) the Agency Agreement;

   (e) the Deed of Guarantee; and

   (f) the Memorandum of Association and Bye-laws of the Issuer and the Articles of Association of the Guarantor.

7. **Financial Information:** The Group's audited consolidated financial information as of and for the years ended 31 December 2018 and 2019 has been derived from the Group's Audited Financial Statements, which have been audited by Pan-China. The Group's unaudited consolidated financial information as of and for the six months ended 30 June 2019 and 2020 has been derived from the Group's Unaudited Interim Financial Statements, which have been reviewed by Baker Tilly. The Issuer's audited consolidated financial information as of and for the years ended 31 December 2018 and 2019 has been derived from the Issuer's Audited Financial Statements, which have been audited by EY. The Issuer's unaudited condensed consolidated financial information as of and for the six months ended 30 June 2019 and 2020 has been derived from the Issuer Group's Unaudited Interim Financial Statements, which have been reviewed by EY.

   The Group's Audited Financial Statements and the Group's Unaudited Interim Financial Statements are in Chinese only, while English translation of such financial statements has been prepared and included in this Offering Circular for reference. Should there be any inconsistency between such financial statements in Chinese and the respective English translation, the Chinese version shall prevail. None of the Joint Lead Managers, the Trustee or the Agents, nor their respective affiliates, directors, officers, employees, representatives, agents and advisers, has independently verified or checked the accuracy of the English translation, nor can any of them give any assurance that the information contained in the English translation of the Group's Audited Financial Statements or the Group's Unaudited Interim Financial Statements is accurate.

8. **Reliance by the Trustee:** The Trustee may rely without liability to the Bondholders (i) on any certificate signed by any authorised signatory of the Issuer or the Guarantor and (ii) on, among other things, any certificate or report prepared by an internationally recognised firm of accountants pursuant to the Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the internationally recognised firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded. Any such certificate or report relied on by the Trustee shall (where the Trust Deed and/or the Conditions so provide) be conclusive and binding on the Bondholders.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

EY 安永

Ernst & Young
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the board of directors of Southwest Securities International Securities Limited
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 12 to 45, which comprises the condensed consolidated statement of financial position of Southwest Securities International Securities Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2020 and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong
31 August 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2020 HK$'000	 2019 HK$'000
Revenue	3	**128,878**	131,483
Other income and gains	5	**5,416**	17,495
Reversal of allowance for doubtful debts		**–**	4,754
		134,294	153,732
Fee and commission expenses		**(6,855)**	(10,677)
Finance costs	6(a)	**(58,008)**	(78,459)
Staff costs	6(b)	**(32,984)**	(39,301)
Depreciation		**(9,534)**	(13,279)
Expected credit losses on financial assets, net	6(c)	**(133,884)**	(58,472)
Other operating expenses		**(20,239)**	(13,796)
Total expenses		**(261,504)**	(213,984)
Loss before tax	6	**(127,210)**	(60,252)
Income tax credit	7	**–**	76
Loss for the period attributable to equity shareholders of the Company		**(127,210)**	(60,176)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		**(119)**	(61)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(119)**	(61)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited	
		Six months ended 30 June	
		2020	2019
	Note	**HK$'000**	HK$'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		**–**	388
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**–**	388
Other comprehensive income for the period, net of tax		**(119)**	327
Total comprehensive income for the period attributable to equity shareholders of the Company		**(127,329)**	(59,849)
			(Restated)
Loss per share			
— Basic (HK cents)	*8*	**(3.474)**	(1.872)
— Diluted (HK cents)	*8*	**(3.474)**	(1.872)

The accompanying notes form an integral part of these interim condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited At 30 June 2020 HK$'000	Audited At 31 December 2019 HK$'000
Non-current assets			
Fixed assets		**5,932**	7,758
Right-of-use assets		**36,060**	43,564
Other non-current assets		**8,010**	8,072
Financial assets at fair value through other comprehensive income	9	**–**	–
		50,002	59,394
Current assets			
Financial assets at fair value through profit or loss	10	**1,159,709**	739,506
Accounts receivable	11	**267,347**	532,164
Prepayments, other receivables and other assets		**15,238**	8,798
Tax recoverable		**2,661**	6,884
Cash and bank balances	12	**524,533**	789,090
		1,969,488	2,076,442
Current liabilities			
Bonds payable	14	**1,545,378**	–
Derivative financial liabilities		**–**	17,732
Accounts payable	13	**93,519**	48,228
Other payables and accrued charges		**40,317**	34,661
Provisions		**3,381**	13,173
Contract liabilities		**–**	1,336
Lease liabilities		**15,209**	14,876
		1,697,804	130,006
Net current assets		**271,684**	1,946,436
Total assets less current liabilities		**321,686**	2,005,830

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited At 30 June 2020 HK$'000	Audited At 31 December 2019 HK$'000
Non-current liabilities			
Bonds payable	14	**–**	1,549,172
Provisions		**2,034**	2,034
Lease liabilities		**24,833**	32,476
		26,867	1,583,682
NET ASSETS		**294,819**	422,148
Capital and reserves			
Share capital	15	**366,182**	366,182
Reserves		**(651,363)**	(524,034)
Other equity instrument	16	**580,000**	580,000
TOTAL EQUITY		**294,819**	422,148

The accompanying notes form an integral part of these interim condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company							
	Share capital HK$'000	Investment revaluation reserve HK$'000	Share premium HK$'000	*Capital reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total reserve HK$'000	Total HK$'000
At 1 January 2019	244,121	(13,189)	214,319	40,836	284	(456,577)	(214,327)	29,794
Loss for the period	–	–	–	–	–	(60,176)	(60,176)	(60,176)
Exchange difference on translation of foreign subsidiaries	–	–	–	–	(61)	–	(61)	(61)
Change in fair value of financial assets at fair value through other comprehensive income	–	388	–	–	–	–	388	388
Other comprehensive income for the period, net of tax	–	388	–	–	(61)	–	327	327
Total comprehensive income for the period	–	388	–	–	(61)	(60,176)	(59,849)	(59,849)
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income	–	2,780	–	–	–	(2,780)	–	–
Contributions and distributions								
Issue of shares under rights issue *(note 15)*	122,061	–	34,839	–	–	–	34,839	156,900
At 30 June 2019 (Unaudited)	366,182	(10,021)	249,158	40,836	223	(519,533)	(239,337)	126,845

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders of the Company								
	Share capital HK$'000	Investment revaluation reserve HK$'000	Share premium HK$'000	*Capital reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total reserve HK$'000	Other equity instrument HK$'000	Total HK$'000
At 1 January 2020	**366,182**	**(10,021)**	**249,158**	**40,836**	**(55)**	**(803,952)**	**(524,034)**	**580,000**	**422,148**
Loss for the period	–	–	–	–	–	(127,210)	(127,210)	–	(127,210)
Exchange difference on translation of foreign subsidiaries	–	–	–	–	(119)	–	(119)	–	(119)
Other comprehensive income for the period, net of tax	–	–	–	–	(119)	–	(119)	–	(119)
Total comprehensive income for the period	–	–	–	–	(119)	(127,210)	(127,329)	–	(127,329)
At 30 June 2020 (Unaudited)	**366,182**	**(10,021)**	**249,158**	**40,836**	**(174)**	**(931,162)**	**(651,363)**	**580,000**	**294,819**

* The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the ordinary shares of these subsidiaries in issue as at 30 June 2001 which were converted into deferred non-voting share capital on 11 January 2002.

The accompanying notes form an integral part of these interim condensed consolidated financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June 2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(127,210)**	(60,252)
Adjustments for non-cash items included in profit and loss	**182,847**	122,374
Change in operating assets and liabilities	**(254,649)**	223,186
Net cash (used in)/generated from operating activities	**(199,012)**	285,308
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from other non-current assets	**62**	–
Proceeds from disposal of financial assets as fair value through other comprehensive income	**–**	1,467
Proceeds from disposal of fixed assets	**–**	2
Payment for purchase of fixed assets	**(204)**	(2,695)
Net cash used in investing activities	**(142)**	(1,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	**–**	159,900
Payment of transaction costs are issuance of shares	**–**	(3,000)
Proceeds from issuance of bonds	**–**	1,569,960
Payment of transaction costs on issuance of bonds	**–**	(11,420)
Repayment of bonds issuance	**–**	(1,956,750)
Proceeds from short-term bank loans	**157,730**	–
Repayment of short-term bank loans	**(157,730)**	–
Bank loan interest paid	**(58)**	–
Interest paid on bonds issued	**(53,496)**	(61,334)
Principal portion of lease payments	**(7,310)**	(7,562)
Net cash used in financing activities	**(60,864)**	(310,206)
Net decrease in cash and cash equivalents	**(260,018)**	(26,124)
Cash and cash equivalents at the beginning of the period	**789,090**	441,812
Effect on exchange rate changes	**(4,539)**	(3,392)
Cash and cash equivalents at the end of the period	**524,533**	412,296

The accompanying notes form an integral part of these interim condensed consolidated financial information.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standards ("HKAS") 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The measurement basis used in the preparation of these interim condensed consolidated financial information is the historical cost basis except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are measured at fair value.

The interim condensed consolidated financial information is presented in the currency of Hong Kong dollars, which is also the Company's functional currency.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Certain comparative figures have been reclassified to conform with the current period presentation.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information.

Amendments to HKFRS 3	*Definition of a Business*
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

The nature and the impact of the revised HKFRSs are described below:

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. REVENUE

An analysis of revenue is as follows:

	Note	Unaudited Six months ended 30 June 2020 HK$'000	2019 HK$'000
Brokerage:			
— commission income on securities dealing		**3,829**	3,585
— commission income on futures and options dealing		**1,023**	4,474
— insurance brokerage fee income		**1,483**	2,178
		6,335	10,237
Corporate finance:			
— IPO sponsor fee income		**7,012**	9,988
— underwriting and placing commission income		**–**	3,991
— consultancy and financial advisory fee income		**2,353**	1,630
— corporate financial arrangement and commitment fee income		**–**	504
		9,365	16,113
Asset management:			
— asset management fee income		**–**	507
Total revenue from contracts with customers	*(i)*	**15,700**	26,857
Revenue from other sources			
Interest income calculated using the effective interest method from:			
— margin financing		**10,541**	56,927
Net gains from proprietary trading		**102,637**	47,699
Total revenue from other sources		**113,178**	104,626
Total revenue		**128,878**	131,483

3. REVENUE (CONTINUED)

Note:

(i) An analysis of total revenue from contracts with customers was as follows:

	Unaudited Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Analyse by business segment:		
Brokerage		
— services transferred at a point in time	**6,335**	10,237
Corporate finance		
— services transferred at a point in time	**2,353**	6,125
— services transferred over time	**7,012**	9,988
	9,365	16,113
Asset management		
— services transferred over time	**–**	507
	15,700	26,857
Analyse by timing of revenue recognition:		
— services transferred at a point in time	**8,688**	16,362
— services transferred over time	**7,012**	10,495
	15,700	26,857

4. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments based on the Group's internal reporting in respect of these segments. Segment assets and liabilities are not disclosed as they are not considered as crucial for resources allocation and thereby not being regularly provided to the Directors.

Reportable operating segments

The Directors consider brokerage and margin financing, corporate finance, asset management and proprietary trading are the Group's major operating segments.

	For the six months ended 30 June 2020 (Unaudited)					
	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Proprietary trading HK$'000	Asset management HK$'000	Other operations HK$'000	Consolidated HK$'000
Segment revenue from external customers	16,876	9,365	102,637	–	–	128,878
Other income and gains	2,355	–	–	–	3,061	5,416
Fee and commission expenses	(3,895)	–	(2,960)	–	–	(6,855)
Finance costs	(18,962)	–	(27,229)	–	–	(46,191)
Expected credit losses on financial assets, net	(131,820)	(2,064)	–	–	–	(133,884)
Other operating expenses and costs	(31,691)	(12,261)	(8,161)	(286)	(2,509)	(54,908)
Segment results	(167,137)	(4,960)	64,287	(286)	552	(107,544)
Unallocated expenses, represented central administration costs						(5,820)
Depreciation of fixed assets						(2,029)
Unallocated finance cost						(11,817)
Loss before tax						(127,210)

4. SEGMENT INFORMATION (CONTINUED)

Reportable operating segments (Continued)

	For the six months ended 30 June 2019 (Unaudited)					
	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Proprietary trading HK$'000	Asset management HK$'000	Other operations HK$'000	Consolidated HK$'000
Segment revenue from external customers	67,164	16,113	47,699	507	–	131,483
Other income and gains	10,100	–	327	–	7,068	17,495
Reversal of allowance for doubtful debts	4,754	–	–	–	–	4,754
Fee and commission expenses	(7,741)	(1,344)	(1,592)	–	–	(10,677)
Finance costs	(39,241)	–	(14,181)	–	–	(53,422)
Expected credit losses on financial assets, net	(56,758)	(1,889)	–	–	175	(58,472)
Other operating expenses and costs	(27,121)	(11,764)	(9,239)	(406)	(3,489)	(52,019)
Segment results	(48,843)	1,116	23,014	101	3,754	(20,858)
Unallocated expenses, represented central administration costs						(8,423)
Unallocated finance costs						(25,037)
Depreciation of fixed assets						(5,934)
Loss before tax						(60,252)

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the six months ended 30 June 2020 and 30 June 2019, the Group's revenue is mainly derived from customers in Hong Kong.

5. OTHER INCOME AND GAINS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK$'000	HK$'000
Other income		
Handling income	**569**	2,871
Other interest income	**2,465**	11,144
Sundry income	**–**	20
	3,034	14,035
Other gains		
Exchange gains, net	**2,382**	3,460
	2,382	3,460
	5,416	17,495

6. LOSS BEFORE TAX

		Unaudited Six months ended 30 June	
		2020	2019
		HK$'000	HK$'000
Loss before tax is arrived at after charging:			
(a)	**Finance costs**		
	Bank loan interest expenses	**58**	–
	Bonds interest expenses	**53,593**	67,704
	Imputed interest expenses on bonds payable	**2,819**	10,550
	Other interest expenses	**7**	50
	Interest on lease liabilities	**1,531**	155
		58,008	78,459
(b)	**Staff costs**		
	Salaries, commission and allowances	**32,146**	38,339
	Contributions to retirement benefit schemes	**838**	962
		32,984	39,301
(c)	**Other items**		
	Depreciation of fixed assets	**2,029**	5,934
	Depreciation of right-of-use assets	**7,505**	7,345
	Expected credit losses on financial assets, net	**133,884**	58,472

7. INCOME TAX CREDIT

Hong Kong Profits Tax has not been provided for entities within the Group for the six months ended 30 June 2020 (Income tax credit for the six months ended 30 June 2019: HK$76,000) as they have either incurred losses for taxation purpose or their estimated assessable profits for the period are wholly absorbed by unutilized tax losses brought forward from previous years.

In the opinion of the Directors, the Group is not subject to taxation in any other jurisdictions.

8. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the loss attributable to the equity shareholders of the Company and the weighted average number of ordinary shares in issue during the reporting period.

	Unaudited Six months ended 30 June		
	2020	2019	2019
	HK$'000	HK$'000	HK$'000
		(Restated)	(As previously stated)
		(Note 1)	
Loss attributable to equity shareholders of the Company	**(127,210)**	(60,176)	(60,176)
Weighted average number of ordinary shares in issue for the purpose of basic and diluted loss per share *(In '000) (Note 2)*	**3,661,831**	3,214,290	2,598,194
Basic loss per share *(HK cents)*	**(3.474)**	(1.872)	(2.465)
Diluted loss per share *(HK cents)*	**(3.474)**	(1.872)	(2.316)

Note 1: As disclosed in note 15 to the interim condensed consolidated financial information, the Company had a rights issue during the period ended 30 June 2019. The weighted average number of ordinary shares adopted in the calculation of the basic and diluted earnings per share for the period ended 30 June 2019 has been retrospectively adjusted to correctly reflect the weighted average number of ordinary shares in issue during the period ended 30 June 2019.

Note 2: There were no dilutive potential ordinary shares outstanding during the periods ended 30 June 2020 and 30 June 2019. Accordingly, the diluted loss per share for the respective periods are the same as basic loss per share.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Unaudited At 30 June 2020 HK$'000	Audited At 31 December 2019 HK$'000
Financial assets at fair value through other comprehensive income		
Unlisted equity investments, at fair value	**–**	–

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. As at 30 June 2020, the Group held two *(at 31 December 2019: two)* investments with fair value of nil *(at 31 December 2019: nil)*.

During the year ended 31 December 2019, the Group sold its equity interest in an unlisted equity investment as this investment no longer coincided with the Group's investment strategy. The fair value on the date of sale was HK$1,467,000 and the loss recognised in investment revaluation reserve of HK$2,780,000 was transferred to accumulated losses.

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	**Unaudited At 30 June 2020 HK$'000**	Audited At 31 December 2019 HK$'000
Equity securities			
— Listed in Hong Kong	*(i)*	**709,364**	340,405
— Listed outside Hong Kong	*(i)*	**362,231**	202,919
		1,071,595	543,324
Debt securities			
— Listed in Hong Kong	*(ii)*	**41,626**	–
— Unlisted	*(ii)*	**–**	164,669
		41,626	164,669
Unlisted fund investments	*(iii)*	**31,488**	31,513
Unlisted equity-linked notes	*(iv)*	**15,000**	–
		1,159,709	739,506

Notes:

(i) Fair values of the listed equity securities are determined with quoted active market bid price on the respective stock exchange at the end of each reporting period.

(ii) Fair value of the listed debt securities is determined with quoted active market bid price on the respective stock exchange at the end of each reporting period. For the unlisted debt securities, the fair values are determined using with the quoted price provided by brokers/financial institutions.

(iii) For the unlisted fund investments, the fair values were determined by their net assets values quoted by the relevant investments trusts with the underlying assets (mainly are listed securities) of the funds.

(iv) The Group acquired unlisted equity-linked notes during the period. The unlisted equity-linked notes contain embedded derivative, the return of which is determined with reference to the closing price of underlying equity securities listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The fair values are determined using with the quoted price provided by brokers/financial institutions.

(v) The Group has not pledged any equity securities, debt securities and fund investment at 30 June 2020 to any bank as collateral for the banking facilities granted *(at 31 December 2019: Nil)*.

11. ACCOUNTS RECEIVABLE

The carrying values of accounts receivable arising from the ordinary course of business of the Group are as follows:

	Note	**Unaudited At 30 June 2020 HK$'000**	Audited At 31 December 2019 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	*(a)*	**630,432**	855,780
— securities cash clients	*(b)*	**52,370**	2,103
— securities subscription clients	*(b)*	**41,842**	13,841
— securities and options clearing houses and brokers	*(b)*	**26,561**	20,830
— futures clients	*(b)*	**3**	3
— futures clearing house and brokers	*(b)*	**31,478**	23,252
Accounts receivable arising from the provision of corporate finance advisory services	*(b)*	**9,434**	7,262
Accounts receivable arising from the provision of insurance broking services	*(b)*	**16**	–
		792,136	923,071
Less: Impairment		**(524,789)**	(390,907)
		267,347	532,164

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes:

(a) Accounts receivable analysis on securities margin clients

(i) The carrying amount of accounts receivable from securities margin clients of the Group was as follows:

	Unaudited At 30 June 2020 HK$'000	Audited At 31 December 2019 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— Securities margin clients	**630,432**	855,780
Less: Impairment		
— Stage 1	**–**	–
— Stage 2	**(1)**	–
— Stage 3	**(519,398)**	(387,498)
	111,033	468,282

Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. Credits are extended to securities margin clients subject to the marginable value of the listed securities pledged with the Group. The margin ratios are reviewed and determined periodically. At the end of the reporting period, fair value of marketable securities pledged by securities margin clients was HK$595,523,000 *(at 31 December 2019: HK$1,098,632,000)*.

No ageing analysis is disclosed as in the opinion of Directors, the ageing analysis does not give additional value in view of the nature of broking business.

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(a) Accounts receivable analysis on securities margin clients (Continued)

(ii) The movements in the impairment allowance of accounts receivable from securities margin clients were as follows:

	12-month ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Total HK$'000
As at 1 January 2019	–	7,492	64,279	71,771
Transfer to stage 3	–	(7,490)	7,490	–
Impact on transfer between stages	–	–	300,997	300,997
New assets originated	–	(2)	19,503	19,501
Bad debt recovery	–	–	(4,754)	(4,754)
Amount written off	–	–	(17)	(17)
As at 31 December 2019 (audited) and 1 January 2020	–	–	387,498	387,498
Other remeasurement of loss allowance	–	1	131,900	131,901
As at 30 June 2020 (unaudited)	**–**	**1**	**519,398**	**519,399**

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients

(i) The carrying values of accounts receivable other than from securities margin clients of the Group are as follows:

	Note	**Unaudited At 30 June 2020 HK$'000**	Audited At 31 December 2019 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(1)*	**52,370**	2,103
— securities subscription clients	*(2)*	**41,842**	13,841
— securities and options clearing houses and brokers	*(3)*	**26,561**	20,830
— futures clients		**3**	3
— futures clearing house and brokers	*(4)*	**31,478**	23,252
Accounts receivable arising from the provision of corporate finance advisory services	*(5)*	**9,434**	7,262
Accounts receivable arising from the provision of insurance broking services	*(6)*	**16**	–
		161,704	67,291
Less: Impairment	*(7)*	**(5,390)**	(3,409)
		156,314	63,882

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients (Continued)

(i) (Continued)

(1) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand on settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities and futures contracts are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.

(2) At the end of the reporting period, accounts receivable from securities subscription clients were not yet due and were required to be settled on the allotment date determined under the relevant market practices or exchange rules.

(3) The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits maintained in The SEHK Option Clearing House Limited not otherwise dealt with in the interim condensed consolidated financial information amounted to HK$1,597,000 *(at 31 December 2019: HK$595,000)*.

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 30 June 2020, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net payable to Hong Kong Securities Clearing Company Limited ("HKSCC") of HK$58,215,000 *(at 31 December 2019: net receivable of HK$17,925,000)*, with legally enforceable right to set off the corresponding receivable and payable balances. Details of the offsetting of these balances are set out in note 11(c) to interim condensed consolidated financial information.

(4) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK$1,949,000 *(at 31 December 2019: HK$9,486,000)*, which was not dealt with in the interim condensed consolidated financial information. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients (Continued)

(i) (Continued)

(5) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of corporate finance advisory services, based on the contract terms, was as follows:

	Unaudited At 30 June 2020 HK$'000	Audited At 31 December 2019 HK$'000
Current	**2,231**	2,799
Overdue:		
Within 30 days	**193**	93
31–90 days	**2,649**	1,497
91–180 days	**390**	–
Over 180 days	**3,971**	2,873
	9,434	7,262

(6) At the end of the reporting period, the amount of accounts receivable arising from the provision of insurance broking services was not overdue.

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(b) Accounts receivable analysis other than securities margin clients (Continued)

(i) (Continued)

(7) The movements in the impairment allowance of accounts receivable other than securities margin clients were as follows:

	12-month ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Lifetime ECL simplified approach HK$'000	Total HK$'000
As at 1 January 2019	74	2	–	419	495
Charged/(credit) to profit or loss	(74)	(2)	89	2,901	2,914
As at 31 December 2019 (audited) and 1 January 2020	–	–	89	3,320	3,409
Charged/(credit) to profit or loss	–	8	(89)	2,062	1,981
As at 30 June 2020 (unaudited)	**–**	**8**	**–**	**5,382**	**5,390**

(c) Offsetting

The Group has netted off the amounts receivable and amounts payable with the securities and options clearing house. An analysis of amounts receivable/(payable) subject to offsetting is set out as follows:

As at 30 June 2020 (unaudited)

	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the condensed consolidated statement of financial position HK$'000	Net amount of financial assets presented in the condensed consolidated statement of financial position HK$'000	Related amount not set off in the condensed consolidated statement of financial position HK$'000	Net HK$'000
Amounts receivable	**11,742**	**(11,742)**	**–**	**–**	**–**

11. ACCOUNTS RECEIVABLE (CONTINUED)

Notes: (Continued)

(c) Offsetting (Continued)

	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the condensed consolidated statement of financial position HK$'000	Net amount of financial assets presented in the condensed consolidated statement of financial position HK$'000	Related amount not set off in the condensed consolidated statement of financial position HK$'000	Net HK$'000
Amounts payable	**69,957**	**(11,742)**	**58,215**	**–**	**58,215**

As at 31 December 2019 (audited)

	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amount of financial assets presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts receivable	40,135	(22,210)	17,925	(7,037)	10,888

	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amount of financial assets presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts payable	29,247	(22,210)	7,037	(7,037)	–

12. CASH AND BANK BALANCES

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the interim condensed consolidated financial information amounted to approximately HK$352,804,000 *(at 31 December 2019: HK$113,954,000)*.

13. ACCOUNTS PAYABLE

	Note	**Unaudited At 30 June 2020 HK$'000**	Audited At 31 December 2019 HK$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(i)*	**–**	14,742
— securities margin clients	*(i)*	**–**	3,086
— securities clearing house	*(i)*	**58,215**	7,038
— brokers	*(i)*	**3,727**	21
— futures clients	*(ii)*	**31,451**	23,239
Accounts payable arising from the provision of insurance broking services	*(iii)*	**126**	102
		93,519	48,228

Notes:

Settlement terms

(i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction dates.

(ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.

(iii) Accounts payable arising from the provision of insurance broking services are payable within 30 days.

13. ACCOUNTS PAYABLE (CONTINUED)

No ageing analysis is disclosed in respect of accounts payable. In the opinion of the Directors, an ageing analysis does not give additional value in view of the nature of broking business.

Interest with reference to savings rate of financial institutions is payable to securities cash clients and securities margin clients arising from the ordinary course of business of securities broking subject to their balances maintained with the Group. All other categories of accounts payable are non-interest-bearing.

14. BONDS PAYABLE

	2019 USD Bonds *(Note (i))* HK$'000	2018 HKD Bonds *(Note (ii))* HK$'000	2018 USD Bonds *(Note (iii))* HK$'000	Total HK$'000
Carrying amount at 1 January 2019	–	773,547	1,171,928	1,945,475
Carrying amount upon issuance	1,558,540	–	–	1,558,540
Imputed interest expenses for the year	3,842	6,453	2,997	13,292
Exchange difference	(13,210)	–	1,825	(11,385)
Principal repayment	–	(780,000)	(1,176,750)	(1,956,750)
Carrying amount at 31 December 2019 (audited) and 1 January 2020	1,549,172	–	–	1,549,172
Imputed interest expenses for the period	2,819	–	–	2,819
Exchange difference	(6,613)	–	–	(6,613)
Carrying amount at 30 June 2020 (unaudited)	**1,545,378**	**–**	**–**	**1,545,378**

14. BONDS PAYABLE (CONTINUED)

Notes:

(i) On 17 April 2019, the Company issued bonds with aggregate principal amount of US$200,000,000 (the "2019 USD Bonds"). The 2019 USD Bonds bear interest from 17 April 2019 (inclusive) at the rate of 6.90% per annum. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds are listed on the Stock Exchange and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date. The fair value determined with the quoted price provided by brokers/financial institutions as at 30 June 2020 was approximately HK$1,560,399,000 (at 31 December 2019: HK$1,590,013,000).

The 2019 USD Bonds are carried at amortized cost using an effective interest rate of 7.29% per annum.

(ii) On 18 May 2018, the Company issued bonds with aggregate principal amount of HK$780,000,000 (the "2018 HKD Bonds"). The 2018 HKD Bonds bear interest from 18 May 2018 (inclusive) at the rate of 6.00% per annum. Interest on the 2018 HKD Bonds is payable semi-annually in arrears. The 2018 HKD Bonds are listed on the Stock Exchange and are matured and fully settled on 10 May 2019.

The 2018 HKD Bonds are carried at amortized cost using an effective interest rate of 8.37% per annum.

(iii) On 15 May 2018, the Company issued bonds with aggregate principal amount of US$150,000,000 (the "2018 USD Bonds"). The 2018 USD Bonds bear interest from 15 May 2018 (inclusive) at the rate of 6.75% per annum. Interest on the 2018 USD Bonds is payable semi-annually in arrears. The 2018 USD Bonds are listed on the Stock Exchange and are matured and fully settled on 13 May 2019.

The 2018 USD Bonds are carried at amortized cost using an effective interest rate of 7.45% per annum.

15. SHARE CAPITAL

	At 30 June 2020 (Unaudited)		At 31 December 2019 (Audited)	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each				
At beginning and end of the reporting period	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
At the end of the reporting period	**3,661,830**	**366,182**	3,661,830	366,182

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue '000	Share capital HK$'000
At 1 January 2019	2,441,220	244,121
Rights issue *(note)*	1,220,610	122,061
At 31 December 2019, 1 January 2020 and 30 June 2020	3,661,830	366,182

Note:

A rights issue of one rights share for every two existing shares held by members on the register of members on 27 March 2019 was made, at an issue price of HK$0.131 per rights share with a par value of HK$0.1 each, resulting in the issue of 1,220,610,204 shares. The theoretical ex-rights price calculated based on the closing price of HK$0.16 per shares as quoted on the Stock Exchange on the last trading day, i.e. 18 March 2019 was approximately HK$0.15 per share. The total consideration amounted to HK$159,900,000, of which HK$122,061,000 was credited to share capital and the balance of HK$34,839,000, after deducting the outgoing expenses of HK$3,000,000, was credited to the share premium account. The net price per rights share was approximately HK$0.13.

16. OTHER EQUITY INSTRUMENT

On 15 October 2019, the Company issued HK$580 million perpetual securities (the "Perpetual Securities") with an initial distribution rate of 3.875% per annum. Distributions are paid annually in arrears and the first distribution date will be 14 October 2020. The Company may, at its sole discretion, elect to defer, in whole or in part, any distribution. The Perpetual Securities have no fixed redemption date and may be redeemed in whole or in part at any time at the sole discretion of the Company on giving prior notice to the holder of the Perpetual Securities, in accordance with the terms and conditions stated in the subscription agreement. The first reset date of distribution rate is 15 October 2022. The Perpetual Securities constitute direct, unconditional, subordinated and unsecured obligations of the Company and are classified as equity instruments and recorded as equity in the condensed consolidated statement of financial position.

17. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these interim condensed consolidated financial information, there were related party transactions entered into by the Group during the reporting period, details of which are set out below:

Related party relationship	Nature of transaction	Unaudited Six months ended 30 June 2020 HK$'000	2019 HK$'000
Key management personnel, including Directors	Salaries, commission and allowances	**7,187**	7,603
	Contributions to retirement benefit schemes	**98**	97
		7,285	7,700
Ultimate holding company	Referral fee expenses	**–**	64
		7,285	7,764

18. COMMITMENT

(a) Capital commitments

	Unaudited At 30 June 2020 HK$'000	Audited At 31 December 2019 HK$'000
Capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the interim condensed consolidated financial information	**–**	40

19. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value in addition to the fair value disclosed elsewhere in these interim condensed consolidated financial information on a recurring basis at 30 June 2020 and 31 December 2019 across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

19. FAIR VALUE MEASUREMENTS (CONTINUED)

At 30 June 2020 (Unaudited)

	Total HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	**709,364**	**709,364**	**–**	**–**
— Equity securities listed outside Hong Kong	**362,231**	**362,231**	**–**	**–**
— Unlisted equity-linked notes	**15,000**	**–**	**15,000**	**–**
— Debt securities listed in Hong Kong	**41,626**	**41,626**	**–**	**–**
— Unlisted fund investments	**31,488**	**–**	**31,488**	**–**
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	**–**	**–**	**–**	**–**

At 31 December 2019 (Audited)

	Total HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	340,405	340,405	–	–
— Equity securities listed outside Hong Kong	202,919	202,919	–	–
— Unlisted debt securities	164,669	–	164,669	–
— Unlisted fund investments	31,513	–	31,513	–
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	–	–	–	–
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities	17,732	17,732	–	–

19. FAIR VALUE MEASUREMENTS (CONTINUED)

The movements in fair value measurements within Level 3 during the period are as follows (unaudited):

	Total HK$'000
As at 1 January 2019	**1,079**
Total gains recognised in other comprehensive income	**388**
Disposed during the year	**(1,467)**
At 31 December 2019, 1 January 2020 and 30 June 2020	–

Description of the valuation techniques and inputs used in Level 2 fair value measurement

Note 10 to the interim condensed consolidated financial information provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments and unlisted equity-linked notes.

Valuation processes of the Group

The Directors determine the policies and procedures for both recurring and non-recurring fair value measurement. In estimating the fair value of an asset or a liability, the Directors use market-observable data to the extent it is available. Where Level 1 and Level 2 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

20. EVENT AFTER REPORTING PERIOD

Subsequent to the end of the reporting period on 18 August 2020, one of the margin client's collateral listed on the Stock Exchange was suspended. As at 30 June 2020, this margin client was at Stage 3 and the Group has provided allowance for expected credit losses at approximately 94% of the carrying amount of the accounts receivable from this margin client. On 28 August 2020, the Group announced that it has further provided for the remaining carrying amount of the accounts receivable from this margin client.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of
Southwest Securities International Securities Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Southwest Securities International Securities Limited (the "Company") and its subsidiaries (the "Group") set out on pages 61 to 134, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of *Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on accounts receivable arising from securities margin clients	
As at 31 December 2019, gross accounts receivable arising from securities margin clients and its related expected credit losses ("ECL") amounted to HK$855.8 million and HK$387.5 million respectively. The assessment of ECL for accounts receivable arising from securities margin clients involves significant management judgement and estimates in the assessment of credit risk, the use of models and the choice of inputs in the calculation of ECL at the reporting date. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures. 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 includes the development of forward-looking analysis.	Our procedures to assess the ECL of accounts receivable arising from securities margin clients included the following: • We obtained an understanding of the Group's credit risk management practices and assessed the Group's credit provisioning policy. • We tested the appropriateness of the Group's determination of significant increase in credit risk and the basis for classification of exposures into the three stages. Our testing included checking to margin loan overdue information, loan-to-value percentage or other related information. • For securities margin clients classified at stage 1 and stage 2, we evaluated management's judgment and assumptions, and checked key parameters to external data sources, where available, such as default rates published by credit rating agencies. We recalculated the ECL amounts based on the above parameters and analyzed the sensitivity of the ECL amounts to changes in modelling assumptions, including the forward-looking probability weighted economic scenarios. • For securities margin clients classified at stage 3, we checked the valuation of the collateral and other sources of cash flows, and developed a reasonable range of expected cash shortfall for comparison with the Group's assessment of ECL. • We evaluated the Group's disclosures in relation to credit risk in Note 31 to the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)

Revenue recognition of corporate finance services relating to IPO sponsor fee income

For the year ended 31 December 2019, IPO sponsor fee income of HK$22 million was recognised by the Group.

The recognition of IPO sponsor fee income involves significant management judgement and estimates with respect to: (i) the identification of the performance obligation; (ii) the establishment of the timing of satisfaction of that performance obligation; and (iii) the determination of an appropriate method to measure the progress towards the completion of that performance obligation.

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation.

In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

Our procedures to assess the recognition of revenue of IPO sponsor fee income included the following:

- We obtained an understanding of the Group's methodology for revenue recognition, including an evaluation of management judgements in respect of the determination of the amount and timing of recognition of revenue from contracts with customers.
- We inspected IPO sponsor contracts, on a sample basis, to assess whether the performance obligation was properly identified and whether the appropriate method (i.e. overtime versus at a point in time) for recognising revenue upon the satisfaction of the performance obligation was used.
- For the measurement of project progress and the recognition of the related revenue overtime, we obtained the project status reports, on a sample basis, and assessed their reasonableness by checking to the supporting evidence, such as project minutes and correspondence with The Stock Exchange of Hong Kong Limited. We also assessed whether it was probable that the Group would collect the consideration to which it was entitled in exchange for transferring the promised services to its customers.
- For IPO sponsor fee income being recognised at a point in time, we checked to the supporting evidence, for example, successful listing announcement or termination notice.
- We also evaluated the Group's disclosures in respect of revenue recognition in Note 3 to the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tso Miu Yue, Agnes.

Certified Public Accountants
Hong Kong
27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	*3*	**232,534**	122,172
Other income and gains	*5*	**30,466**	8,479
Fair value change on derivative financial liabilities		**–**	77,413
		263,000	208,064
Fee and commission expenses		**(16,913)**	(24,668)
Finance costs	*6a*	**(138,835)**	(146,479)
Staff costs	*6b*	**(75,200)**	(96,360)
Depreciation	*6c*	**(23,611)**	(10,928)
Expected credit losses on financial assets, net	*6c*	**(318,538)**	(7,599)
Loss on non-substantial modification of financial assets measured at amortised cost	*6c*	**(1,763)**	–
Other operating expenses		**(34,978)**	(104,301)
Other losses arising from consolidation of investment fund		**–**	(14,477)
Total expenses		**(609,838)**	(404,812)
Loss before tax	*6*	**(346,838)**	(196,748)
Income tax credit/(expense)	*8*	**2,243**	(5,000)
Loss for the year attributable to equity shareholders of the Company		**(344,595)**	(201,748)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of foreign operation		**(339)**	(160)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(339)**	(160)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Change in fair value of financial assets at fair value through other comprehensive income		**388**	(168)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**388**	(168)
Other comprehensive income for the year, net of tax		**49**	(328)
Total comprehensive income for the year attributable to equity shareholders of the Company		**(344,546)**	(202,076)
Loss per share			
— Basic (HK cents)	*9*	**(10.025)**	(7.765)
— Diluted (HK cents)	*9*	**(10.025)**	(7.765)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Fixed assets	10	**7,758**	13,744
Right-of-use assets	12	**43,564**	–
Financial assets at fair value through other comprehensive income	13	**–**	1,079
Other non-current assets	14	**8,072**	7,654
		59,394	22,477
Current assets			
Financial assets at fair value through profit or loss	15	**739,506**	451,854
Accounts receivable	16	**532,164**	1,099,683
Prepayments, other receivables and other assets	17	**8,798**	10,351
Tax recoverable		**6,884**	–
Cash and bank balances	18	**789,090**	441,812
		2,076,442	2,003,700
Current liabilities			
Bonds payable	19	**–**	1,945,475
Derivative financial liabilities	20	**17,732**	–
Accounts payable	21	**48,228**	4,002
Other payables and accrued charges	22	**47,834**	37,781
Contract liabilities	24	**1,336**	1,125
Lease liabilities	12	**14,876**	–
Tax payable		**–**	8,000
		130,006	1,996,383
Net current assets		**1,946,436**	7,317
Total assets less current liabilities		**2,005,830**	29,794
Non-current liabilities			
Bonds payable	19	**1,549,172**	–
Other payables and accrued charges	22	**2,034**	–
Lease liabilities	12	**32,476**	–
		1,583,682	–
NET ASSETS		**422,148**	29,794
Capital and reserves			
Share capital	25	**366,182**	244,121
Reserves		**(524,034)**	(214,327)
Other equity instrument	26	**580,000**	–
TOTAL EQUITY		**422,148**	29,794

The consolidated financial statements on pages 61 to 134 were approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

WU Jian *Director*	**PU Rui** *Director*

The accompany notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity shareholders of the Company								
	Share capital HK$'000	**Investment revaluation reserve HK$'000**	**Share premium HK$'000**	***Capital reserve HK$'000**	**Foreign exchange reserve HK$'000**	**Accumulated losses HK$'000**	**Total reserve HK$'000**	**Other equity instrument HK$'000**	**Total HK$'000**
At 1 January 2019	**244,121**	**(13,189)**	**214,319**	**40,836**	**284**	**(456,577)**	**(214,327)**	**–**	**29,794**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(344,595)**	**(344,595)**	**–**	**(344,595)**
Exchange difference on translation of financial statements of foreign subsidiaries	**–**	**–**	**–**	**–**	**(339)**	**–**	**(339)**	**–**	**(339)**
Change in fair value of financial assets at fair value through other comprehensive income	**–**	**388**	**–**	**–**	**–**	**–**	**388**	**–**	**388**
Other comprehensive income for the year, net of tax	**–**	**388**	**–**	**–**	**(339)**	**–**	**49**	**–**	**49**
Total comprehensive income for the year	**–**	**388**	**–**	**–**	**(339)**	**(344,595)**	**(344,546)**	**–**	**(344,546)**
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income	**–**	**2,780**	**–**	**–**	**–**	**(2,780)**	**–**	**–**	**–**
Transaction with equity holders									
Transactions with equity contributions and distributions									
Issue of shares under rights issue *(note 25)*	**122,061**	**–**	**34,839**	**–**	**–**	**–**	**34,839**	**–**	**156,900**
Issue of perpetual securities *(note 26)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**580,000**	**580,000**
At 31 December 2019	**366,182**	**(10,021)**	**249,158**	**40,836**	**(55)**	**(803,952)**	**(524,034)**	**580,000**	**422,148**

	Attributable to equity shareholders of the Company							
	Share capital HK$'000	Investment revaluation reserve HK$'000	Share premium HK$'000	*Capital reserve HK$'000	Foreign exchange reserve HK$'000	Accumulated losses HK$'000	Total reserve HK$'000	Total HK$'000
At 1 January 2018	244,121	–	214,319	40,836	444	(250,810)	4,789	248,910
Effect of adoption of HKFRS 9	–	(13,021)	–	–	–	(4,019)	(17,040)	(17,040)
At 1 January 2018 (restated)	244,121	(13,021)	214,319	40,836	444	(254,829)	(12,251)	231,870
Loss for the year	–	–	–	–	–	(201,748)	(201,748)	(201,748)
Exchange difference on translation of financial statements of foreign subsidiaries	–	–	–	–	(160)	–	(160)	(160)
Change in fair value of financial assets at fair value through other comprehensive income	–	(168)	–	–	–	–	(168)	(168)
Other comprehensive income for the year, net of tax	–	(168)	–	–	(160)	–	(328)	(328)
Total comprehensive income for the year	–	(168)	–	–	(160)	(201,748)	(202,076)	(202,076)
At 31 December 2018	244,121	(13,189)	214,319	40,836	284	(456,577)	(214,327)	29,794

* The capital reserve of the Group represents the difference between the nominal value of the shares issued by the Company for the acquisition of the subsidiaries and the nominal value of the ordinary shares of these subsidiaries in issue as at 30 June 2001 which were converted into deferred non-voting share capital on 11 January 2002.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(346,838)**	(196,748)
Adjustments for:			
Depreciation	*10*	**8,601**	10,928
Fair value change on derivative financial liabilities		**17,732**	(77,413)
Expected credit loss on financial assets, net	*6(c)*	**318,538**	7,599
Depreciation of right-of-use assets	*6(c)*	**15,010**	–
Loss on non-substantial modification of financial assets measured at amortised cost		**1,763**	–
Gain on disposal of fixed assets	*5*	**(154)**	–
Exchange (gain)/loss, net		**(9,452)**	59,237
Other interest income	*5*	**(17,389)**	(7,236)
Interest expenses	*6(a)*	**135,121**	146,479
Interest expenses on lease liabilities	*6(a)*	**3,714**	–
Dividend income from financial assets at fair value through other comprehensive income	*5*	**(7)**	(7)
Changes in working capital:			
Decrease in loans and advances		**–**	30
(Increase)/decrease in financial assets at fair value through profit or loss		**(287,652)**	342,937
Decrease/(increase) in accounts receivable		**247,098**	(512,119)
Decrease in prepayments and other receivables and other assets		**882**	109,530
Decrease in derivative financial liabilities held for trading		**–**	(19)
Increase/(decrease) in accounts payable		**44,226**	(21,524)
Increase in contract liabilities		**211**	1,125
Increase/(decrease) in other payables and accrued charges		**6,680**	(17,052)
Cash generated from/(used in) operations		**138,084**	(154,253)
Tax paid		**(12,641)**	–
Interest received		**17,864**	7,236
Interest paid		**(3,769)**	(191)
Net cash generated from/(used in) operating activities		**139,538**	(147,208)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received from financial assets at fair value through other comprehensive income		**7**	7
Proceeds from disposal of financial assets at fair value through other comprehensive income		**1,467**	–
Interest received from cross-currency swap		**–**	59,468
Interest paid to cross-currency swap		**–**	(43,646)
Proceed from cross-currency swap final exchange		**–**	1,859,250
Proceeds from disposal of fixed assets		**282**	–
Payment of cross-currency swap final exchange		**–**	(1,872,659)
Payment of other non-current assets		**(408)**	(1,631)
Payment for purchase of fixed assets	*10*	**(2,743)**	(4,243)
Net cash used in investing activities		**(1,395)**	(3,454)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of bonds	*18b*	**1,569,960**	1,957,319
Payment of transaction costs on issuance of bonds	*18b*	**(11,420)**	(25,510)
Repayment of bonds issuance	*18b*	**(1,956,750)**	(1,859,250)
Proceeds from issuance of shares	*25*	**159,900**	–
Payment of transaction costs of issuance of shares	*25*	**(3,000)**	–
Proceeds from issuance of perpetual securities	*26*	**580,000**	–
Proceeds from short-term bank loans	*18b*	**90,410**	100,903
Repayment of short-term bank loans	*18b*	**(90,410)**	(100,903)
Bank loan interest paid	*18b*	**(43)**	(155)
Interest paid on bonds issued	*18b*	**(115,432)**	(122,909)
Principal portion of lease payments	*18b*	**(11,721)**	–
Net cash generated from/(used in) financing activities		**211,494**	(50,505)
Net increase/(decrease) in cash and cash equivalents		**349,637**	(201,167)
Cash and cash equivalents at the beginning of the year		**441,812**	645,184
Effect on exchange rate changes		**(2,359)**	(2,205)
Cash and cash equivalents at the end of the year	*18(a)*	**789,090**	441,812

The accompany notes form an integral part of these consolidated financial statements.

CORPORATE INFORMATION

Southwest Securities International Securities Limited (the "Company") is a company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company of the Company is Southwest Securities International Investment Limited ("SSII"), a company incorporated in Hong Kong with limited liability and wholly-owned by Southwest Securities Co., Ltd. ("SWSC"). SWSC is the ultimate holding company of the Company, which is incorporated in the People's Republic of China (the "PRC") with limited liability and its shares are listed on the Shanghai Stock Exchange.

The principal activities of the Company and its subsidiary (the "Group") comprise:

— broking index, commodity and currency futures, options and securities, unit trusts, investment-linked and insurance products for its clients;

— provision of margin financing, underwriting and placements, corporate finance advisory services and asset management services; and

— trading in securities, equity index, commodity and currency futures contracts for its own account.

1. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The measurement basis used in the preparation of these consolidated financial statements is the historical cost basis except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, and derivative financial liabilities, which are measured at fair value as explained in the accounting policies set out below.

The consolidated financial statements are presented in the currency of Hong Kong dollars, which is also the Company's functional currency.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

Certain comparative figures have been reclassified to conform with the current year presentation.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basic of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19, HKAS 28 and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) *Adoption of HKFRS 16*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of accumulative losses at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

(a) *Adoption of HKFRS 16* (Continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation of the right-of-use assets and interest accrued on the outstanding lease liabilities.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) HK$'000
Assets	
Increase in right-of-use assets	58,574
Decrease in deposit	(306)
Increase in total assets	58,268
Liabilities	
Increase in lease liabilities	59,073
Decrease in other payables	(805)
Increase in total liabilities	58,268

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies and disclosures (Continued)

(a) *Adoption of HKFRS 16* (Continued)

As a lessee — Leases previously classified as operating leases (Continued)

Impacts on transition (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	**17,679**
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	(301)
Add: Payments for optional extension periods not recognised as at 31 December 2018	50,233
	67,611
Weighted average incremental borrowing rate as at 1 January 2019	6.9%
Lease liabilities as at 1 January 2019	**59,073**

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation did not have any significant impact on the Group's consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Summary of significant accounting policies

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position which is presented within these notes, the investments in subsidiaries are stated at cost less impairment losses. The carrying amounts of the investments in subsidiaries are reduced to their recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an item of fixed assets comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of fixed assets over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately:

Leasehold improvements	Over the unexpired term of lease
Furniture and fixtures	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicle	5 years

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fair value measurement

The Group measures its financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing 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.

Leases (policies under HKFRS 16 applicable from 1 January 2019)

The Group assesses at contract inception whether 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, it is classified as a lease.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis as follows:

Properties	Over the lease term

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Leases (policies under HKFRS 16 applicable from 1 January 2019) (Continued)

Group as a lessee (Continued)

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, i.e. a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Leases (policies under HKAS 17 applicable before 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Initial recognition and measurement (Continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded as investment revaluation reserve in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Impairment of financial assets

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (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;
- 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.

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.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has applied probability of default based on that of comparable companies, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Modification

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised (an instrument is derecognised when a modification results in a change in cash flows that the Group would consider substantial), the resulting modification loss is recognised in profit or loss with a corresponding decrease in the gross carrying value of the asset.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include bonds payable, derivative financial liabilities, accounts payable and other payables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Trust accounts

Trust accounts maintained by the Group to hold clients' monies are treated as off-statement of financial position items and offset against accounts payable.

In the course of the conduct of the regulated activities of ordinary business, subsidiaries which are licensed corporations, act as trustees that result in the holding of clients' monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its consolidated statement of financial position, and the corresponding amounts classified under accounts payable are treated as items not recognised in the consolidated statement of financial position.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Provision of securities, futures and options brokerage services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Commission income on securities and futures dealing and broking is generally due within one to three days after trade date.

Provision of underwriting and placing services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Commission income from underwriting and placing is recognised when the underlying securities are being written or placed.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Provision of IPO sponsor services

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation. In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

IPO sponsor fee is generally due within 30 to 90 days upon reaching the contracts' milestone payment terms.

Provision of consultancy and financial advisory services

The performance obligations for certain consultancy and financial advisory services are fulfilled when all the relevant duties of an advisor as stated in the contract are completed. Consultancy and financial advisory fee is generally due within 30 to 90 days upon reaching contracts' milestone payment terms.

Certain consultancy and financial advisory services' performance obligations are satisfied over time as services are rendered if the customer simultaneously receives and consumes the benefits provided by the Group. These services are charged at agreed fee billed on a mutually basis (e.g. regular period).

Provision of asset management services

Revenue from asset management services is recognised over time as the services are provided. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and due on a regular basis as mutually agreed.

Provision of insurance brokerage service

The performance obligation relating to the insurance brokerage service is satisfied at the point when the terms of the insurance policy have been agreed contractually by the insurer and policyholder, and the insurer has a present right to payment from the policyholder. Insurance brokerage fees are generally due within 30 to 90 days upon the commencement of the policy.

Corporate finance arrangement and commitment services

The performance obligation is satisfied at a point in time when the customer has received the service from the Group. Corporate finance arrangement and commitment is generally due when the service period is completed.

Revenue from other sources

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Employee benefits

Short term employee benefits

Salaries, bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in profit or loss as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior the contributions are vested fully in those employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payments

The Group's net obligation in respect of long service payments under the Employment Ordinance is the amounts of future benefit that employees have earned in return for their services in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefits.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of recognition of revenue from contracts with customers:

(i) Identification of the performance obligations, recognition of revenue over time versus at a point in time, and choosing an appropriate method of measuring progress of IPO sponsor service

As IPO sponsor services are usually highly interdependent and interrelated, the Group treats all IPO sponsor services promised in the contract as a single performance obligation.

In determining the timing of satisfaction of the performance obligation, the Group examines its services on a contract by contract basis and considers if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

For IPO sponsor fee income being recognised overtime, the Group measures the progress using the output method and estimates the percentage of completion by key tasks performed to date.

For IPO sponsor fee income not being recognised overtime, the fee will only be recognised when the single performance obligation is completed.

2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

(1) Provision for ECL allowance of accounts receivable from securities margin clients

The Group calculates ECL allowance for accounts receivable from securities margin clients based on the estimated probability of default of counterparties with similar credit ratings, with adjustment to reflect the current conditions and forecasts of future economic conditions, as appropriate.

At each reporting date, the Company assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Company 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

(2) Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There were no deferred tax assets relating to recognised tax losses at 31 December 2019 *(2018: nil)*. The amount of unrecognised tax losses is disclosed in note 23 to the consolidated financial statements.

3. REVENUE

An analysis of revenue is as follow:

	Note	**2019 HK$'000**	2018 HK$'000
Total revenue from contracts with customers	*(i)*		
Brokerage:			
— commission income on securities dealing		**7,275**	8,521
— commission income on futures and options dealing		**6,675**	6,186
— insurance brokerage fee income		**4,108**	4,390
		18,058	19,097
Corporate finance:			
— IPO sponsor fee income		**22,411**	18,715
— underwriting and placing commission income		**8,456**	3,584
— consultancy and financial advisory fee income		**4,973**	3,747
— corporate finance arrangement and commitment fee income		**764**	14,876
		36,604	40,922
Asset management:			
— asset management fee income		**507**	2,669
		55,169	62,688
Total revenue from other sources			
Interest income calculated using the effective interest method from:			
— margin financing		**90,979**	81,742
Net gains/(losses) from proprietary trading		**86,386**	(22,258)
		177,365	59,484
Total revenue		**232,534**	122,172

3. REVENUE (Continued)

Note:

(i) An analysis of total revenue from contracts with customers was as follows:

	2019 HK$'000	2018 HK$'000
Analyse by business segment:		
Brokerage		
— services transferred at a point in time	**18,058**	19,097
Corporate finance		
— services transferred at a point in time	**18,693**	24,407
— services transferred over time	**17,911**	16,515
	36,604	40,922
Asset management		
— services transferred over time	**507**	2,669
	55,169	62,688
Analyse by timing of revenue recognition:		
— services transferred at a point in time	**36,751**	43,504
— services transferred over time	**18,418**	19,184
	55,169	62,688

4. SEGMENT INFORMATION

The Directors have been identified as the chief operating decision makers to evaluate the performance of operating segments based on the Group's internal reporting in respect of these segments. For the purposes of resource allocation and assessment of segment performance, the Directors monitor the results attributable to each reportable segment on the following basis:

— Segment revenue represents revenue generated from external customers; and

— Segment results represent the profit or loss incurred by each segment without allocation of central administration costs, depreciation, central finance costs, and income tax expense.

Segment assets and liabilities are not disclosed as they are not considered to be crucial for resources allocation and thereafter not being regularly provided to the Directors.

Reportable operating segments

The Directors consider brokerage and margin financing, corporate finance, asset management and proprietary trading are the Group's major operating segments. The principal activities of these operating segments are as follows:

Brokerage and margin financing	Provision of brokerage services in securities, futures and options and insurance products; provision of margin financing services
Corporate finance	Provision of underwriting and placements and corporate finance advisory services
Asset management	Provision of asset management services
Proprietary trading	Proprietary trading in securities, futures and options, fund investments

In the Group's consolidated financial statements for the year ended 31 December 2018, the insurance broking business was included in the wealth management segment and the underwriting and placing business was included in brokerage and margin financing segment. In order to better align with the Group's internal segment report, the insurance broking business is included in brokerage and margin financing segment, and the underwriting and placing business is included in the corporate finance segment in the consolidated financial statements for the year ended 31 December 2019. The corresponding segment information for the year ended 31 December 2018 presented in these consolidated financial statements have been restated to reflect the change in structure.

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	2019					
	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Asset management HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
Segment revenue from external customers	**109,037**	**36,604**	**507**	**86,386**	**–**	**232,534**
Other income and gains	**14,012**	**–**	**–**	**541**	**15,913**	**30,466**
Fee and commission expenses	**(12,327)**	**(2,141)**	**–**	**(2,445)**	**–**	**(16,913)**
Finance costs	**(76,448)**	**–**	**–**	**(36,098)**	**–**	**(112,546)**
Expected credit losses on financial assets, net	**(315,829)**	**(2,898)**	**–**	**–**	**189**	**(318,538)**
Loss on non-substantial modification of financial assets measured at amortised cost	**(1,763)**	**–**	**–**	**–**	**–**	**(1,763)**
Other operating expenses and costs	**(61,384)**	**(24,672)**	**(755)**	**(16,696)**	**(6,298)**	**(109,805)**
Segment results	**(344,702)**	**6,893**	**(248)**	**31,688**	**9,804**	**(296,565)**
Unallocated expenses, represented central administration costs						**(15,383)**
Depreciation of fixed assets						**(8,601)**
Unallocated finance costs						**(26,289)**
Loss before tax						**(346,838)**

4. SEGMENT INFORMATION (Continued)

Reportable operating segments (Continued)

	2018					
	Brokerage and margin financing HK$'000	Corporate finance HK$'000	Asset management HK$'000	Proprietary trading HK$'000	Other operations HK$'000	Consolidated HK$'000
Segment revenue from external customers	100,839	40,922	2,669	(22,258)	–	122,172
Other income and gains	4,478	–	4	338	3,659	8,479
Fee and commission expenses	(11,477)	(2,427)	(2,368)	(8,396)	–	(24,668)
Finance costs	(59,726)	–	–	(44,071)	(42)	(103,839)
Expected credit losses on financial assets, net	–	–	–	–	(7,599)	(7,599)
Other operating expenses and costs	(63,428)	(34,085)	(1,593)	(14,211)	14,681	(98,636)
Other losses arising from consolidation of investment fund	–	–	–	(14,477)	–	(14,477)
Segment results	(29,314)	4,410	(1,288)	(103,075)	10,699	(118,568)
Unallocated expenses, represented central administration costs						(24,612)
Depreciation of fixed assets						(10,928)
Unallocated finance costs						(42,640)
Loss before tax						(196,748)

4. SEGMENT INFORMATION (Continued)

Geographical segments

The geographical location of customers is based on the location at which the services were provided. During the years ended 31 December 2019 and 31 December 2018, the Group's revenue is mainly derived from customers in Hong Kong.

The geographical location of the non-current assets, other than financial instruments ("specified non-current assets"), is based on the physical location of the assets. The principal specified non-current assets of the Group were also located in Hong Kong. Accordingly, no analysis by geographical segment was provided.

Major customers

During the years ended 31 December 2019 and 31 December 2018, the following respective external customers contributed more than 10% of total revenue of the Group. For major customers' consideration, the total revenue of the Group excludes the net gains/(losses) from proprietary trading.

	2019 **HK$'000**	2018 HK$'000
Customer A from brokerage and margin financing and corporate finance segments	**29,648**	28,497
Customer B from brokerage and margin financing and corporate finance segments	**25,703**	18,543

5. OTHER INCOME AND GAINS

	2019 **HK$'000**	2018 HK$'000
Other income		
Dividend income from financial assets at fair value through other comprehensive income	**7**	7
Handling income	**3,442**	1,098
Other interest income	**17,389**	7,236
Sundry income	**22**	138
	20,860	8,479
Other gains		
Gain on disposal of fixed assets	**154**	–
Exchange gains, net	**9,452**	–
	9,606	–
	30,466	8,479

6. LOSS BEFORE TAX

		Note	2019 HK$'000	2018 HK$'000
Loss before tax is arrived at after charging:				
(a)	**Finance costs**			
	Bank loan interest expenses		**43**	155
	Bond interest expenses		**121,731**	127,333
	Imputed interest expenses on bonds payable		**13,292**	18,800
	Interest on lease liabilities		**3,714**	–
	Other interest expenses		**55**	191
			138,835	146,479
(b)	**Staff costs**			
	Contributions to retirement benefit schemes		**1,782**	2,009
	Salaries, commission and allowances		**73,418**	94,351
			75,200	96,360
(c)	**Other items**			
	Auditor's remuneration			
	— Audit-related assurance services		**2,400**	2,180
	— Other services		**387**	1,667
	Depreciation of fixed assets		**8,601**	10,928
	Depreciation of right-of-use assets		**15,010**	–
	Exchange losses, net	*(i)*	**–**	59,237
	Expected credit losses on financial assets, net		**318,538**	7,599
	Loss on non-substantial modification of financial assets measured at amortised cost		**1,763**	–

Note:

(i) There was no net exchange loss for the year ended 31 December 2019. For the year ended 31 December 2018, included in net exchange loss was HK$58,758,000 exchange loss arising on retranslation to Hong Kong dollars in respect of bonds payable denominated in RMB. Detailed information is set out in note 19.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The analysis of the aggregate amount of emoluments received or receivable by the Directors are as follows:

2019

Name of Director	Fees	Salaries	Discretionary bonuses	Employer's contributions to retirement benefit schemes	Other services in connection with the management of affairs of its subsidiaries	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors:						
Wu Jian	–	–	–	–	–	–
Pu Rui	–	–	–	–	–	–
Luo Yi *(Note i)*	–	452	–	3	–	455
Zhao Dongmei *(Note ii)*	–	–	–	–	–	–
Wang Huiyun *(Note iv)*	–	–	–	–	–	–
Xiong Xiaoqiang *(Note v)*	–	–	–	–	–	–
Zhao Mingxun *(Note iii)*	–	290	1,176	3	–	1,469
Independent Non-executive Directors:						
Wu Jun	204	–	–	–	–	204
Meng Gaoyuan	204	–	–	–	–	204
Guan Wenwei	204	–	–	–	–	204
	612	742	1,176	6	–	2,536

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

2018

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Employer's contributions to retirement benefit schemes HK$'000	Other services in connection with the management of affairs of its subsidiaries HK$'000	Total HK$'000
Executive Directors:						
Wu Jian	–	–	–	–	–	–
Pu Rui	–	–	–	–	–	–
Luo Yi *(Note i)*	–	1,788	2,129	18	–	3,935
Zhao Dongmei *(Note ii)*	–	–	–	–	–	–
Wang Huiyun *(Note iv)*	–	–	–	–	–	–
Xiong Xiaoqiang *(Note v)*	–	–	–	–	–	–
Independent Non-executive Directors:						
Wu Jun	204	–	–	–	–	204
Meng Gaoyuan	204	–	–	–	–	204
Guan Wenwei	204	–	–	–	–	204
	612	1,788	2,129	18	–	4,547

Note:

(i) Mr. Luo Yi resigned as a director on 28 February 2019.

(ii) Ms. Zhao Dongmei resigned as a director on 30 April 2019.

(iii) Dr. Zhao Mingxun was appointed as a director on 23 August 2019.

(iv) Ms. Wang Huiyun resigned as a director on 18 March 2020.

(v) Mr. Xiong Xiaoqiang resigned as a director on 26 March 2020.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Bonuses, which are recommended by the remuneration committee and subsequently approved by the Board of Directors, are discretionary and are determined by reference to the Group's and the individuals' performance.

(b) Loans, quasi-loans and other dealings in favour of Directors

There are no loans, quasi-loans or other dealings in favour of the Directors of the Company or its holding company that were entered into or subsisted during the year ended 31 December 2019 *(2018: Nil)*.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(c) Directors' material interests in transactions, arrangements or contracts

After due and careful consideration, the Directors are of the opinion that no transactions, arrangements and contracts of significance in relation to the Company's business to which the Company, its holding companies or its subsidiaries was a party and in which Directors or a connected entity of the Directors had a material interest, whether directly or indirectly, subsisted as at 31 December 2019 *(2018: Nil)* or at any time during the year ended 31 December 2019 *(2018: Nil)*.

Five highest paid employees' emoluments

Of the five individuals with the highest emoluments, none of the *(2018: 1)* Directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the five *(2018: four)* individuals, excluding Directors' emoluments, are as follows:

	2019 **HK$'000**	2018 HK$'000
Salaries and other benefits	**10,575**	8,822
Discretionary bonus	**1,442**	7,715
Contributions to retirement benefit schemes	**98**	72
	12,115	16,609

	Number of individuals	
	2019	2018
The emoluments, excluding Directors' emoluments, fell within the following bands:		
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**2**	–
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	1
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	–
HK$4,000,001 to HK$4,500,000	**–**	–
HK$4,500,001 to HK$5,000,000	**–**	–
HK$5,000,001 to HK$5,500,000	**–**	1
HK$5,500,001 to HK$6,000,000	**–**	1
	5	4

No emoluments were paid by the Group to the Directors or any of the five highest paid individuals as (a) an inducement to join or upon joining the Group and (b) no compensation for loss of office for the years ended 31 December 2019 and 31 December 2018. There were no arrangements under which Directors waived or agreed to waive any remuneration for the years ended 31 December 2019 and 31 December 2018.

8. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% *(2018: 16.5%)* on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2019 **HK$'000**	2018 HK$'000
Current — Hong Kong		
Charge for the year	**–**	5,076
Overprovision in prior years	**(2,243)**	(76)
Total tax (credit)/charge for the year	**(2,243)**	5,000

A reconciliation of the tax expense applicable to loss before tax at the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 **HK$'000**	2018 HK$'000
Loss before tax	**(346,838)**	(196,748)
Income tax at applicable tax rate of 16.5% *(2018: 16.5%)*	**(57,228)**	(32,463)
Tax relief of 8.25% on first HK$2 million assessable profit	**–**	(165)
Tax effect on non-deductible expenses	**22,967**	31,983
Tax effect on non-taxable items	**(19,214)**	(15,207)
Unrecognised temporary difference	**906**	1,671
Utilisation of previously unrecognised tax losses	**(1,530)**	(1,687)
Tax effect on unrecognised tax losses	**54,151**	20,946
Effect of different tax rate of PRC subsidiaries	**(52)**	(32)
Over-provision of tax in prior years	**(2,243)**	(76)
Others	**–**	30
Total tax (credit)/expense at effective tax rate of 0.6% *(2018: -2.5%)*	**(2,243)**	5,000

9. LOSS PER SHARE

During the year ended 31 December 2019, the Company raised approximately HK$159.9 million before expenses by issuing 1,220,610,204 rights shares, on the basis of 1 rights share for every 2 existing shares held by the shareholders of the Company, at the subscription price of HK$0.131 per rights shares, which represents a discount of 18.1% to fair value at the close of the last day on which the shares are traded together with the rights shares.

The calculation of the basic loss per share is based on the loss for the year attributable to equity shareholders of the Company, and the weighted average number of ordinary shares of 3,437,447,000 *(2018: 2,598,194,000)* in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic and diluted loss per share is based on the loss attributable to the equity shareholders of the Company and the weighted average number of ordinary shares in issue during the reporting period:

	2019 **HK$'000**	2018 HK$'000
Loss for the year attributable to equity shareholders of the Company	**(344,595)**	(201,748)
Number of shares	**'000**	'000
Weighted average number of ordinary shares in issue for the purpose of diluted loss per share	**3,437,447**	2,598,194
Basic loss per share *(HK cents)*	**(10.025)**	(7.765)
Diluted loss per share *(HK cents)*	**(10.025)**	(7.765)

Note:

There were no dilutive potential ordinary shares outstanding during the years ended 31 December 2019 and 31 December 2018. Accordingly, the diluted loss per share for the respective years are the same as basic loss per share.

10. FIXED ASSETS

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Motor vehicle HK$'000	Total HK$'000
Cost:						
As at 1 January 2018	10,529	1,708	1,016	19,232	686	33,171
Additions	455	–	14	3,017	757	4,243
Disposals	–	–	–	–	–	–
As at 31 December 2018 and 1 January 2019	10,984	1,708	1,030	22,249	1,443	37,414
Additions	–	–	–	2,743	–	2,743
Disposals	–	–	–	(13)	(686)	(699)
As at 31 December 2019	10,984	1,708	1,030	24,979	757	39,458
Accumulated depreciation:						
As at 1 January 2018	2,606	351	261	9,204	320	12,742
Provided during the year	4,117	341	189	6,018	263	10,928
Disposals	–	–	–	–	–	–
As at 31 December 2018 and 1 January 2019	6,723	692	450	15,222	583	23,670
Provided during the year	1,705	341	190	6,111	254	8,601
Disposals	–	–	–	(11)	(560)	(571)
As at 31 December 2019	8,428	1,033	640	21,322	277	31,700
Net carrying amount:						
As at 31 December 2019	2,556	675	390	3,657	480	7,758
As at 31 December 2018	4,261	1,016	580	7,027	860	13,744

11. INTANGIBLE ASSETS

The Group holds two trading rights on the Stock Exchange and two trading rights on the Hong Kong Futures Exchange Limited (the "Futures Exchange") with carrying amount of nil as at 31 December 2019 ad 2018.

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group as a lessee

The Group has lease contracts for properties used in its operations. Leases of properties generally have lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

Right-of-use assets:

	Properties HK$'000
Cost:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	58,574
Restated opening balance under HKFRS 16 as at 1 January 2019	58,574
As at 31 December 2019	58,574
Accumulated depreciation and impairment:	
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	–
Restated opening balance under HKFRS 16 as at 1 January 2019	–
Depreciation provided during the year	(15,010)
As at 31 December 2019	(15,010)
Net carrying amount:	
As at 31 December 2019	43,564

Set out below are the carrying amounts of lease liabilities and the movements during the year:

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (Continued)

Lease liabilities:

	Properties HK$'000
As at 31 December 2018 (Reported)	–
Impact of adopting HKFRS 16	59,073
Restated opening balance under HKFRS 16 as at 1 January 2019	59,073
Interest expense	3,714
Payments	(15,435)
As at 31 December 2019	47,352
Non-current portion	32,476
Current portion	14,876
	47,352

The maturity analysis of lease liabilities is disclosed in note 31 to the financial statements.

The following are the amounts recognised in profit or loss:

	2019 **HK$'000**
Depreciation expense of right-of-use assets	**15,010**
Interest expense on lease liabilities	**3,714**
Expense relating to short-term leases	**136**
Expense relating to leases of low-value assets	**228**
Total amount recognised in profit or loss	**19,088**

The total cash outflow relating to leases is disclosed in notes 18(b) to the consolidated financial statements.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 HK$'000	2018 HK$'000
Financial assets designated at fair value through other comprehensive income		
Unlisted equity investments, at fair value	–	1,079

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature. As at 31 December 2019, the Group held two *(2018: three)* investments with fair value of nil *(2018: HK$1,079,000)*.

During the year ended 31 December 2019, the Group sold its equity interest in the unlisted equity investment as this investment no longer coincided with the Group's investment strategy. The fair value on the date of sale was HK$1,467,000 and the loss recognised in investment revaluation reserve of HK$2,780,000 was transferred to accumulated losses.

During the year ended 31 December 2019, the Group received dividends of HK$7,000 *(2018: HK$7,000)*.

14. OTHER NON-CURRENT ASSETS

	2019 HK$'000	2018 HK$'000
Reserve fund deposits with the Futures Exchange	**1,500**	1,500
Statutory deposits with the Stock Exchange	**300**	300
Statutory deposits with the Securities and Futures Commission ("SFC")	**100**	100
Contributions to the Central Clearing and Settlement System Guarantee Fund	**1,500**	1,500
Admission fees paid to the Hong Kong Securities Clearing Company Limited	**100**	100
Deposits — non-current portion	**4,572**	4,164
Less: impairment	–	(10)
	8,072	7,654

During the year ended 31 December 2019, reversal of impairment allowance of HK$10,000 was credited to profit or loss *(2018: impairment allowance of HK$10,000 was charged to profit or loss)*.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	2019 HK$'000	2018 HK$'000
Held for trading			
Equity securities			
— Listed in Hong Kong	*(i)*	**340,405**	246,860
— Listed outside Hong Kong	*(i)*	**202,919**	–
		543,324	246,860
Debt securities			
— Listed outside Hong Kong	*(ii)*	**–**	159,474
— Unlisted	*(ii)*	**164,669**	–
		164,669	159,474
Unlisted fund investments	*(iii)*	**31,513**	45,520
		739,506	451,854

Notes:

(i) Fair values of the listed equity securities are determined with reference to quoted active market bid price on the respective stock exchanges at the end of each reporting period.

(ii) For the debt securities, the fair values are determined using with reference to the quoted price provided by brokers/financial institutions in the absence of an active market.

(iii) For the unlisted fund investments, the fair values are determined by their net assets values quoted by the relevant investment trusts with reference to the underlying assets (mainly are listed securities) of the funds.

(iv) The Group has not pledged any equity securities, debt securities and fund investment as at 31 December 2019 to any bank as collateral for the facilities granted *(31 December 2018: Nil)*.

16. ACCOUNTS RECEIVABLE

	Notes	2019 HK$'000	2018 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities margin clients	*(a)*	**855,780**	1,107,815
— securities cash clients	*(b)*	**2,103**	1,002
— securities subscription clients	*(b)*	**13,841**	191
— securities and options clearing houses and brokers	*(b)*	**20,830**	57,228
— futures clients	*(b)*	**3**	2
— futures clearing house and brokers	*(b)*	**23,252**	2,390
Accounts receivable arising from the provision of corporate finance advisory services	*(b)*	**7,262**	3,223
Accounts receivable arising from the provision of asset management services	*(b)*	**–**	98
		923,071	1,171,949
Less: impairment		**(390,907)**	(72,266)
		532,164	1,099,683

Notes:

(a) Analysis on accounts receivable analysis on securities margin clients

(i) The carrying amount of accounts receivable from securities margin clients of the Group was as follows:

	2019 HK$'000	2018 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:		
— Securities margin clients	**855,780**	1,107,815
Less: Impairment		
— Stage 1	**–**	–
— Stage 2	**–**	(7,492)
— Stage 3	**(387,498)**	(64,279)
	468,282	1,036,044

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(a) Accounts receivable analysis on securities margin clients (Continued)

(i) (Continued)

Accounts receivable from securities margin clients are secured by their pledged securities, repayable on demand and bear interests at commercial rates. Credits are extended to securities margin clients subject to the marginable value of the listed securities pledged with the Group. The margin ratios are reviewed and determined periodically. At the end of the reporting period, fair value of marketable securities pledged by securities margin clients was HK$1,098,632,000 *(2018: HK$2,935,601,000)*.

No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.

(ii) Accounts receivable from securities margin clients of the Group are internally classified into the following categories:

Excellent : Margin obligations are expected to be met and exposures are fully secured by collaterals, which demonstrate good loan-to-collaterals' value ratios ("LTVs"). Repayment of interest and principal is not in doubt.

Good : Margin obligations are expected to be met and exposures are fully secured by collaterals, but LTVs are higher than the excellent grade exposures. Repayment of interest and principal is not in doubt.

Non-performing : Exposures where some losses of principal or interest may be possible after taking into account of the realisable value of the underlying collaterals.

Individually impaired : Exposures where default events have occurred and individual impairment assessments are made to determine the impairment allowances.

The following is the analysis of the gross carrying amount of the accounts receivable from securities margin clients as at 31 December 2019 and 2018 by the Group's internal credit rating and year end classification:

2019

	12-month ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Total HK$'000
Internal rating grade				
Excellent	194,221	–	–	194,221
Good	129,634	–	–	129,634
Non-performing	–	190	–	190
Individually impaired	–	–	531,735	531,735
	323,855	190	531,735	855,780

For the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was HK$144,237,000.

During the year ended 31 December 2019, the Group has renegotiated the contractual terms with two securities margin financing clients. Based on the assessment performed by the Group, both are regarded as non-substantial modification.

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(a) Accounts receivable analysis on securities margin clients (Continued)

(ii) (Continued)

The amortised cost before the modification of a receivable was HK$236,938,000 and the modification loss amounting to HK$1,111,000 was recorded in profit or loss during the year ended 31 December 2019. As at 31 December 2019, the gross receivable of HK$129,634,000 was classified under 12-month ECL (stage 1) since the borrower has fulfilled the repayment obligations after the modification.

The amortised cost before the modification of the receivable was HK$289,085,000 and the modification loss amounting to HK$652,000 was recorded in profit or loss during the year ended 31 December 2019. As at 31 December 2019, the gross receivable of HK$285,179,000 was classified under lifetime ECL — credit-impaired (stage 3) since the borrower did not fulfil the repayment obligations after the modification.

2018

	12-month ECL (Stage 1) HK$'000	Lifetime ECL not credit-impaired (Stage 2) HK$'000	Lifetime ECL credit-impaired (Stage 3) HK$'000	Total HK$'000
Internal rating grade				
Excellent	651,179	–	–	651,179
Good	230,644	–	–	230,644
Non-performing	–	160,637	–	160,637
Individually impaired	–	–	65,355	65,355
	881,823	160,637	65,355	1,107,815

For the gross receivables of stage 3 securities margin clients, fair value of marketable securities pledged was HK$1,993,000.

(iii) The movements in the impairment allowance of accounts receivable from securities margin clients were as follows:

	12-month ECL (Stage 1) HK$'000	**Lifetime ECL not credit-impaired (Stage 2)** HK$'000	**Lifetime ECL credit-impaired (Stage 3)** HK$'000	**Total** HK$'000
As at 1 January 2018	2,797	236	61,212	64,245
Transfer to stage 2	(1,461)	1,461	–	–
Impact on transfer between stages	–	6,028	1,410	7,438
Other remeasurement of loss allowance	(1,336)	(233)	1,657	88
As at 31 December 2018 and 1 January 2019	**–**	**7,492**	**64,279**	**71,771**
Transfer to stage 3	**–**	**(7,490)**	**7,490**	**–**
Impact on transfer between stages	**–**	**–**	**300,997**	**300,997**
New assets originated *(Note)*	**–**	**(2)**	**19,503**	**19,501**
Bad debt recovery	**–**	**–**	**(4,754)**	**(4,754)**
Amount written off	**–**	**–**	**(17)**	**(17)**
As at 31 December 2019	**–**	**–**	**387,498**	**387,498**

Note: During the year ended 31 December 2019, new origination of securities margin clients with gross amount of HK$19,503,000 were transferred and classified under stage 3. This results in an increase in loss allowance of HK$19,503,000 as at year end.

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Analysis on accounts receivable from other than securities margin clients

i. The carrying amounts of accounts receivable from other than securities margin clients of the Group are as follows:

	Notes	**2019 HK$'000**	2018 HK$'000
Accounts receivable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(1)*	**2,103**	1,002
— securities subscription clients	*(2)*	**13,841**	191
— securities and options clearing houses and brokers	*(3)*	**20,830**	57,228
— futures clients		**3**	2
— futures clearing house and brokers	*(4)*	**23,252**	2,390
Accounts receivable arising from the provision of corporate finance advisory services	*(5)*	**7,262**	3,223
Accounts receivable arising from the provision of asset management services	*(6)*	**–**	98
		67,291	64,134
Less: impairment	*(7)*	**(3,409)**	(495)
		63,882	63,639

(1) Accounts receivable from cash clients arising from the business of dealing in securities are repayable on demand after settlement date. Overdue accounts receivable are repayable on demand and charged interests at commercial rates. The normal settlement terms of accounts receivable arising from the ordinary course of business of broking in securities and futures contracts are one to three days after trade date. No ageing analysis is disclosed as in the opinion of the Directors, the ageing analysis does not give additional value in view of the nature of broking business.

(2) At the end of the reporting period, accounts receivable from securities subscription clients were not yet due and were required to be settled on the allotment date determined under the relevant market practices or exchange rules.

(3) The Group maintains margin deposits with the options clearing house in respect of clients' monies in the ordinary course of business of option broking. At the end of the reporting period, clients' monies deposits maintained in The SEHK Option Clearing House Limited not otherwise dealt with in the consolidated financial statements amounted to HK$595,000 *(2018: HK$1,090,000)*.

At the end of the reporting period, accounts receivable from securities and options clearing houses and brokers were not overdue. As at 31 December 2019, included in amount receivable arising from the ordinary course of securities and options clearing houses and brokers was a net receivable from Hong Kong Securities Clearing Company Limited ("HKSCC") of HK$17,925,000 *(2018: 3,060,000)*, with legally enforceable right to set off the corresponding receivable and payable balances. Details of the offsetting of these balances are set out in note 16(c) to consolidated financial statements.

(4) Accounts receivable from futures clearing house and brokers did not include clients' monies deposited in the futures clearing house in Hong Kong amounting to HK$9,486,000 *(2018: HK$4,568,000)*, which was not dealt with in the consolidated financial statements. At the end of the reporting period, accounts receivable from futures clearing house and brokers were repayable on demand.

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(b) Analysis on accounts receivable from other than securities margin clients (Continued)

(i) (Continued)

(5) At the end of the reporting period, the ageing analysis of accounts receivable arising from the provision of corporate finance advisory services, based on the contract terms, was as follows:

	2019 HK$'000	2018 HK$'000
Current	**2,799**	1,423
Overdue:		
Within 30 days	**93**	–
31–90 days	**1,497**	1,750
91–180 days	**–**	–
Over 180 days	**2,873**	50
	7,262	3,223

(6) At the end of the reporting period, the amount of accounts receivable arising from the provision of asset management services was not overdue.

(7) The movements in the impairment allowance of accounts receivable other than securities margin clients were as follows:

	12-month ECL (Stage 1) HK$'000	**Lifetime ECL not credit-impaired (Stage 2)** HK$'000	**Lifetime ECL credit-impaired (Stage 3)** HK$'000	**Lifetime ECL simplified approach** HK$'000	**Total** HK$'000
As at 1 January 2018	–	–	–	925	925
Charged/(credit) to profit or loss	74	2	–	(109)	(33)
Amount written off	–	–	–	(397)	(397)
As at 31 December 2018 and 1 January 2019	**74**	**2**	**–**	**419**	**495**
Charged/(credit) to profit or loss *(Note)*	**(74)**	**(2)**	**89**	**2,901**	**2,914**
As at 31 December 2019	**–**	**–**	**89**	**3,320**	**3,409**

Note: During the year ended 31 December 2019, new origination of account receivables arising from the provision of corporate finance advisory services with gross amount of HK$5,001,000 resulted in an increase in loss allowance of HK$1,045,000.

16. ACCOUNTS RECEIVABLE (Continued)

Notes: (Continued)

(c) Offsetting

The Group has netted off the amounts receivable and amounts payable with the securities and options clearing house. An analysis of amounts receivable/(payable) subject to offsetting is set out as follows:

	2019 Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amount of financial assets presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts receivable	**40,135**	**(22,210)**	**17,925**	**(7,037)**	**10,888**

	2019 Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amount of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts payable	**29,247**	**(22,210)**	**7,037**	**(7,037)**	**–**

	2018 Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amount of financial assets presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts receivable	7,069	(4,009)	3,060	(1,242)	1,818

	2018 Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amount of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amount not set off in the consolidated statement of financial position HK$'000	Net HK$'000
Amounts payable	5,251	(4,009)	1,242	(1,242)	–

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 **HK$'000**	2018 HK$'000
Deposits, prepayments and other receivables	**6,086**	9,400
Statutory deposits with the Stock Exchange	**2,663**	1,028
Contributions to the Central Clearing and Settlement System Guarantee Fund	**49**	33
Less: impairment	**–**	(110)
	8,798	10,351

During the year ended 31 December 2019, reversal of impairment allowance of HK$110,000 was credited to profit or loss *(2018: impairment allowance of HK$110,000 was charged to profit or loss)*.

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2019 **HK$'000**	2018 HK$'000
Cash and bank balances	**789,090**	441,812
Cash and cash equivalents in the consolidated statement of cash flows	**789,090**	441,812

The Group maintains trust accounts with banks to deal with clients' monies in the ordinary course of business. At the end of the reporting period, trust monies not otherwise dealt with in the consolidated financial statements amounted to HK$113,954,000 *(2018: HK$824,959,000)*.

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION
(Continued)

(b) Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities from financing activities, including both cash and non-cash changes are set out in the following table. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Bank loans HK$'000	Interest payable including in other payable and accrued charges HK$'000	Bonds payable HK$'000	Lease liabilities HK$'000	Total HK$'000
At 1 January 2019	–	**15,867**	**1,945,475**	**59,073**	**2,020,415**
Changes from financing cash flows:					
Proceeds from short-term bank loans *(Note (i))*	**90,410**	–	–	–	**90,410**
Repayment of short-term bank loans *(Note (i))*	**(90,410)**	–	–	–	**(90,410)**
Repayment of bonds issuance	–	–	**(1,956,750)**	–	**(1,956,750)**
Proceeds from issuance of bonds	–	–	**1,569,960**	–	**1,569,960**
Payment of transaction costs on issuance of bonds	–	–	**(11,420)**	–	**(11,420)**
Bank loan interest paid	**(43)**	–	–	–	**(43)**
Principal portion of lease payment	–	–	–	**(11,721)**	**(11,721)**
Interest paid on bonds issued	–	**(115,432)**	–	–	**(115,432)**
Total changes from financing cash flows	**(43)**	**(115,432)**	**(398,210)**	**(11,721)**	**(525,406)**
Exchange difference	–	**(87)**	**(11,385)**	–	**(11,472)**
Other changes:					
Interest expenses	**43**	**121,731**	**13,292**	–	**135,066**
At 31 December 2019	–	**22,079**	**1,549,172**	**47,352**	**1,618,603**

18. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans HK$'000	Interest payable including in other payable and accrued charges HK$'000	Bonds payable HK$'000	Total HK$'000
At 1 January 2018	–	10,815	1,797,552	1,808,367
Changes from financing cash flows:				
Proceeds from short-term in bank loans *(Note (i))*	100,903	–	–	100,903
Repayment of short-term in bank loans *(Note (i))*	(100,903)	–	–	(100,903)
Repayment of bonds issuance	–	–	(1,859,250)	(1,859,250)
Proceeds from issuance of bonds	–	–	1,957,319	1,957,319
Payment of transaction costs of issuance of bonds	–	–	(25,510)	(25,510)
Bank loan interest paid	(155)	–	–	(155)
Bonds interest paid	–	(122,909)	–	(122,909)
Total changes from financing cash flows	(155)	(122,909)	72,559	(50,505)
Exchange difference	–	628	56,564	57,192
Other changes:				
Interest expenses	155	127,333	18,800	146,288
At 31 December 2018	–	15,867	1,945,475	1,961,342

Note:

(i) Short-term bank loans of HK$90,410,000 *(2018: HK$100,903,000)* were drawndown for the Group's margin financing business, in which HK$50,410,000 *(2018: HK$50,903,000)* were secured by new issued shares of a listed company subscribed by margin clients and HK$40,000,000 *(2018: HK$50,000,000)* were unsecured, with original maturity within one month and bear interests with reference to the costs of funds of the banks.

19. BONDS PAYABLE

	2019 USD Bonds HK$'000 *(note (i))*	2018 HKD Bonds HK$'000 *(note (ii))*	2018 USD Bonds HK$'000 *(note (iii))*	2015 RMB Bonds HK$'000 *(note (iv))*	Total HK$'000
Carrying amount at 1 January 2018	–	–	–	1,797,552	1,797,552
Carrying amount upon issuance	–	762,682	1,169,127	–	1,931,809
Imputed interest expenses for the year	–	10,865	4,995	2,940	18,800
Exchange difference	–	–	(2,194)	58,758	56,564
Principal repayment	–	–	–	(1,859,250)	(1,859,250)
Carrying amount at 31 December 2018 and 1 January 2019	**–**	**773,547**	**1,171,928**	**–**	**1,945,475**
Carrying amount upon issuance	**1,558,540**	**–**	**–**	**–**	**1,558,540**
Imputed interest expenses for the year	**3,842**	**6,453**	**2,997**	**–**	**13,292**
Exchange difference	**(13,210)**	**–**	**1,825**	**–**	**(11,385)**
Principal repayment	**–**	**(780,000)**	**(1,176,750)**	**–**	**(1,956,750)**
Carrying amount at 31 December 2019	**1,549,172**	**–**	**–**	**–**	**1,549,172**

Notes:

(i) On 17 April 2019, the Company issued bonds with aggregate principal amount of US$200,000,000 (the "2019 USD Bonds"). The 2019 USD Bonds bear interest from 17 April 2019 (inclusive) at the rate of 6.90% per annum. Interest on the 2019 USD Bonds is payable semi-annually in arrears. The 2019 USD Bonds are listed on The Stock Exchange of Hong Kong Limited ("HKEx") and will mature on 17 April 2021 with the outstanding principal and interest payable at the maturity date. The fair value determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market as at 31 December 2019 was approximately HK$1,590,013,000.

The 2019 USD Bonds are carried at amortised cost using an effective interest rate of 7.29% per annum.

(ii) On 18 May 2018, the Company issued bonds with aggregate principal amount of HK$780,000,000 (the "2018 HKD Bonds"). The 2018 HKD Bonds bear interest from 18 May 2018 (inclusive) at the rate of 6.00% per annum. Interest on the 2018 HKD Bonds is payable semi-annually in arrears. The 2018 HKD Bonds are listed on HKEx and fully settled on maturity date 10 May 2019.

The 2018 HKD Bonds are carried at amortised cost using an effective interest rate of 8.37% per annum.

(iii) On 15 May 2018, the Company issued bonds with aggregate principal amount of US$150,000,000 (the "2018 USD Bonds"). The 2018 USD Bonds bear interest from 15 May 2018 (inclusive) at the rate of 6.75% per annum. Interest on the 2018 USD Bonds is payable semi-annually in arrears. The 2018 USD Bonds are listed on HKEx and fully settled on maturity date 13 May 2019.

The 2018 USD Bonds are carried at amortised cost using an effective interest rate of 7.45% per annum.

(iv) On 28 May 2015, the Company issued bonds with aggregate principal amount of RMB1,500,000,000 (the "2015 RMB Bonds"). The 2015 RMB Bonds bore interest from 28 May 2015 (inclusive) at the rate of 6.45% per annum. Interest on the 2015 RMB Bonds was payable semi-annually in arrears. The 2015 RMB Bonds were listed on HKEx and fully settled on maturity date 28 May 2018.

The 2015 RMB Bonds are carried at amortised cost using an effective interest rate of 6.84% per annum.

20. DERIVATIVE FINANCIAL LIABILITIES

	Note	2019 HK$'000	2018 HK$'000
Futures contracts held for trading	*(i)*	**17,732**	–
		17,732	–

Note:

(i) The futures contracts are classified as held for trading. As at 31 December 2019, the fair value of the futures contracts were amounted to HK$17,732,000 *(2018: Nil)*. Fair value was determined with reference to quoted market prices in active markets. During the year, the loss on change in fair value of futures contracts amounting to HK$38,102,000 *(2018: Nil)* was recognised in the profit or loss.

21. ACCOUNTS PAYABLE

	Notes	2019 HK$'000	2018 HK$'000
Accounts payable arising from the ordinary course of business of broking in securities and futures contracts:			
— securities cash clients	*(i)*	**14,742**	–
— securities margin clients	*(i)*	**3,086**	267
— securities clearing house	*(i)*	**7,038**	1,242
— futures clients	*(ii)*	**23,239**	2,383
Accounts payable arising from the provision of insurance broking services	*(iii)*	**102**	110
Accounts payable to brokers	*(i)*	**21**	–
		48,228	4,002

Notes:

Settlement terms

(i) The settlement terms of accounts payable arising from the ordinary course of business of broking in securities in respect of cash clients, margin clients, clearing house and brokers are one to three trading days after the transaction date.

(ii) Accounts payable arising from the ordinary course of business broking in index, commodity and currency futures contracts represent the margin deposits received from clients for their trading in futures contracts. The excess over the required margin deposits stipulated are repayable to clients on demand.

(iii) Accounts payable arising from the provision of insurance broking services are payable within 30 days.

No ageing analysis is disclosed in respect of accounts payable. In the opinion of the Directors, an ageing analysis does not give additional value in view of the nature of broking business.

Interest with reference to savings rate of financial institutions is payable to accounts payable arising from the ordinary course of business of securities broking subject to their balances maintained with the Group. All other categories of accounts payable are non-interest-bearing.

22. OTHER PAYABLES AND ACCRUED CHARGES

	2019 HK$'000	2018 HK$'000
Accrued charges	**26,267**	21,314
Interest payables	**22,079**	15,867
Other payables	**1,522**	600
	49,868	37,781
Non-current portion	**2,034**	–
Current portion	**47,834**	37,781
	49,868	37,781

23. DEFERRED TAXATION

Recognised deferred tax assets/(liabilities)

	Assets		Liabilities	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Depreciation allowances	**–**	–	**(498)**	(563)
Tax losses	**498**	563	**–**	–
Deferred tax assets/(liabilities)	**498**	563	**(498)**	(563)
Offset deferred tax assets and liabilities	**(498)**	(563)	**498**	563
Net deferred tax assets/(liabilities)	**–**	–	**–**	–

Unrecognised deferred tax assets arising from

	2019 HK$'000	2018 HK$'000
Deductible temporary differences	**11,663**	6,175
Tax losses	**1,020,706**	701,789
	1,032,369	707,964

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

24. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Provision of IPO sponsor services	**1,336**	1,125

Contract liabilities, are expected to be settled within the Group's normal operating cycle, and accordingly are classified as current.

Revenue from provision of IPO sponsor services of HK$1,125,000 recognised in the current year relates to contract liabilities as of 1 January 2019.

As a sponsor, the Group normally receives fees by installments according to the completion of milestones as specified in the mandate. This will give rise to contract liabilities over the life of the contract, until the performance obligation is satisfied when the revenue will be recognised at that point in time or over time, by determining if it has a right to payment at an amount that reasonably compensates it for its performance completed to date at all times throughout the contract.

25. SHARE CAPITAL

	2019		2018	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each				
At the beginning and end of the year	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
At the beginning and end of the year	**3,661,830**	**366,182**	2,441,220	244,121

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue '000	**Share capital** HK$'000
At 1 January 2018, 31 December 2018 and 1 January 2019	2,441,220	244,121
Rights issue *(note)*	1,220,610	122,061
At 31 December 2019	3,661,830	366,182

Note:

A rights issue of one rights share for every two existing shares held by members on the register of members on 27 March 2019 was made, at an issue price of HK$0.131 per rights share with a par value of HK$0.1 each, resulting in the issue of 1,220,610,204 shares. The theoretical ex-rights price calculated based on the closing price of HK$0.16 per shares as quoted on the Stock Exchange on the last trading day, i.e. 18 March 2019 was approximately HK$0.15 per share. The total consideration amounted to HK$159,900,000, of which HK$122,061,000 was credited to share capital and the balance of HK$34,839,000, after deducting the outgoing expenses of HK$3,000,000, was credited to the share premium account. The net price per rights share was approximately HK$0.13.

26. OTHER EQUITY INSTRUMENT

On 15 October 2019, the Company issued HK$580 million perpetual securities (the "Perpetual Securities") with an initial distribution rate of 3.875% per annum. Distributions are paid annually in arrears and the first distribution date was 14 October 2020. The Company may, at its sole discretion, elect to defer, in whole or in part, any distribution. The Perpetual Securities have no fixed redemption date and may be redeemed in whole or in part at any time at the sole discretion of the Company on giving prior notice to the holder of the Perpetual Securities, in accordance with the terms and conditions stated in the subscription agreement. The first reset date of distribution rate is 15 October 2022. The Perpetual Securities constitute direct, unconditional, subordinated and unsecured obligations of the Company and are classified as equity instruments and recorded as equity in the consolidated statement of financial position.

27. SHARE OPTION SCHEME

At the annual general meeting of the Company held on 12 November 2013, the shareholders of the Company approved the adoption of a new share option scheme (the "2013 Share Option Scheme") and the termination of the share option scheme which was adopted by the Company on 30 January 2004 (the "2004 Share Option Scheme"). The 2013 Share Option Scheme is valid and effective for 10 years from the date of adoption. Options granted under the 2004 Share Option Scheme prior to such termination will continue to be valid and exercisable in accordance with the rules of the 2004 Share Option Scheme.

During the years ended 31 December 2018 and 2019, there were no outstanding share option and no share option was granted, exercised, cancelled or lapsed under both the 2004 Share Option Scheme and the 2013 Share Option Scheme.

Details of the share option schemes are set out in the Directors' Report on page 51.

28. RETIREMENT BENEFIT SCHEMES

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme") which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance.

Contributions to the ORSO Scheme depend on employees' service years, and range from five to seven per cent of their basic salaries.

Employees under the ORSO Scheme are entitled fully to the employer's contributions upon completion of ten service years, or at a reduced scale upon completion of three to nine service years. Forfeited contributions by the qualified employees who left the scheme prior to vesting fully in such contributions are used to reduce the Group's contributions.

Contributions to the MPF Scheme are calculated at five percent of the relevant income of each employee subject to a maximum amount of HK$1,500 per month. All statutory contributions under the MPF Scheme are immediately fully vested on the employees.

The aggregate employer's contributions, which have been dealt with in profit or loss for the year amounted to:

	2019 HK$'000	2018 HK$'000
Employer's contributions charged to profit or loss *(Note 6(b))*	**1,782**	2,009

29. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, there were related party transactions entered into by the Group during the year, details of which are set out below:

Related party relationship	**Nature of transaction**	**2019 HK$'000**	2018 HK$'000
Key management personnel, other than Directors	Salaries, commission and allowances	**16,596**	28,694
	Contributions to retirement benefit schemes	**187**	173
		16,783	28,867
Ultimate holding company	Referral fee expenses	**64**	370
A related company *(Note)*	Underwriting and placing commission income	**–**	591
	Bond interest income	**–**	464
		–	1,055

Note: This related company and SWSC are significantly influenced or jointly controlled by Chongqing Yufu Assets Management Group Co., Ltd., which is wholly-owned by the Municipal Government of Chongqing City, in the PRC (the "Government Related Entity").

30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2019	Financial assets at amortised cost HK$'000	Financial assets at fair value through profit or loss — Held for trading HK$'000	Total HK$'000
Financial assets			
Other non-current assets	8,072	–	8,072
Financial assets at fair value through profit or loss	–	739,506	739,506
Accounts receivable	532,164	–	532,164
Financial assets included in prepayments, other receivables and other assets	5,357	–	5,357
Cash and bank balances	789,090	–	789,090
	1,334,683	739,506	2,074,189

2019	Financial liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000	Total HK$'000
Financial liabilities			
Bonds payable	1,549,172	–	1,549,172
Derivative financial liabilities	–	17,732	17,732
Accounts payable	48,228	–	48,228
Financial liabilities included in other payables and accrued charges	23,601	–	23,601
	1,621,001	17,732	1,638,733

30. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (Continued)

2018	Financial assets at amortised cost HK$'000	Financial assets at fair value through other comprehensive income — Equity investments HK$'000	Financial assets at fair value through profit or loss — Held for trading HK$'000	Total HK$'000
Financial assets				
Financial assets at fair value through other comprehensive income	–	1,079	–	1,079
Other non-current assets	7,654	–	–	7,654
Financial assets at fair value through profit or loss	–	–	451,854	451,854
Accounts receivable	1,099,683	–	–	1,099,683
Financial assets included in prepayments, other receivables and other assets	3,671	–	–	3,671
Cash and bank balances	441,812	–	–	441,812
	1,552,820	1,079	451,854	2,005,753

2018	Financial liabilities at amortised cost HK$'000	Total HK$'000
Financial liabilities		
Bonds payable	1,945,475	1,945,475
Accounts payable	4,002	4,002
Financial liabilities included in other payables and accrued charges	16,467	16,467
	1,965,944	1,965,944

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: interest-rate risk, credit risk, foreign exchange risk, liquidity risk and equity price risk. The Group's overall risk control focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Risk Control Committee ("RCC") is responsible for establishing and reviewing credit policies and procedures to minimise systematic and non-systematic credit and financial risks of the Group. The RCC is also responsible for assessing the risk of long term investments and proprietary trading.

Interest-rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets at fair value through profit or loss, certain accounts receivable from securities margin clients with floating interest rates, cash and bank balances and bonds payable. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in floating rates and ensure they are within reasonable range.

The Group's investments in debt securities being classified as financial assets at fair value through profit or loss and bonds payable bear fixed interest rates. Therefore, in the opinion of the directors, the interest rate risk arising from the debt securities and bonds payable are considered to be minimal.

As at 31 December 2019, if the interest rate on the bank balances is 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax *(2018: loss before tax)* for the year of the Group would have decreased/increased by HK$3,945,000 *(2018: decreased/increased by HK$2,209,000)* as a result of higher/lower interest income.

The Group has interest earning assets in securities margin loans to clients and the exposure to interest rate risk mainly arises on certain client securities margin accounts with floating interest rates. As at 31 December 2019, if the interest rate on the margin loans is 50 basis points higher/lower, which was considered reasonably possible by management, with all other variables held constant, the loss before tax for the year would have decreased/increased by HK$982,000 *(2018: the Group's loss before tax would be decreased/increased by HK$1,885,000)* as a result of higher/lower interest income.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group is exposed to credit risk for all financial assets that a client or counterparty in a transaction may default on settlement. The Group's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the Group's consolidated statement of financial position. These amounts represent the worst case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associated with accounts receivable from securities margin clients is mitigated to the extent that they are secured by listed securities.

In order to minimise the credit risk, the management of the Group has set up the Credit Review Committee responsible for determination of credit approvals.

The Group has concentration of credit risk as 27% *(2018: 25%)* and 51% *(2018: 60%)* of the total accounts receivable was due from the Group's largest customer and the five largest customers respectively within the brokerage and margin financing business segment and corporate finance segment.

During the year ended 31 December 2019, the Group has renegotiated the contractual terms with two securities margin financing clients. Based on the assessment performed by the Group, both are regarded as non-substantial modification.

The amortised cost before the modification of a receivable was $236,938,000 and the modification loss amounting to $1,111,000 was recorded in profit or loss during the year ended 31 December 2019. As at 31 December 2019, the gross receivable of $129,634,000 was classified under 12-month ECL (stage 1) since the borrower has fulfilled the repayment obligations after the modification.

The amortised cost before the modification of the receivable was $289,085,000 and the modification loss amounting to $652,000 was recorded in profit or loss during the year ended 31 December 2019. As at 31 December 2019, the gross receivable of $285,179,000 was classified under lifetime ECL — credit-impaired (stage 3) since the borrower did not fulfil the repayment obligations after the modification.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk arising from below major recognised financial assets as stated in the consolidated statement of financial position:

- Bank deposits and balances are placed with authorized financial institutions in Hong Kong and reputable financial institution in PRC, which management believes are of high credit quality.

- For accounts receivable from securities margin clients, the Group's policy requires the review of individual outstanding amounts regularly depending on individual circumstances or market condition. The assessment normally encompasses collateral held, which is valued on a daily basis for marketable securities, and the anticipated receipts for that individual account. Details of the provision for impairment losses of accounts receivable from securities margin clients are included in note 16 to the consolidated financial statements.

- For the debt securities investments, management monitors the credit quality on these investments on a regular basis and consider the credit risk is manageable.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group's foreign currency exposures arise mainly from the exchange rate movements of United States dollar ("U.S. dollar").

The Group considers the risk exposure to foreign currency fluctuation in U.S. dollar would be minimal as long as the Hong Kong dollar remains pegged to the U.S. dollar.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group manages to maintain its liquidity position at a prudent and adequate level. The Directors monitor the cash flows daily to ensure sufficient funds are available. The senior management would also review the liquidity level in compliance with the statutory requirements for the licensed subsidiaries.

The remaining undiscounted contractual maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period, based on the earliest date on which the Group is required to settle, and the Group's derivative financial liabilities at the end of the reporting period, based on the remaining contractual maturities, is summarised below:

	2019					2018				
	Less than 3 months or on demand HK$'000	3 to 12 months HK$'000	1–5 years HK$'000	Total HK$'000	Carrying amount HK$'000	Less than 3 months or on demand HK$'000	3 to 12 months HK$'000	1–5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Non-derivative financial liabilities										
Bonds payable	–	107,412	1,610,406	1,717,818	1,549,172	–	2,017,974	–	2,017,974	1,945,475
Accounts payable	48,228	–	–	48,228	48,228	4,002	–	–	4,002	4,002
Financial liabilities included in other payables and accrued charges	1,522	22,079	–	23,601	23,601	600	15,867	–	16,467	16,467
Derivative financial liabilities										
Futures contracts	17,732	–	–	17,732	17,732	–	–	–	–	–
Others										
Lease liabilities	4,421	13,262	35,669	53,352	47,352	–	–	–	–	–
	71,903	142,753	1,646,075	1,860,731	1,686,085	4,602	2,033,841	–	2,038,443	1,965,944

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the values of individual securities. The Group is exposed to equity price risks arising from individual equity investments classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss as at 31 December 2018 and 2019, details of which have been set out in notes 13 and 15 to the consolidated financial statements respectively. The Group's listed investments are mainly listed on the Stock Exchange, the Shenzhen Stock Exchange ("SZSE") and the Shanghai Stock Exchange ("SSE") and are valued at quoted market bid prices at the end of the reporting period. The risk management department is responsible for monitoring the equity price risk.

The market equity index for the Stock Exchange, SZSE and SSE at the close of business of the nearest trading day in the year to the end of the reporting period, and its respective highest and lowest points during the year were as follows:

	2019		2018	
	At 31/12/2019	**High/Low from 1/1/2019 to 31/12/2019**	At 31/12/2018	High/Low from 1/1/2018 to 31/12/2018
Hong Kong — Hang Seng Index	**28,190**	**30,157/25,064**	25,846	33,484/24,541
PRC — SZSE Component Index	**10,431**	**10,437/7,089**	7,240	11,633/7,084
PRC — SSE Composite Index	**3,050**	**3,271/2,464**	2,494	3,587/2,449

Sensitivity analysis

The sensitivity analysis below has been determined assuming that the reasonably possible changes in the fair value of equity investments, with all other variables held constant had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date.

At the end of the reporting period, if the equity price had been 5% *(2018: 5%)* higher/lower with all other variables held constant, the Group's loss before tax would be decreased/increased by HK$28,742,000 *(2018: the Group's loss before tax would be decreased/increased by HK$14,619,000)* as a result of changes in fair value of listed financial assets classified as financial assets at fair value through profit or loss.

32. FAIR VALUE MEASUREMENTS

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these consolidated financial statements on a recurring basis at 31 December 2019 and 31 December 2018 across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair Value Measurement*, with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement.

2019

	Total HK$'000	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	**340,405**	**340,405**	**–**	**–**
— Equity securities listed outside Hong Kong	**202,919**	**202,919**	**–**	**–**
— Unlisted debt securities	**164,669**	**–**	**164,669**	**–**
— Unlisted fund investments	**31,513**	**–**	**31,513**	**–**
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	**–**	**–**	**–**	**–**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
— Derivative financial liabilities	**17,732**	**17,732**	**–**	**–**

2018

	Total HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
— Equity securities listed in Hong Kong	246,860	246,860	–	–
— Debt securities listed outside Hong Kong	159,474	–	159,474	–
— Unlisted fund investments	45,520	–	45,520	–
Financial assets at fair value through other comprehensive income				
— Unlisted equity securities	1,079	–	–	1,079

Management has assessed that the carrying amounts of other non-current assets, accounts receivable, other receivables and other assets, cash and cash equivalents, accounts payable and other payables approximate their fair values largely due to the short term maturities of these instruments or immaterial impact on discounting for non-current assets.

32. FAIR VALUE MEASUREMENTS (Continued)

Movements in Level 3 fair value measurements of financial assets

The movements in fair value measurements within Level 3 during the year are as follows:

	HK$'000
Equity investments at fair value through other comprehensive income	
At 1 January 2018	–
Effect of adoption of HKFRS 9	4,247
Total losses recognised in other comprehensive income	(3,168)
At 31 December 2018 and 1 January 2019	**1,079**
Total gains recognised in other comprehensive income	**388**
Disposed during the year	**(1,467)**
At 31 December 2019	**–**

The fair value is determined with reference to the latest net asset value of the investments which are the deemed resale reference price of the investments. Management have determined that the reported net asset values represent fair value of these investments.

Description of the valuation techniques and inputs used in Level 2 fair value measurement

The fair values of certain debt securities and unlisted fund investments are determined by using valuation techniques and inputs using third-party pricing information without adjustment from the fund managers and the bank.

(i) *Debt securities*

The fair value of debt securities was determined with reference to the quoted price provided by brokers/financial institutions in the absence of an active market.

(ii) *Unlisted fund investments*

Note 15 to the consolidated financial statements provides detailed information about the valuation techniques used in the determination of the fair value of the unlisted fund investments.

Valuation processes of the Group

The Directors determine the policies and procedures for both recurring and non-recurring fair value measurement. In estimating the fair value of an asset or a liability, the Directors use market-observable data to the extent it is available. Where Level 1 inputs are not available, the Directors would engage third party qualified valuer to perform the valuation for significant assets and liabilities.

33. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern in order to support the Group's growth and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions, future capital requirement of the Group and investment opportunities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and bonds. No changes were made in the objectives, policies or processes during the years ended 31 December 2019 and 31 December 2018.

The Group is not subject to any externally imposed capital requirements except for certain subsidiaries engaged in securities and futures dealings and broking, corporate finance and investment advisory services, asset management and insurance broking services which are regulated entities under the Securities and Futures Commission, the Insurance Authority and subject to the respective minimum capital requirements.

The Group monitors capital using a gearing ratio, which is total borrowings divided by the total shareholders' equity. The Group's policy is to maintain the gearing ratio at a reasonable level. At the end of the reporting period, there were borrowings of HK$1,549,172,000 *(2018: HK$1,945,475,000)* for financing the operations of the Group which resulted in a gearing ratio of 367.0% *(2018: 6,529.8%)*.

34. COMMITMENTS

Capital commitments

	2019 **HK$'000**	2018 HK$'000
Capital expenditure in respect of the acquisition of fixed assets contracted for but not provided in the consolidated financial statements	**40**	971

Commitments under operating leases

As at 31 December 2018, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

	2018 HK$'000
Minimum lease payments paid under operating leases	
— Properties	17,378
— Other assets	301
	17,679

	2018 HK$'000
Within one year	16,392
In the second to fifth year, inclusive	1,287
	17,679

35. CONTINGENT LIABILITIES

The Company had issued corporate guarantee of HK$130,000,000 *(2018: HK$90,000,000)* and unlimited guarantee for a facility amounted to HK$140,000,000 *(2018: HK$200,000,000)* for banking facilities granted to subsidiaries from banks, which none of the amount was utilised *(2018: Nil)*.

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

The statement of financial position of the Company and the movements in its reserves are set out below:

	Notes	**2019 HK$'000**	2018 HK$'000
Non-current assets			
Interests in subsidiaries	*(a)*	**–**	1,402,602
		–	1,402,602
Current assets			
Financial assets at fair value through profit or loss		**728,990**	251,341
Deposits, prepayments and other receivables		**50,707**	55,965
Amounts due from subsidiaries		**801,931**	–
Cash and bank balances		**430,216**	281,941
		2,011,844	589,247
Current liabilities			
Bonds payable		**–**	1,945,355
Derivative financial liabilities		**17,732**	–
Other payables and accrued charges		**23,194**	16,700
		40,926	1,962,055
Net current assets/(liabilities)		**1,970,918**	(1,372,808)
Total assets less current liabilities		**1,970,918**	29,794
Non-current liabilities			
Bonds payable		**1,548,770**	–
		1,548,770	–
NET ASSETS		**422,148**	29,794
Capital and reserves			
Share capital		**366,182**	244,121
Reserves	*(b)*	**(524,034)**	(214,327)
Other equity instrument		**580,000**	–
TOTAL EQUITY		**422,148**	29,794

Approved and authorised for issue by the Board of Directors on 27 March 2020 and are signed on its behalf by:

WU Jian
Director

PU Rui
Director

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(a) Interests in subsidiaries

Interests in subsidiaries are stated at cost less accumulated impairment, if any.

There were no non-current amounts due from subsidiaries as at 31 December 2019 *(2018: HK$1,402,602,000)*.

(b) Movements of the reserves

	Share premium HK$'000 *(Note ii)*	Contributed surplus HK$'000 *(Note i)*	Accumulated losses HK$'000	Total HK$'000 *(Note iii)*
At 1 January 2019	**214,079**	**65,059**	**(493,465)**	**(214,327)**
Loss and total comprehensive income for the year	**–**	**–**	**(344,546)**	**(344,546)**
Total comprehensive income for the year	**–**	**–**	**(344,546)**	**(344,546)**
Transactions with equity holders				
Contributions and distributions				
Issue of shares under rights issue	**34,839**	**–**	**–**	**34,839**
At 31 December 2019	**248,918**	**65,059**	**(838,011)**	**(524,034)**
At 1 January 2018	214,079	65,059	(274,349)	4,789
Loss and total comprehensive income for the year	–	–	(219,116)	(219,116)
Total comprehensive income for the year	–	–	(219,116)	(219,116)
At 31 December 2018	214,079	65,059	(493,465)	(214,327)

Notes:

(i) Contributed surplus

Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired as a result of the reorganisation and the nominal amount of the Company's shares issued for the acquisition. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company may not declare or pay a dividend, or make a distribution out of the contributed surplus, if there are reasonable grounds for believing that (i) it would, or would after the payment, be unable to pay its liabilities as they become due; or (ii) the realised value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(ii) Share premium

The share premium account of the Company of HK$248,918,000 *(2018: HK$214,079,000)* can be distributed in the form of fully paid bonus shares pursuant to the Companies Act 1981 of Bermuda (as amended).

(iii) Distributable reserves

At the end of the reporting period, in the opinion of the Directors, there is no reserve of the Company available for distribution to shareholders subject to the restriction stated above *(2018: Nil)*.

37. INTERESTS IN SUBSIDIARIES

Details of the principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Financial Management Limited ("SWSFM")	British Virgin Islands/ Hong Kong	US$10,000 (divided into 10,000 ordinary shares of US$1 each)	100%	100%	–	Investment holding and proprietary trading
Southwest Securities (HK) Asset Management Limited ("SWSAM")	Hong Kong/ Hong Kong	HK$44,000,000 ordinary shares and HK$6,000,000 non-voting deferred shares	100%	–	100%	Provision of asset management services, distribution of unit trusts and mutual funds
Southwest Securities (HK) Capital Limited ("SWSCAP")	Hong Kong/ Hong Kong	HK$60,000,000 ordinary shares	100%	–	100%	Provision of corporate finance advisory services
Southwest Securities (HK) Finance Limited ("SWSFIN")	Hong Kong/ Hong Kong	HK$1,000 ordinary shares and HK$10,000 non-voting deferred shares	100%	–	100%	Provision of corporate and personal financing services
Southwest Securities (HK) Futures Limited ("SWSFUT")	Hong Kong/ Hong Kong	HK$40,000,000 ordinary shares and HK$10,000,000 non-voting deferred shares	100%	–	100%	Futures broking and proprietary trading
Southwest Securities (HK) Brokerage Limited ("SWSB")	Hong Kong/ Hong Kong	HK$775,000,000 ordinary shares and HK$25,000,000 non-voting deferred shares	100%	–	100%	Securities broking, margin financing and distribution of unit trusts and mutual funds
Southwest Securities (HK) Wealth Management Limited ("SWSWM")	Hong Kong/ Hong Kong	HK$29,000,000 ordinary shares	100%	–	100%	Distribution of investment-linked products, mandatory provident fund products, provision of personal financial consulting and planning services and provision of insurance broking services

37. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ place of operation	Particulars of issued and fully paid share capital/ registered capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Southwest Securities (HK) Investments Limited ("SWSINV")	Hong Kong/ Hong Kong	HK$1 ordinary share	100%	–	100%	Investment holding
西證咨詢服務（深圳）有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK$5,000,000	100%	–	100%	Provision of corporate finance advisory services
西證（大連）投資管理有限公司	Wholly Foreign Owned Enterprise in the PRC	Registered capital of HK$6,000,000	100%	–	100%	Not yet commenced business
Southwest Value Fund ("SWVF")	Cayman Islands	10 non-participating voting management shares of US$0.01 par value and 30,000 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Investment holding
Southwest Value Master Fund ("SWVMF")	Cayman Islands	10 non-participating voting management shares of US$0.01 par value, and 29,700 participating non-voting redeemable Class A shares of US$0.01 par value each	100%	–	100%	Portfolio investment

In accordance with Articles of Association of each of SWSAM, SWSFIN, SWSFUT and SWSB, holders of non-voting deferred shares are entitled to a fixed non-cumulative dividend at a rate of Hong Kong one cent (HK$0.01) per non-voting deferred share when the profit exceeds HK$100,000,000,000 in any financial year.

38. EVENTS AFTER THE REPORTING PERIOD

There were no material subsequent events undertaken by the Company or by the Group after 31 December 2019 and up to the date of this annual report.

Southwest Securities Co., Ltd.

Review Report

BTC[2020]No.39313

Contents

Review report

BTC[2020]No.39313

To shareholders of Southwest Securities Co., Ltd.,

We have reviewed the accompanying financial statements of Southwest Securities Co., Ltd. (hereinafter referred to as "Southwest Securities"), which comprise the consolidated balance sheet and balance sheet as at 30 June 2020, the consolidated income statement, income statement, consolidated the cash flow statement, cash flow statement, the consolidated statement of changes in owners' equity, and statement of changes in owners' equity for the period from January 1 to June 30, 2020, and the notes to the financial statements. The preparation of these financial statements is the responsibility of the management of Southwest Securities, and our responsibility is to issue a review report on these financial statements based on the implementation of the review work.

We performed the review business in accordance with the *Chinese Certified Public Accountant Review Standards No. 2101-Financial Statement Review*. The standard requires us to plan and implement review work in order to obtain limited assurance on whether the financial statements are free from material misstatement. The review is mainly limited to inquiring the relevant personnel of the company and the implementation of analysis procedures on the financial data, and the degree of assurance provided is lower than that of the audit. We have not conducted an audit and therefore do not express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the financial statements have not been prepared, in material aspects, in accordance with the *Accounting Standards for Business Enterprises* and give a true and fair view of the net assets, financial position, and results of operation in all material aspects.

This report is only for the issuance of bonds by Southwest Securities International Securities Co., Ltd. and is not applicable to other purposes.

Beijing · China

16 November 2020

Chinese Certified Public Accountant:

Chinese Certified Public Accountant:

Consolidated and Parent Statement of Financial Position

Prepared by:Southwest Securities Co., Ltd.

Unit:Yuan

Items	Consolidated statement		Parent statement		Note number	
	30-6-2020	31-12-2019	30-6-2020	31-12-2019	Consolidated	Parent
Assets						
Cash and cash equivalents	14,514,914,749.57	13,424,712,915.79	12,594,161,246.28	10,806,817,050.85	6.1	
Including: Customer deposits	10,553,179,930.94	9,789,333,913.17	10,266,932,923.04	9,288,304,292.76		
Settlement reserve	3,300,096,349.91	2,912,119,926.36	2,897,982,881.53	2,583,633,193.25	6.2	
Including：Customer's reserve	2,520,889,912.27	1,616,211,293.99	2,103,962,437.04	1,281,003,240.41		
Placements to other financial institutions						
Margin accounts receivable	10,864,973,455.04	10,578,077,246.80	10,731,248,384.00	10,285,993,360.63	6.3	
Derivative financial assets	1,395,195.01	79,592.31	1,395,195.01	79,592.31	6.4	
Refundable deposits	1,124,155,743.45	879,184,971.17	504,799,607.00	319,918,650.00	6.5	
Accounts receivables	134,677,486.84	14,746,675.73	42,015,402.31	17,233,235.12	6.6	
Contract assets						
Financial assets held under resale agreements	1,505,869,314.50	1,560,086,843.75	1,266,228,184.56	1,354,120,859.55	6.7	
Assets held for sale						
Financial investments：						
Financial assets held for trading	23,045,528,945.45	17,667,368,833.83	19,055,525,151.76	14,630,432,579.93	6.8	
Debt investments						
Other debt Investments	10,360,984,318.28	11,383,678,879.93	10,360,984,318.28	11,383,678,879.93	6.9	
Other equity investments	3,268,177,071.50	3,317,992,713.71	3,268,177,071.50	3,317,992,713.71	6.1	
Long term equity investments	2,061,326,602.34	2,013,395,349.31	6,358,302,959.43	5,960,371,706.40	6.11	15.1
Investment real estate	69,907,634.68	32,055,324.93	66,947,159.04	28,712,579.53	6.12	
Fixed assets	238,280,045.59	290,114,812.82	233,416,919.73	284,296,276.32	6.13	
Construction in progress	650,009,446.49	574,160,498.08	650,009,446.49	574,160,498.08	6.14	
Intangible assets	156,398,448.25	166,420,622.22	152,106,055.55	161,289,983.20	6.15	
Goodwill	195,988,989.37	192,424,935.58			6.16	
Deferred tax assets	370,829,025.82	359,509,156.49	280,824,126.34	296,670,858.54	6.17	
Other assets	474,676,243.45	484,865,302.79	287,463,017.29	131,043,603.63	6.18	
Total assets	72,338,189,065.54	65,850,994,601.60	68,751,587,126.10	62,136,445,620.98		

Legal representative:Liao Qingxuan   Person in charge of accounting work: Wu Jian   Person in charge of accounting organization:Ye Ping

Consolidated and Parent Statement of Financial Position（Continued）

Prepared by:Southwest Securities Co., Ltd.

Unit:Yuan

Items	Consolidated statement		Parent statement		Note number	
	30-6-2020	31-12-2019	30-6-2020	31-12-2019	Consolidated	Parent
Liabilities						
Short-term loans						
Short-term debt instruments	3,883,705,238.06	1,310,320,447.71	3,883,705,238.06	1,310,320,447.71	6.22	
Placements from other financial institutions	2,017,333,333.34	1,408,302,777.78	2,017,333,333.34	1,408,302,777.78	6.23	
Financial liabilities held for trading	615,014,824.73	779,764,040.12			6.24	
Derivative financial liabilities	9,019.50	15,884,343.01	9,019.50		6.4	
Financial assets sold under repurchase agreements	16,938,030,145.59	14,515,651,543.18	16,938,030,145.59	14,515,651,543.18	6.25	
Securities brokerage payment	13,059,412,836.28	11,242,411,450.99	11,968,404,120.21	10,204,176,151.71	6.26	
Proceeds from underwriting securities received on behalf of customers	176,250,000.00		176,250,000.00		6.27	
Employee benefits payable	1,275,212,049.49	1,146,654,235.49	1,173,423,838.10	1,044,047,641.60	6.28	15.20
Taxes payable	42,265,200.74	39,378,850.65	33,829,808.95	34,311,519.06	6.29	
Accounts payable	182,587,128.79	99,925,740.26	96,519,959.30	55,129,004.45	6.30	
contract liabilities						
Liabilities held for sale						
Provisions						
Long-term loans						
Bonds payable	14,279,560,201.77	15,460,003,463.01	12,847,930,419.03	14,052,477,008.69	6.31	
Including: Preferred shares						
Perpetual bonds						
Deferred tax liabilities	155,077,777.88	102,557,630.85	59,691,376.35	55,038,543.48	6.17	
Other liabilities	204,060,096.40	172,362,321.53	162,976,017.34	132,805,556.40	6.32	
Total liabilities	52,828,517,852.57	46,293,216,844.58	49,358,103,275.77	42,812,260,194.06		
Shareholders' interests						
Share capital	5,645,109,124.00	5,645,109,124.00	5,645,109,124.00	5,645,109,124.00	6.33	
Other equity instruments						
Including: Preferred shares						
Perpetual bonds						
Capital reserve	7,768,259,719.03	7,768,259,719.03	7,768,259,719.03	7,768,259,719.03	6.34	
Less: treasury shares						
Other comprehensive income	183,017,415.60	183,766,198.05	105,490,098.76	131,768,925.87	6.35	
Surplus reserve	1,100,648,039.52	1,100,648,039.52	1,100,648,039.52	1,100,648,039.52	6.36	
General risk reserve	2,124,316,090.64	2,124,316,090.64	2,124,316,090.64	2,124,316,090.64	6.37	
Retained profits	2,757,606,748.66	2,771,469,583.10	2,649,660,778.38	2,554,083,527.86	6.38	
Total shareholders' equity attributable to the parent company	19,578,957,137.45	19,593,568,754.34				
Minority interest	-69,285,924.48	-35,790,997.32				
Total equity	19,509,671,212.97	19,557,777,757.02	19,393,483,850.33	19,324,185,426.92		
Total liabilities and shareholders' equity	72,338,189,065.54	65,850,994,601.60	68,751,587,126.10	62,136,445,620.98		

Legal representative:Liao Qingxuan　　Person in charge of accounting work: Wu Jian　　Person in charge of accounting organization:Ye Ping

Consolidated and Parent Statement of Profit or Loss

Prepared by:Southwest Securities Co., Ltd.						Unit:Yuan
Items	Consolidated statement		Parent statement		Note number	
	Amount incurred in the current period	Amount incurred in the previous period	Amount incurred in the current period	Amount incurred in the previous period	Consolidated	Parent
1、Revenue	1,621,940,811.21	1,709,818,323.05	1,469,669,070.09	1,728,910,661.75		
Net interest income	156,724,615.98	108,150,491.00	179,791,734.36	114,860,535.56	6.39	15.3
Including:Interest income	815,550,927.13	900,115,888.92	778,526,729.10	812,090,883.17		
Interest expense	658,826,311.15	791,965,397.92	598,734,994.74	697,230,347.61		
Net fee and commission income	480,553,173.10	507,764,028.38	449,502,224.48	483,623,491.49	6.40	15.4
Including: Net income from brokerage business	343,065,125.14	337,880,117.01	328,705,893.03	327,085,612.26		
Net income from investment banks business	110,562,168.54	136,214,224.59	101,828,984.90	123,440,617.29		
Net income from asset management business	15,366,746.53	27,231,760.37	16,477,032.96	29,631,120.86		
Investment gains (Loss expressed with "-")	699,897,088.78	539,855,721.88	626,621,710.19	640,607,366.85	6.41	15.5
Including: Investment gains from associates and joint ventures	196,884,340.47	159,670,330.45	196,884,340.47	159,670,330.45		
Gains from derecognition of financial assets measured at amortized cost (Loss expressed with "-")						
Net exposure hedging gain(Loss expressed with "-")						
Other income	17,769,226.05	28,110,933.12	17,668,764.67	25,212,265.76	6.42	
Profit or loss from changes in fair value (Loss expressed with "-")	245,851,460.33	450,206,671.56	195,155,637.69	464,269,139.87	6.43	15.6
Foreign exchange gain (Loss expressed with "-")	2,640,120.20	3,138,651.61	482,498.45	70,318.08		
Other operating income	18,201,422.34	72,402,376.60	246,857.14	78,095.24	6.44	
Gains on disposal of assets (Loss expressed with "-")	303,704.43	189,448.90	199,643.11	189,448.90	6.45	
2、Expenses	1,156,471,283.83	1,168,358,765.12	890,503,148.82	1,012,442,027.76		
Taxes and surcharges	9,307,360.55	10,660,660.11	9,030,736.92	9,952,619.83	6.46	
Operating expenses	995,837,597.19	1,020,171,689.10	873,465,525.52	922,664,127.73	6.47	15.17
Expected credit losses	129,004,630.37	50,216,255.17	4,235,485.12	3,034,763.07	6.49	
Provision for impairment losses on other assets	490,825.00	15,413,405.23		75,422,602.80	6.49	
Other operating costs	21,830,870.72	71,896,755.51	3,771,401.26	1,367,914.33	6.5	
3、Operating profit (Loss expressed with "-")	465,469,527.38	541,459,557.93	579,165,921.27	716,468,633.99		
Add: Non-operating income	383,910.74	278,957.21	6,552.26	28,068.16	6.51	
Less: Non-operating expenses	12,835,413.93	4,274,284.78	12,834,913.93	4,074,226.87	6.52	
4、Total profit (Total loss expressed with "-")	453,018,024.19	537,464,230.36	566,337,559.60	712,422,475.28		
Less: Income tax expense	57,162,322.22	58,467,967.44	30,667,404.03	34,662,532.20	6.53	
5、Net profit (Net loss is indicated with "-")	395,855,701.97	478,996,262.92	535,670,155.57	677,759,943.08		
(1) Classified by continuity of operating:						
1.Net profit from continuing operations (Net loss is indicated with "-")	395,855,701.97	478,996,262.92	535,670,155.57	677,759,943.08		
2.Net profit from discontinued operations (Net loss is indicated with "-")						
(2) Classified by Ownership:						
Net profit attributable to the owners of the parent company	428,437,825.00	490,496,523.69				
Minority interest	-32,582,123.03	-11,500,260.77				
6、Net other comprehensive income after tax	10,195,267.03	93,708,882.03	-14,763,002.24	91,909,281.73		
Net amount of other comprehensive income after tax attributable to shareholders of the parent company	10,767,042.42	93,426,439.30				
(1) Other comprehensive income that cannot be reclassified into profit and loss in the future	-28,972,098.51	110,421,334.89	-28,972,098.51	110,421,334.89		
1.Remeasurement of changes of defined benefit plans	-911,619.94	-1,223,153.33	-911,619.94	-1,223,153.33		
2.Other comprehensive income that cannot be converted into profit and loss under equity method						
3.Changes in fair value of investments in other equity instruments	-28,060,478.57	111,644,488.22	-28,060,478.57	111,644,488.22		
4.Changes in fair value of the Company credit risk						
(2) Other comprehensive income that will be reclassified into profit and loss in the future	39,739,140.93	-16,994,895.59	14,209,096.27	-18,512,053.16		
1.Other comprehensive income that will be converted into profit and loss under equity method	197,143.44	210,092.90	197,143.44	210,092.90		
2.Changes in fair value of investments in other debt	14,878,567.07	-17,409,912.77	14,878,567.07	-17,409,912.77		
3.The amount of financial assets that will be reclassified into other comprehensive income						
4.Provision for credit losses on investments in other debt	-866,614.24	-1,312,233.29	-866,614.24	-1,312,233.29		
5.Reserve of cash flow hedging						
6.Translation difference of foreign currency financial statements	25,530,044.66	1,517,157.57				
Net amount of other comprehensive income after tax attributable to minority shareholders	-571,775.39	282,442.73				
7、Total comprehensive income	406,050,969.00	572,705,144.95	520,907,153.33	769,669,224.81		
Total comprehensive income attributable to shareholders of the parent company	439,204,867.42	583,922,962.99				
Total comprehensive income attributable to minority shareholders	-33,153,898.42	-11,217,818.04				
8、Earnings per share						
(1) Basic earnings per share (yuan / share)	0.08	0.09				
(2) Diluted earnings per share (yuan / share)	0.08	0.09				

Legal representative:Liao Qingxuan   Person in charge of accounting work: Wu Jian   Person in charge of accounting organization:Ye Ping

Consolidated and Parent Statement of Cash Flows

Prepared by:Southwest Securities Co., Ltd.

Unit:Yuan

Items	Consolidated statement		Parent statement		Note number	
	Amount incurred in the current period	Amount incurred in the previous period	Amount incurred in the current period	Amount incurred in the previous period	Consolidated	Parent
1、Cash flows from operating activities：						
Net decrease of financial assets held for trading purposes						
Cash received from interest, fees and commissions	1,262,744,019.81	1,349,827,769.36	1,190,021,179.18	1,212,544,542.11		
Net increase in placements from other financial institutions	600,000,000.00	100,000,000.00	600,000,000.00	100,000,000.00		
Net increase of repurchase and resale business	2,507,841,008.00	2,225,052,756.88	2,536,837,008.00	2,230,911,744.33		
Net decrease in resale funds						
Net decrease of margin accounts receivable						
Net received from accounts payable to brokerage customers	1,817,001,385.29	3,162,206,665.28	1,764,227,968.50	2,981,944,381.37		
Cash received from other operating activities	506,082,606.70	239,125,949.01	311,374,383.28	147,740,260.10	6.55	
Subtotal of cash inflow from operating activities	6,693,669,019.80	7,076,213,140.53	6,402,460,538.96	6,673,140,927.91		
Net increase of financial assets held for trading purposes	4,791,740,417.80	2,561,812,513.10	3,895,027,816.64	3,424,890,342.91		
Net increase of margin accounts receivable	273,765,441.72	1,125,940,735.77	433,204,375.74	1,325,331,620.68		
Net paid on accounts payable to brokerage customers						
Cash paid for interest, fees and commissions	410,365,789.84	494,318,807.84	401,936,204.71	455,802,087.66		
Net decrease in placements from other financial institutions						
Net decrease of repurchase and resale business						
Net increase in resale funds						
Cash paid to and for employees	675,778,929.01	651,058,952.63	596,502,403.49	570,059,486.36		
Taxes paid	132,423,679.82	127,989,361.43	126,514,683.52	110,238,403.20		
Other cash paid related to operating activities	557,219,803.65	526,501,178.12	363,414,431.13	333,601,805.03	6.55	
Subtotal of cash outflow from operating activities	6,841,294,061.84	5,487,621,548.89	5,816,599,915.23	6,219,923,745.84		
Net cash flows from operating activities	-147,625,042.04	1,588,591,591.64	585,860,623.73	453,217,182.07		
2、Cash flows from investment activities：						
Cash received from investment recovery	1,076,536,222.65	1,153,452,656.77	1,070,818,466.29	1,107,302,656.77		
Cash received from investment gains	237,864,200.47	310,621,976.18	318,259,421.56	595,623,153.67		
Net cash received from disposal of subsidiaries and other business units						
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	597,040.44	393,127.18	488,086.17	391,535.80		
Subtotal of cash inflow from investment activities	1,314,997,463.56	1,464,467,760.13	1,389,565,974.02	1,703,317,346.24		
Cash paid for investment			350,000,000.00			
Cash paid for acquisition and construction of fixed assets, intangible assets and other long-term assets	97,424,434.18	92,609,150.41	96,555,842.40	86,797,567.90		
Net cash paid for acquisition of subsidiaries and other business units						
Other cash paid related to investment activities						
Subtotal of cash outflow from investment activities	97,424,434.18	92,609,150.41	446,555,842.40	86,797,567.90		
Net cash flow from investment activities	1,217,573,029.38	1,371,858,609.72	943,010,131.62	1,616,519,778.34		
3、Cash flow from financing activities：						
Cash received from investment absorption		428,349,346.05				
Including: cash received from minority shareholders' investment by subsidiaries		428,349,346.05				
Cash received from loans						
Cash received from bond issuance	3,883,360,000.00	6,276,276,662.57	3,883,360,000.00	4,905,760,000.00		
Cash received from other financing activities						
Subtotal of cash inflow from financing activities	3,883,360,000.00	6,704,626,008.62	3,883,360,000.00	4,905,760,000.00		
Cash paid for debt repayment	2,497,880,000.00	3,971,881,550.00	2,497,880,000.00	2,258,480,000.00		
Cash paid for distribution of dividends, profits or payment of interest	870,902,598.86	264,554,969.48	814,853,911.19	210,855,253.16		
Including: dividends and profits paid by subsidiaries to minority shareholders						
Cash paid for other financing activities	121,451,622.63	643,516,149.35			6.55	
Subtotal of cash outflow from financing activities	3,490,234,221.49	4,879,952,668.83	3,312,733,911.19	2,469,335,253.16		
Net cash flow from financing activities	393,125,778.51	1,824,673,339.79	570,626,088.81	2,436,424,746.84		
4、Effect of exchange rate changes on cash and cash equivalents	15,834,066.65	3,177,991.43	2,197,039.55	325,439.85		
5、Net increase in cash and cash equivalents	1,478,907,832.50	4,788,301,532.58	2,101,693,883.71	4,506,487,147.10	6.56	
Add: balance of cash and cash equivalents at the openning of the period	16,335,989,721.84	13,785,795,976.92	13,390,450,244.10	10,915,825,999.77	6.56	
6、Balance of cash and cash equivalents at the end of the period	17,814,897,554.34	18,574,097,509.50	15,492,144,127.81	15,422,313,146.87	6.56	

Legal representative:Liao Qingxuan　Person in charge of accounting work: Wu Jian　Person in charge of accounting organization:Ye Ping

Consolidated Statement of Changes in Equity

Prepared by:Southwest Securities Co., Ltd.

Unit: Yuan

Items	January to June 2020											
	Shareholders' equity attributable to the parent company										Minority interests	Total equity
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Retained profits		
		Preferred share	Perpetual bonds	Other								
I Balance at the end of last year	5,645,109,124.00				7,768,259,719.03		183,766,198.05	1,100,648,039.52	2,124,316,090.64	2,771,469,583.10	-35,790,997.32	19,557,777,757.02
Add: Changes in accounting policies												
Correction of previous errors												
Business combination under common control												
Other												
II Balance at the opening of the year	5,645,109,124.00				7,768,259,719.03		183,766,198.05	1,100,648,039.52	2,124,316,090.64	2,771,469,583.10	-35,790,997.32	19,557,777,757.02
III Increase and decrease in the current year (decrease expressed with "-")							-748,782.45			-13,862,834.44	-33,494,927.16	-48,106,544.05
(1) Total comprehensive income							10,767,042.42			428,437,825.00	-33,153,898.42	406,050,969.00
(2) Capital invested and reduced by shareholders												
1.Ordinary shares invested by shareholders												
2.Capital invested by holders of other equity instruments												
3.Amount of share based payment included in shareholders' equity												
4.Other												
(3) Profit distribution										-451,608,729.92		-451,608,729.92
1.Appropriation to surplus reserve												
2.Appropriation to general risk reserve												
3.Distribution to owners (or shareholders)										-451,608,729.92		-451,608,729.92
4.Other												
(4) Internal carry forward of shareholders' equity							-11,515,824.87			11,515,824.87		
1.Capital reserve converted to capital (or share capital)												
2.Surplus reserve converted to capital (or share capital)												
3.Surplus reserve to cover losses												
4.Changes of defined benefit plans carry forward retained earnings												
5.Other comprehensive income carry forward retained earnings							-11,515,824.87			11,515,824.87		
6.Other												
(5) Appropriation and use of special reserves												
1.Appropriation in this year												
2.Usage in this year												
(6) Other										-2,207,754.39	-341,028.74	-2,548,783.13
IV Balance at the end of this year	5,645,109,124.00				7,768,259,719.03		183,017,415.60	1,100,648,039.52	2,124,316,090.64	2,757,606,748.66	-69,285,924.48	19,509,671,212.97

Legal representative:Liao Qingxuan   Person in charge of accounting work: Wu Jian   Person in charge of accounting organization:Ye Ping

Consolidated Statement of Changes in Equity(Continued)

Prepared by:Southwest Securities Co., Ltd.

Unit: Yuan

Items	January to June 2019											
	Shareholders' equity attributable to the parent company										Minority interests	Total equity
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Retained profits		
		Preferred share	Perpetual bonds	Other								
I Balance at the end of last year	5,645,109,124.00				7,768,259,719.03		-328,397,141.19	1,023,127,927.72	1,969,275,867.04	2,518,032,956.48	381,556,704.87	18,976,965,157.95
Add: Changes in accounting policies							345,897,254.91	-49,177,543.07	-98,355,086.14	-215,968,700.09	54,733,228.94	37,129,154.55
Correction of previous errors												
Business combination under common control												
Other												
II Balance at the opening of the year	5,645,109,124.00				7,768,259,719.03		17,500,113.72	973,950,384.65	1,870,920,780.90	2,302,064,256.39	436,289,933.81	19,014,094,312.50
III Increase and decrease in the current year (decrease expressed with "-")							99,333,925.70			315,235,763.57	405,923,980.84	820,493,670.11
(1) Total comprehensive income							93,426,439.30			490,496,523.69	-11,217,818.04	572,705,144.95
(2) Capital invested and reduced by shareholders											417,141,798.88	417,141,798.88
1.Ordinary shares invested by shareholders											428,349,346.05	428,349,346.05
2.Capital invested by holders of other equity instruments												
3.Amount of share based payment included in shareholders' equity												
4.Other											-11,207,547.17	-11,207,547.17
(3) Profit distribution										-169,353,273.72		-169,353,273.72
1.Appropriation to surplus reserve												
2.Appropriation to general risk reserve												
4.Distribution to owners (or shareholders)										-169,353,273.72		-169,353,273.72
5.Other												
(4) Internal carry forward of shareholders' equity							5,907,486.40			-5,907,486.40		
1.Capital reserve converted to capital (or share capital)												
2.Surplus reserve converted to capital (or share capital)												
3.Surplus reserve to cover losses												
4.Changes of defined benefit plans carry forward retained earnings												
5.Other comprehensive income carry forward retained earnings							5,907,486.40			-5,907,486.40		
6.Other												
(5) Appropriation and use of special reserves												
1.Appropriation in this year												
2.Usage in this year												
(6) Other												
IV Balance at the end of this year	5,645,109,124.00				7,768,259,719.03		116,834,039.42	973,950,384.65	1,870,920,780.90	2,617,300,019.96	842,213,914.65	19,834,587,982.61

Legal representative:Liao Qingxuan　　Person in charge of accounting work: Wu Jian　　Person in charge of accounting organization:Ye Ping

Statement of Changes in Equity

Prepared by:Southwest Securities Co., Ltd.

Unit: Yuan

Items	January to June 2020										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Retained profits	Total equity
		Preferred share	Perpetual bonds	Other							
I Balance at the end of last year	5,645,109,124.00				7,768,259,719.03		131,768,925.87	1,100,648,039.52	2,124,316,090.64	2,554,083,527.86	19,324,185,426.92
Add: Changes in accounting policies											
Correction of previous errors											
Other											
II Balance at the opening of the year	5,645,109,124.00				7,768,259,719.03		131,768,925.87	1,100,648,039.52	2,124,316,090.64	2,554,083,527.86	19,324,185,426.92
III Increase and decrease in the current year (decrease expressed with "-")							-26,278,827.11			95,577,250.52	69,298,423.41
(1) Total comprehensive income							-14,763,002.24			535,670,155.57	520,907,153.33
(2) Capital invested and reduced by shareholders											-
1.Ordinary shares invested by shareholders											
2.Capital invested by holders of other equity instruments											
3.Amount of share based payment included in shareholders' equity											
4.Other											
(3) Profit distribution										-451,608,729.92	-451,608,729.92
1.Appropriation to surplus reserve											
2.Appropriation to general risk reserve											
3.Distribution to owners (or shareholders)										-451,608,729.92	-451,608,729.92
5.Other											
(4) Internal carry forward of shareholders' equity							-11,515,824.87			11,515,824.87	
1.Capital reserve converted to capital (or share capital)											
2.Surplus reserve converted to capital (or share capital)											
3.Surplus reserve to cover losses											
4.Changes of defined benefit plans carry forward retained earnings											
5.Other comprehensive income carry forward retained earnings							-11,515,824.87			11,515,824.87	
6.Other											
(5) Appropriation and use of special reserves											
1.Appropriation in this year											
2.Usage in this year											
(6) Other											
IV Balance at the end of this year	5,645,109,124.00				7,768,259,719.03		105,490,098.76	1,100,648,039.52	2,124,316,090.64	2,649,660,778.38	19,393,483,850.33

Legal representative:Liao Qingxuan Person in charge of accounting work: Wu Jian Person in charge of accounting organization:Ye Ping

Statement of Changes in Equity(Continued)

Prepared by:Southwest Securities Co., Ltd.

Unit: Yuan

Items	January to June 2019										
	Share capital	Other equity instruments			Capital reserve	Less: Treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Retained profits	Total equity
		Preferred share	Perpetual bonds	Other							
I Balance at the end of last year	5,645,109,124.00				7,768,259,719.03		-434,316,726.47	1,023,127,927.72	1,969,275,867.04	2,203,945,908.64	18,175,401,819.96
Add: Changes in accounting policies							412,029,717.23	-49,177,543.07	-98,355,086.14	-344,242,801.51	-79,745,713.49
Correction of previous errors											
Other											
II Balance at the opening of the year	5,645,109,124.00				7,768,259,719.03		-22,287,009.24	973,950,384.65	1,870,920,780.90	1,859,703,107.13	18,095,656,106.47
III Increase and decrease in the current year (decrease expressed with "-")							97,816,768.13			502,499,182.96	600,315,951.09
(1) Total comprehensive income							91,909,281.73			677,759,943.08	769,669,224.81
(2) Capital invested and reduced by shareholders											
1.Ordinary shares invested by shareholders											
2.Capital invested by holders of other equity instruments											
3.Amount of share based payment included in shareholders' equity											
4.Other											
(3) Profit distribution										-169,353,273.72	-169,353,273.72
1.Appropriation to surplus reserve											
2.Appropriation to general risk reserve											
3.Distribution to owners (or shareholders)										-169,353,273.72	-169,353,273.72
5.Other											
(4) Internal carry forward of shareholders' equity							5,907,486.40			-5,907,486.40	
1.Capital reserve converted to capital (or share capital)											
2.Surplus reserve converted to capital (or share capital)											
3.Surplus reserve to cover losses											
4.Changes of defined benefit plans carry forward retained earnings											
5.Other comprehensive income carry forward retained earnings							5,907,486.40			-5,907,486.40	
6.Other											
(5) Appropriation and use of special reserves											
1.Appropriation in this year											
2.Usage in this year											
(6) Other											
IV Balance at the end of this year	5,645,109,124.00				7,768,259,719.03		75,529,758.89	973,950,384.65	1,870,920,780.90	2,362,202,290.09	18,695,972,057.56

Legal representative:Liao Qingxuan   Person in charge of accounting work: Wu Jian   Person in charge of accounting organization:Ye Ping

Southwest Securities Co., Ltd.

Notes to The Financial Statements for January-Jun 2020

(Unless otherwise specified, all amounts are in RMB Yuan as the currency unit)

1. Company Profile

Southwest Securities Co., Ltd. (hereinafter referred to as the "Company") is a listed securities company approved by the China Securities Regulatory Commission, by the major asset restructuring of Chongqing Changjiang River Water Transport Co., Ltd., absorbing the Southwest Securities Co., Ltd., and is established by inheriting the various securities business qualifications of Southwest Securities LLC.

Southwest Securities LLC is a limited liability company jointly initiated and established on December 28, 1999, with other shareholders (all invested in cash) on the basis of all the net assets of the former Securities Department of the Chongqing Trust Co., Ltd., the former Chongqing Securities Company, the former Chongqing Securities Company and the former Chongqing Securities Registration Co., Ltd., with the approval of China Securities Regulatory Commission’s Securities Regulatory Agency [1999] No. 32, China Securities Regulatory Agency [1999] No. 114 and China Securities Regulatory Agency [1999] No. 159. In February 2009, with the approval of the China Securities Regulatory Commission's Securities Regulatory License [2009] No. 62, Chongqing Yangtze River Water Transport Co., Ltd. reorganized its major assets and absorbed 1,658,997,062 RMB ordinary shares to merge Southwest Securities LLC, and inherited various securities business qualifications of Southwest Securities LLC in accordance with the law. On February 17, 2009, the Company completed the relevant registration and filing procedures with the Chongqing Administration for Industry and Commerce, and the institution name was changed to Southwest Securities Co., Ltd..

The company now holds a business license with a unified social credit code of 91500000203291872B. As of 30 Jun 2020, the company's registered capital was RMB 5,645,109,124.00, and the total number of shares was 5,645,109,124 shares (each with a par value of RMB 1), all of which were tradable shares (A shares) with no-restricted sale conditions.

The company's main business activities: Securities brokerage, securities investment consulting, and securities trading, financial advisors related to securities investment activities, securities underwriting and sponsorship, securities self-operation, securities asset management, margin trading, securities investment fund agency sales, agency sales of financial products, provision of intermediate introduction services for futures companies, and stock option market making.

As of 30 Jun 2020, the company has 4 primary subsidiaries and 126 securities branches.it has 2,300 employees, including 6 senior executives.

The scope of consolidation of the consolidated financial statements is determined on the basis of control. For details, please refer to “7. Changes in The Scope of Consolidation, and 8. Equity in other Entities”.

2. Basis for The Preparation of Financial Statements

2.1 Preparation Basis

The company's financial statements are prepared on the basis of continuing operations.

2.2 Continuing Operations

The company has no matters or circumstances that cause major doubts about its ability to continue operations within 12 months from the end of the reporting period.

3. Major Accounting Policies and Accounting Estimates

3.1 Declaration of compliance with corporate accounting standards

The financial statements prepared by the company meet the requirements of the accounting standards for business enterprises, and truly and completely reflect the company's financial status, operating results, changes in shareholders' equity and cash flow and other related information.

3.2 Accounting Period

The company's fiscal year starts from January 1 to December 31 of the Gregorian calendar.

3.3 Reporting currency

The company's accounting currency is RMB.

3.4 Accounting treatment of business combinations involving enterprises under common control and not under common control

3.4.1Business combinations involving enterprises under common control

The assets and liabilities acquired by the company in a business combination are measured according to the book value of the combined party in the consolidated financial statements of the ultimate controlling party on the combination date. The company adjusts the capital reserve according to the difference between the book value of the owner's equity of the merged party in the ultimate controlling party's consolidated financial statements and the book value of the combined consideration paid or the total face value of the issued shares; If the capital reserve is insufficient to offset, the retained earnings is adjusted.

3.4.2 Business combinations involving enterprises not under common control

The difference between the company's merger cost and the fair value of the acquiree's identifiable net assets obtained in the merger on the purchase date is recognized as goodwill. If the merger cost is less than the fair value of the acquiree's identifiable net assets obtained in the merger, the fair value of the acquired identifiable assets, liabilities and contingent liabilities of the acquiree and the measurement of the merger cost are reviewed first. After the review. If the cost of the merger is still less than the fair value of the identifiable net assets of the acquiree obtained in the merger, the difference are included in the current profit and loss.

3.4.5 Method of preparing consolidated financial statements

All subsidiaries are within the scope of consolidation in the consolidated financial statements. The consolidated financial statements shall be prepared based on the financial statements of the Company and its Subsidiaries, with other related information and in accordance with the ASBE No. 33 - Consolidated Financial Statements.

3.4.6 Classification of joint arrangements and accounting treatment methods for joint operations

(1) Joint venture arrangements are divided into joint operations and joint ventures.

(2) A joint operator shall recognize the following items in relation to its interest in a joint operation, and account for them in accordance with the relevant provisions of the accounting standards:

A. Its solely-held assets, and its share of any assets held jointly;

B. Its solely-assumed liabilities, and its share of any liabilities incurred jointly;

C. Its revenue from the sale of its share of the output arising from the joint operation;

D. Its share of the revenue from the sale of the output by the joint operation; and

E. Its solely-incurred expenses and its share of any expenses incurred jointly.

3.4.7 Criteria for determining cash and cash equivalents

Cash equivalents refer to investments held by an enterprise for a short period of time (generally within three months from the date of purchase) that are highly liquid, easy to convert into cash of a known amount, and have little risk of changes in value.

3.4.8 Foreign currency business and foreign currency report translation

(1) Foreign currency business conversion

A foreign currency transaction shall be recorded, on initial recognition in the function currency, by applying to the Foreign the spot exchange rate at the date on transactions. At the balance sheet date, foreign currency monetary items shall be translated using the spot exchange rate. Exchange differences between the spot exchange rate prevailing at the balance sheet date and those spots used on initial recognition or at the previous balance sheet date, except for the exchange differences arising from foreign currency borrowings and interest for the acquisition or construction of qualifying assets, shall be recognized in profit or loss for the current period. Foreign currency non-monetary items measured at historical cost shall be translated at the spot exchange rate at the dates of transaction, and the amount in functional currency shall remain unchanged. Foreign currency non-monetary items measured at fair value shall be translated at the spot exchange rates ate the date of determination of fair value and the difference shall be recognized in profit or loss for the period from 1st Jan to 30th Jun 2020or other comprehensive income.

(2) Translation of foreign currency financial statements

Assets and liabilities on the balance sheet shall be translated at the spot exchange rate prevailing at the balance sheet date. Owners' equity items except for retained earnings shall be translated at the spot exchange rates at the dates on which such items arose. Income and expense in the income statement shall be translated at the spot exchange rates on the dates of the transactions. The differences arising from above shall be presented as other comprehensive income in the owner's equity on the balance sheet.

3.4.9 Financial instruments

(1) Classification of financial assets and financial liabilities

Financial assets are divided into the following three categories at the time of initial recognition: (1) Financial assets measured at amortized cost; (2) Financial assets that are measured at fair value and whose changes are included in other comprehensive income; (3) Financial assets that are measured at fair value and whose changes are included in the current profits and losses.

Financial liabilities are divided into the following four categories at the time of initial recognition: (1) Financial liabilities that are measured at fair value and whose changes are included in the current profits and losses; (2) The transfer of financial assets does not meet the conditions for termination of confirmation or continues to be involved in financial liabilities formed by the transferred financial assets; (3) Financial guarantee contracts that do not fall into (1) or (2) above, and loan commitments that do not fall into (1) above and are loaned at lower than market interest rates; (4) Financial liabilities measured at amortized cost.

(2) Recognition basis, measurement method and termination conditions of financial assets and financial liabilities

A. Recognition basis and initial measurement method of financial assets and financial liabilities

When a company becomes a party to a financial instrument contract, a financial asset or financial liability is recognized. When financial assets or financial liabilities are initially recognized, they are measured at fair value. For financial assets and financial liabilities that are measured at fair value and whose changes are included in the current profits and losses, the relevant transaction costs are directly included in the current profits and losses. For other types of financial assets or financial liabilities, related transaction costs are included in the initial confirmation amount. However, if the account receivables initially confirmed by the company does not contain a significant financing component or the company does not consider the financing component in a contract that is less than one year the initial measurement is made at the transaction price.

B. Subsequent measurement methods of financial assets

i. Financial assets measured at amortized cost

Effective interest method is adopted for subsequent measurement based on the amortized cost. The gains or losses arising from financial assets that are measured at amortized cost and are not part of any hedging relationship are included in the current profits and losses when they are terminated, reclassified, amortized in accordance with the effective interest method, or recognized as impairment.

ii. Investment in debt instruments measured at fair value and whose changes are included in other comprehensive income

Fair value is adopted for subsequent measurement. Interest, impairment losses or gains and exchange gains and losses calculated using the effective interest rate method are included in the current profit and loss, and other gains or losses are included in other comprehensive income. When the recognition is terminated, the accumulated gains or losses previously included in other comprehensive income shall be transferred from other comprehensive income and included in the current profit and loss.

iii. Equity instrument investment measured at fair value and its changes included in other comprehensive income

Fair value is adopted for subsequent measurement. Dividends obtained (except those that are part of the recovery of investment costs) are included in the current profit and loss, and other gains or losses are included in other comprehensive income. When the recognition is terminated, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income and included in retained earnings.

iv. Financial assets that are measured at fair value and whose changes are included in the current profit and loss

Fair value is adopted for subsequent measurement. The resulting gains or losses (including interest and dividend income) are included in the current profit and loss, unless the financial asset is part of the hedging relationship.

C. Subsequent measurement methods of financial liabilities

i. Financial liabilities measured at fair value and whose changes are included in the current profit and loss

Such financial liabilities include Financial liabilities held for trading (including derivatives that are financial liabilities) and financial liabilities designated as fair value measurement and whose changes are included in the current profits and losses. For such financial liabilities, Subsequent measurement is made at fair value. Changes in the fair value of financial liabilities designated at fair value and included in the current profits and losses caused by changes in the company's own credit risk are included in other comprehensive income, unless the treatment will cause or enlarge the accounting mismatch in the profits and losses. Other gains or losses arising from such financial liabilities (including interest expenses, excluding changes in fair value due to changes in the company's own credit risk) are included in the current profit and loss, unless the financial liabilities are part of the hedging relationship. When the recognition is terminated, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income and included in retained earnings.

ii. Financial liabilities formed by the transfer of financial assets that do not meet the conditions for derecognition or continue to be involved in the transferred financial assets shall be measured in accordance with the relevant regulations of *Accounting Standards for Business Enterprises No. 23-Financial Asset Transfer*.

iii. Financial guarantee contracts that do not fall under i) or ii) above, and loan commitments that do not fall under i) above and have loans at a lower than market interest rate are subsequently measured at the higher of the following two amounts after initial confirmation: a. The amount of loss reserves determined in accordance with the provisions on impairment of financial instruments; b. The initial confirmation amount is the balance after deducting the accumulated amortization amount determined in accordance with relevant regulations.

iv. Financial liabilities measured at amortized cost

The effective interest method is adopted to measure at amortized cost. The gains or losses arising from financial liabilities that are measured at amortized cost and are not part of any hedging relationship are included in the current profits and losses when they are terminated and amortized according to the actual interest rate method.

D. Derecognition of financial assets and financial liabilities

i. When one of the following conditions is met, the confirmation of financial assets is terminated:

a. The contractual right to receive cash flows from financial assets has been terminated;

b. The financial assets have been transferred, and the transfer meets the requirements of *Accounting Standards for Business Enterprises No. 23-Financial Asset Transfer* on the derecognition of financial assets.

ii. When the current obligation of the financial liability (or part of it) has been discharged, the financial liability (or the part of the financial liability) shall be terminated accordingly.

(3) Recognition basis and measurement method of financial asset transfer

If the Company transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the Company shall derecognize the financial asset. If the Company retains substantially all the risks and rewards of ownership of a financial asset, the Company shall not derecognize the financial asset. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it shall account for the transaction as follows. If the Company has not retained control of the financial asset, it shall derecognize the financial asset. If the Company has retained control of the financial asset, it shall recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognize an associated liability..

If the overall transfer of financial assets meets the conditions for termination of confirmation, the difference between the following two amounts is included in the current profit and loss: (1) The book value of the transferred financial assets on the date of derecognition; (2) The sum of the consideration received due to the transfer of financial assets and the amount of the corresponding derecognized part of the accumulated amount of fair value changes originally directly included in other comprehensive income (The financial assets involved in the transfer are investments in debt instruments that are measured at fair value and whose changes are included in other comprehensive income).

If a part of the financial asset is transferred, and the entire transferred part meets the conditions for termination of confirmation, the book value of the financial asset as a whole before the transfer is allocated between the de-recognized part and the continued-recognized part according to their respective relative fair values on the transfer date, and the difference between the following two amounts is included in the current profit and loss: (1) The book value of the derecognized part; (2) The sum of the consideration of the derecognized part and the amount of the corresponding derecognized part in the cumulative amount of fair value changes originally directly included in other comprehensive income(The financial assets involved in the transfer are investments in debt instruments that are measured at fair value and whose changes are included in other comprehensive income).

(4) Methods for determining the fair value of financial assets and financial liabilities

The company uses valuation techniques that are applicable under current circumstances and are supported by sufficient data and other information to determine the fair value of relevant financial assets and financial liabilities. The company divides the input values used by valuation techniques into the following levels and uses them in sequence:

A. The input value of the level 1is the unadjusted quotation of the same asset or liability in the active market that can be obtained on the measurement date;

B. The Level-2 input value is the directly or indirectly observable input value of related assets or liabilities other than the Level-1 input value, Of which: quoted prices of similar assets or liabilities in active markets; Quotations of the same or similar assets or liabilities in an inactive market; other observable input values other than quotes, such as interest rates and yield curves that can be observed during normal quote intervals; Input values for market verification, etc.;

C. The input value of the level 3is the unobservable input value of the related asset or liability, including interest rates that cannot be directly observed or verified by observable market data, stock volatility, future cash flows of abandonment obligations assumed in business combinations, and financial forecasts made using own data.

(5) Impairment of financial instruments

A. Financial instrument impairment measurement and accounting treatment

On the basis of expected credit losses, the company conducts impairment treatment and confirms loss reserves on financial assets measured at amortized cost, debt instrument investments measured at fair value and whose changes are included in other comprehensive income, lease receivables, contract assets, the loan commitments other than financial liabilities that are classified as measured at fair value and whose changes are included in the current profit and loss , the financial liabilities that are not measured at fair value and whose changes are included in the current profit and loss, and the financial guarantee contract that does not meet the conditions for termination of confirmation or continues to be involved in financial liabilities formed by the transferred financial assets.

Expected credit loss refers to the weighted average of the credit losses of financial instruments based on the risk of default. Credit loss refers to the difference between all contractual cash flows receivables under the contract and all cash flows expected to be received by the company discounted at the original actual interest rate, that is, the present value of all cash shortages. Of which, the financial assets purchased or originated by the company that have been credit-impaired are discounted according to the credit-adjusted actual interest rate of the financial assets.

For purchased or derived financial assets that have been credit-impaired, the company only recognizes the cumulative changes in expected credit losses during the entire duration after initial recognition as loss reserves on the balance sheet date.

For receivables and contract assets that do not contain significant financing components or the company does not consider financing components in contracts that are not more than one year old, the company uses simplified measurement methods to measure loss reserves at the amount equivalent to expected credit losses during the entire duration.

For lease receivables and receivables that contain major financing components, the company uses simplified measurement methods to measure loss reserves at an amount equivalent to expected credit losses during the entire duration.

For financial assets other than the above measurement methods, the company evaluates on each balance sheet date whether its credit risk has increased significantly since its initial recognition. If the credit risk has increased significantly since the initial confirmation, the company measures the loss provision based on the amount of expected credit losses during the entire duration; If the credit risk has not increased significantly since the initial recognition, the company measures the loss provision based on the expected credit loss of the financial instrument in the next 12 months.

The company uses available reasonable and evidence-based information, including forward-looking information, to compare the risk of default on the balance sheet date of the financial instrument with the risk of default on the initial confirmation date to determine whether the credit risk of the financial instrument has increased significantly since the initial confirmation.

The company judges whether a financial instrument has defaulted and is consistent with its internal credit risk management objectives for related financial instruments, while considering quantitative and qualitative indicators.

The company's basis for judging that financial instruments have undergone credit impairment is consistent with the internal credit risk management objectives for relevant financial instruments, while considering quantitative and qualitative indicators. When a financial instrument meets one or more of the following conditions, the company defines the financial asset as credit impairment:

i. The debtor breached the contract, such as default or overdue payment of interest or principal;

ii. The debtor has major financial difficulties;

iii. The creditor makes concessions due to the debtor's financial difficulties;

iv. The debtor is likely to go bankrupt or have other financial reorganizations;

v. Purchase or originate a financial asset at a steep discount, and the discount reflects the fact that credit losses have occurred;

vi. The disappearance of the active market for related financial assets due to the debtor's financial difficulties;

vii. The latest external rating of the bond issuer or bond has a default level.

The company evaluates expected credit risks and measures expected credit losses based on individual financial instruments or a combination of financial instruments. When it is based on a combination of financial instruments, the company divides financial instruments into different combinations based on common risk characteristics.

For the specific criteria for the three-stage division of financial instrument credit impairment, the specific measurement methods and parameters of impairment, etc., please refer to *16. Financial Instrument Risk (2) Credit Risk* for details.

The company remeasures expected credit losses on each balance sheet date, and the resulting increase in loss reserves or the amount of reversal is included in the current profits and losses as impairment losses or gains. For financial assets measured at amortized cost, the loss allowance shall be deducted from the book value of the financial assets listed in the balance sheet; For debt investments that are measured at fair value and whose changes are included in other comprehensive income, the company recognizes its loss provision in other comprehensive income, and does not offset the book value of the financial asset.

B. Financial instruments that assess expected credit risk and measure expected credit losses based on portfolio

Items	Basis	Methods of measuring expected credit losses
Margin accounts receivable	Business nature and risk characteristics	According to whether the credit risk has increased significantly since the initial recognition and whether credit impairment has occurred, the expected credit losses in the next 12 months or equivalent to the entire duration of the different financial instruments are used to measure the impairment provision. When measuring expected credit losses, full consideration is given to forward-looking information. Expected credit loss is the discounted result of the product of the probability of default (PD), loss given default (LGD) and exposure at default (EAD) considering the forward-looking effects.
Securities financing	Business nature and risk characteristics	
Financial assets held under resale agreements	Business nature and risk characteristics	
Other debt Investments	Business nature and risk characteristics	
Other receivables-no credit risk portfolio	Business nature and risk characteristics	With reference to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, EAD and the expected credit loss rate within the next 12 months or the entire duration are used to calculate the expected credit loss. The combined expected credit loss rate is 0%.
Other receivables-aging combination	Aging	With reference to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, EAD and the expected credit loss rate within the next 12 months or the entire duration are used to calculate the expected credit loss.

C. Financial instruments that measure expected credit losses by combination

Items	Basis	Methods of measuring expected credit losses
Accounts receivables-no collection risk	Business nature and risk characteristics	Including accounts receivables due to securities liquidation, management fees and custody fees receivables by securities companies as managers or custodians, performance remuneration

portfolio		and commissions, etc. The credit risk is not significant, and no impairment provision is made.
Contract assets	Business nature and risk characteristics	With reference to historical credit loss experience, combined with current conditions and forecasts of future economic conditions, the expected credit loss is calculated based on the entire duration.

(6) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are listed separately in the balance sheet and do not offset each Other. However, if the following conditions are met at the same time, the company shall list the net amount after offsetting each Other in the balance sheet: (1) The company has the legal right to offset the confirmed amount, and this legal right is currently enforceable; (2) The company plans to settle on a net basis, or realize the financial assets and liquidate the financial liabilities at the same time.

For the transfer of financial assets that do not meet the conditions for termination of confirmation, the company will not offset the transferred financial assets and related liabilities.

3.4.10 Accounts receivables

On the basis of expected credit losses, the company conducts impairment accounting for receivables and confirms loss reserves. For details, please refer to *Clause (5) Impairment of Financial Instruments* of *Items 3.4.9. Financial Instruments* of *Article 3. Important Accounting Policies and Accounting Estimates*.

3.4.11 Contract assets

(1) The Company shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.

Contract assets refer to the right to receive consideration for the transfer of goods or services to customers, and this right depends on factors other than the passage of time. It lists its unconditional (that is, only depending on the passage of time) right to collect consideration from customers as receivables.

The company offsets the contract assets and contract liabilities under the same contract as net amount.

(2) Determination method and accounting treatment method of contract assets expected credit loss

Based on expected credit losses, the company conducts impairment accounting treatments on contract assets and confirms loss reserves. For details, please refer to the financial asset impairment in *Item 3.4.9. Financial Instruments* of *Article 3. Important Accounting Policies and Accounting Estimates*.

3.4.12 Assets Held for Sale

(1) Classification of non-current assets or disposal groups held for sale

The company classifies non-current assets or disposal groups that meet the following conditions into held-for-sale categories: (1) According to the practice of selling such assets or disposal groups in similar transactions, they can be sold immediately under current conditions; (2) The sale is very likely to happen, that is, the company has made a resolution on the sale plan and obtained a confirmed purchase commitment, and the sale is expected to be completed within one year.

Where the company's non-current assets or disposal group acquired exclusively for resale meet the condition of "expected completion of the sale within one year" on the acquisition date and are likely to meet other conditions for the holding of the category to be sold within a short period (usually 3 months), on the acquisition date, they are classified as held for sale.

Where, for one of the following reasons beyond the control of the company, a transaction between non-related parties cannot be completed within one year and the company still undertakes to sell the non-current assets or disposal group, continuing to classify non-current assets or disposal groups as held for sale: (1) the buyer or other party has unexpectedly set conditions that have led to a delay in the sale, against which the company has acted in a timely manner, and is expected to be able to smooth the resolution of the deferral factors within one year from the setting of the conditions leading to the deferral of the sale; (2) Due to rare circumstances, the non-current assets held for sale or the disposal group failed to complete the sale within one year, and the company has taken necessary measures to deal with these new situations in the first year and re-satisfied the classification of held for sale categories condition.

(2) Measurement of non-current assets or disposal groups held for sale

A. Initial measurement and subsequent measurement

Where the book value of the initial measurement and the re-measurement at the balance sheet date of the non-current assets or disposal group held for sale is higher than the fair value less the cost of the sale, the book value is written down to the fair value minus the selling expenses, and the amount written down is recognized as the impairment loss of the assets, which is included in the profits and losses of the current period, and the provision for impairment of the assets to be sold is also included.

For non-current assets or disposal groups whose acquisition dates are classified as holding categories, the net amount of the initial measurement and fair value less the cost of the sale, assuming that they are not classified as holding categories, is compared at the time of initial measurement, on a scale of one to one. Except for the non-current assets or disposal group obtained in the merger of enterprises, the difference arising from the net amount of the non-current assets or disposal group after deducting the selling expenses from the fair value as the initial measurement amount shall be included in the profits and losses of the current period.

For the amount of asset impairment loss confirmed by the disposal group held for sale, the book value of goodwill in the disposal group is first deducted, and then the book value of the non-current assets in the disposal group is deducted proportionally based on the proportion of the book value of each non-current asset in the disposal group.

Non-current assets held for sale or non-current assets in the disposal group are not depreciated or amortized, and the interest and other expenses of liabilities in the disposal group held for sale continue to be recognized.

B. Accounting treatment of asset impairment loss reversal

If the net amount of the fair value of the non-current assets held for sale minus the selling expenses on the subsequent balance sheet date increases, the previously written-down amount are restored, and are reversed within the amount of asset impairment losses recognized after being classified as held for sale, and the reversed amount are included in the current profit and loss. Asset impairment losses recognized before being classified as held for sale are not reversed.

If the fair value of the disposal group held for sale on the subsequent balance sheet date is increased after deducting the selling expenses, the previously written-down amount are restored, and shall be reversed within the amount of asset impairment loss recognized as non-current assets after being classified as held for sale, and the reversed amount are included in the current profit and loss. The book value of the deducted goodwill and the asset impairment losses recognized before the non-current assets are classified as held for sale are not reversed.

The subsequent reversal of the asset impairment loss confirmed by the disposal group held for sale is based on the proportion of the book value of each non-current asset in the disposal group except goodwill, and its book value is increased proportionally.

C. Accounting treatment that does not continue to be classified as assets held for sale sale and that terminates recognition

When a non-current asset or disposal group no longer meets the classification conditions of the held for sale category and no longer continues to be classified as the held for sale category or the non-current asset is removed from the held for sale disposal group, it is measured according to the lower of the following two: 1) The book value before being classified as held for sale, the amount adjusted for depreciation, amortization or impairment that should have been recognized under the assumption that it is not classified as held for sale; 2) The recoverable amount.

When derecognizing non-current assets or disposal groups held for sale, the unrecognized gains or losses are included in the current profits and losses.

3.4.13 Long-term equity investments

(1) Judgment of joint control and important influence

According to the relevant agreement, there is mutual control over an arrangement, and the relevant activities of the arrangement must be agreed by the participants who share the control rights before making a decision, and it is recognized as joint control. The power to participate in the decision-making of the financial and operating policies of the investee, but the inability to control or jointly control the formulation of these policies with other parties is deemed to have a significant impact.

(2) Determination of investment cost

A. For a business combination involving enterprises under common control, if the consideration of the combination is satisfied by paying cash, transfer of non-cash assets, assumption of liabilities or issue of equity security, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owners' equity of the party being absorbed in the consolidation financial statements of the ultimate controlling party at combination date. The difference between the initial investment cost and the aggregate face value of the shares issued shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings.

The Company realizes the Long-term equity investments formed by the merger of enterprises under the same control step by step through multiple transactions, and judges whether it is a "package deal". If it is a "package deal", each transaction shall be accounted for as a transaction to obtain control. If it is not a "package deal", on the merger date, the initial investment cost shall be determined based on the share of the book value of the merged party's net assets in the ultimate controlling party's consolidated financial statements after the merger. The difference between the initial investment cost of the Long-term equity investments on the merger date and the book value of the Long-term equity investments before the merger plus the sum of the book value of the new payment consideration for the shares obtained on the merger date is adjusted to the capital reserve; If the capital reserve is insufficient to offset, the retained earnings is adjusted.

B. In the case of a business combination not under the same control, the fair value of the combined consideration paid on the purchase date shall be the initial investment cost.

The company realizes the Long-term equity investments formed by the merger of enterprises not under the same control step by step through multiple transactions, and separates individual financial statements and consolidated financial statements for relevant accounting treatment:

i. In individual financial statements, the sum of the book value of the originally held equity investment plus the cost of the new investment is used as the initial investment cost calculated by the cost method.

ii. In the consolidated financial statements, determine whether it is a "package deal". If it is a "package deal", each transaction shall be accounted for as a transaction to obtain control. If it is not a "package deal", the equity of the purchased party held before the purchase date shall be remeasured at the fair value of the equity on the purchase date, and the difference between the fair value and its book value shall be included in the current investment income; If the equity of the purchased party held before the purchase date involves other comprehensive income calculated under the equity method, the other comprehensive income related to it shall be converted into the current income on the purchase date, except for other comprehensive income arising from changes in the net liabilities or net assets of the defined benefit plan by the investee.

C. Except for business merger formation: If it is obtained by paying cash, it is determined as initial investment cost in accordance with the actual purchase price paid; If it is obtained by issuing equity securities, it is determined as its initial investment cost in accordance with the fair value of the issued equity securities; If it is obtained through debt restructuring, it is determined as initial investment cost in accordance with *Accounting Standards for Business Enterprises No. 12-Debt Restructuring*; and if it is acquired through non-monetary asset exchange, it is determined as initial investment cost in accordance with *Accounting Standards for Business Enterprises No. 7-Non-monetary Asset Exchange*.

(3) Subsequent measurement and profit and loss confirmation methods

For Long-term equity investments controlled by the investee, the cost method is adopted for accounting; For Long-term equity investments in joint ventures and joint ventures, the equity method is adopted for accounting.

(4) Method of dealing with the loss of control over the investment of a subsidiary through multiple transactions

A. Capital accumulation (capital premium) is adjusted for the difference between the disposal price and the disposal of Long-term equity investments corresponding to the share of net assets that the subsidiary continues to calculate from the date of purchase or the date of merger, before the loss of control over the subsidiary's investment to loss of control through multiple transactions. If the capital premium is insufficient to offset, the retained earnings is offset.

Where a parent losses control of a subsidiary in multiple transactions in which it disposes of its subsidiary in stages, if each of the multiple transaction forms part of a bundled transaction which eventually results in loss of control of the subsidiary, these multiple transactions shall be accounted for as a single transaction. In the consolidated financial statements, the difference between consideration received and the corresponding proportion of the subsidiary’s net assets in each transaction prior to the loss of control shall be recognized in other comprehensive income and transferred to the profit or loss when the parent eventually losses control of the subsidiary.

B. Step-by-step disposal of investments in subsidiaries through multiple transactions until they lose control, and is a "package deal", and each transaction is treated as a transaction that disposes of the subsidiary and loses control. However, before the loss of control, the difference between each disposal price and the disposal investment corresponding to the share of the subsidiary's net assets is recognized as other comprehensive income in the consolidated financial statements, and transferred to the current profit and loss of the loss of control when the control is lost.

3.4.14 Investment real estate

Depreciation or amortization method using cost measurement mode

(1) Investment real estate includes leased land use rights, land use rights held and ready to be transferred after appreciation, and leased buildings.

(2) Investment real estate is initially measured at cost, followed by a cost model for subsequent measurement, and the same methods as fixed assets and intangible assets are used for depreciation or amortization.

3.4.15 Fixed assets

(1) Confirmation conditions

Fixed assets refer to tangible assets held for the purpose of producing commodities, providing labor services, leasing or operating management, and whose useful life exceeds one fiscal year. Fixed assets are recognized when they meet the probable inflow of economic benefits and the cost can be reliably measured.

(2) Depreciation method

Categories	Depreciation method	Depreciation period (years)	Residual rate(%)	Annual depreciation rate (%)
Houses And Buildings	Straight-line Method	30-35	3	3.23-2.77
Electronic Equipment	Straight-line Method	3-5	3	32.33-19.40
Mechanical Equipment	Straight-line Method	5-10	3	19.40-9.70
Transportation	Straight-line Method	4-6	3	24.25-16.17
Office Equipment	Straight-line Method	3-6	3	32.33-16.17

3.4.16 Construction in progress

(1) The construction in progress will be confirmed if it meets the possibility of inflow of economic benefits and the cost can be reliably measured. Construction in progress is measured at the actual cost incurred before the asset is built to reach the intended useable state.

(2) When the construction in progress reaches the expected usable state, it is transferred to fixed assets at the actual cost of the project. Those who have reached the expected usable status but have not yet processed the final accounts for completion shall first be transferred to fixed assets at the estimated value, and the original temporary estimated value shall be adjusted according to the actual cost after the final accounts for the completion have been processed, but the previously accrued depreciation shall not be adjusted.

3.4.17 Intangible assets

(1) Intangible assets, including land use rights, patent rights and non-patent technologies, are initially measured at cost.

(2) Intangible assets with a limited service life are amortized systematically and reasonably according to the expected realization method of the economic benefits related to the intangible asset during their service life. If the expected realization method cannot be reliably determined, the straight-line method is used. The specific years are as follows:

Items	Amortization period (years)
Transaction seat fees	10
Software	3
Land use rights	39.5

(3) Others. Intangible assets with uncertain useful lives are not amortized, and the company reviews the useful lives of the intangible assets in each accounting period.

3.4.18 Impairment of long-term assets

For long-term equity investments, investment real estate measured by the cost model, fixed assets, construction in progress, and intangible assets with limited service life and other long-term assets, if there are signs of impairment on the balance sheet date, the recoverable amount is estimated. For the goodwill formed by business combinations and intangible assets with uncertain service life, regardless of whether there are signs of impairment, an impairment test is conducted every year. Goodwill is tested for impairment in combination with its related asset group or combination of asset groups.

If the recoverable amount of the aforementioned long-term assets is lower than its book value, the asset impairment provision shall be recognized according to the difference and included in the current profit and loss.

3.4.19 Long-term deferred expenses

The calculation of long-term deferred expenses has been paid, and various expenses with a period of more than 1 year (excluding 1 year) are amortized. Long-term deferred expenses are recorded according to the actual amount and amortized evenly in installments during the benefit period or the prescribed period. If the long-term amortized expense item cannot benefit the future accounting period, all the amortized value of the item that has not been amortized is transferred to the current profit and loss.

3.4.20 Contract liabilities

Regarding the method of confirming contract liabilities

The company lists contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments.

Contract liabilities refer to the obligation to transfer goods or services to customers for the consideration received or receivables from customers, such as the amount that an enterprise has received before the transfer of promised goods or services.

The company offsets the contract assets and contract liabilities under the same contract as net amount.

3.4.21 Employee benefits

Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

(1) Regarding the accounting treatment of short-term compensation

The actual short-term compensation is recognized as a liability during the accounting period when employees provide services to the company and included in the current profit and loss or the cost of related assets.

(2) Regarding the accounting treatment of post-employment benefits

Post-employment benefits are divided into defined contribution plans and defined benefit plans.

A. During the accounting period when employees provide services to the company, the amount of deposit payables calculated according to the defined contribution plan is recognized as a liability and included in the current profit and loss or the cost of related assets.

B. The accounting treatment of defined benefit plans usually includes the following steps:

i. According to the expected cumulative welfare unit method, unbiased and consistent actuarial assumptions are used to estimate relevant demographic variables and financial variables, measure the obligations arising from the defined benefit plan, and determine the period of the relevant obligations. At the same time, the obligations generated by the defined benefit plan are discounted to determine the present value of the defined benefit plan obligations and current service costs;

ii. If there are assets in a defined benefit plan, the deficit or surplus formed by the present value of the defined benefit plan's obligations minus the fair value of the defined benefit plan's assets shall be recognized as a defined benefit plan's net liabilities or net assets. If there is a surplus in the defined benefit plan, the net assets of the defined benefit plan shall be measured at the lower of the surplus of the defined benefit plan and the asset ceiling;

iii. At 30 Jun 2020, the cost of employee compensation generated by the defined benefit plan is recognized as service costs, the net interest of the defined benefit plan's net liabilities or net assets, and the remeasurement of the defined benefit plan's net liabilities or changes in net assets. The service cost and the net interest of the net liabilities or net assets of the defined benefit plan are included in the current profit and loss or the cost of related assets, and the changes in the net liabilities or net assets of the defined benefit plan are included in other comprehensive income. And it is not allowed to switch back to profit and loss in the subsequent accounting period, but the amount recognized in other comprehensive income can be transferred within the scope of equity.

C. Regarding the accounting treatment of dismissal benefits.

For the dismissal benefits provided to employees, the employee compensation liabilities arising from the dismissal benefits shall be recognized as early as the following two, and shall be included in the current profit and loss: (1) When the company cannot unilaterally withdraw the dismissal benefits provided by the termination plan or reduction proposal; (2) When the company confirms the costs or expenses related to the reorganization involving the payment of termination benefits.

D. Regarding the accounting treatment of other long-term employee benefits

Other long-term benefits provided to employees that meet the conditions of the defined contribution plan is accounted for in accordance with the relevant provisions of the defined contribution plan; All other long-term benefits are accounted for in accordance with the relevant provisions of the defined benefit plan. In order to simplify the relevant accounting treatment, the employee compensation costs incurred are recognized as service costs, other long-term employee benefits net liabilities or net interest on net assets. Re-measure other long-term employee benefits net liabilities or net assets, and the total net amount of the components such as changes caused is included in the current profit and loss or the cost of related assets.

3.4.22 Estimated liabilities

The obligations arising from the provision of guaranty, litigation matters, loss contracts and other contingent matters to the outside world have become the current obligations of the company, and the performance of such obligations is likely to result in the outflow of economic benefits from the company, where the amount of the obligation can be reliably measured, the company recognizes the obligation as an anticipated liability.

The company initially measures the estimated liabilities in accordance with the best estimated amount of expenditure required to perform the relevant current obligations, and reviews the book value of the estimated liabilities on the balance sheet date.

3.4.23 Income

(1) Recognition of income

The company has fulfilled its performance obligations in the contract, that is, revenue is recognized when the customer obtains control of the relevant goods or services.

Obtaining control over related goods or services refers to being able to lead the use of the goods or the provision of such services and obtain almost all of the economic benefits from it.

Performance obligations refer to the company's transfer of promises that clearly distinguish goods or services to customers. It includes not only the explicit promises in the contract, but also the promises that the customer reasonably expects that the company will perform when the contract is concluded based on the company's publicly announced policies, specific statements, or past customary practices.

On the commencement date of the contract, the company evaluates the contract, identifies the individual performance obligations contained in the contract, and determines whether the individual performance obligations are performed within a certain period of time or at a certain point in time. If it meets one of the following conditions, it belongs to the performance obligation within a certain period of time; otherwise, it belongs to the performance obligation at a certain point in time:

A. The customer obtains and consumes the economic benefits brought by the company while performing the contract;

B. Customers can control the products under construction during the company's performance;

C. The goods produced during the performance of the company have irreplaceable uses, and the company has the right to collect payment for the cumulative performance of the contract during the entire contract period.

For performance obligations performed within a certain period of time, the company recognizes revenue in accordance with the performance progress during that period. When the performance progress cannot be reasonably determined, if the company's incurred costs are expected to be compensated, revenue shall be recognized according to the amount of the incurred costs until the performance progress can be reasonably determined.

For performance obligations performed at a certain point in time, the company recognizes revenue at the point when the customer obtains control of the relevant product. When judging whether a customer has obtained control of goods or services, the company will consider the following signs:

A. The company has the current right to receive payment for the goods or services;

B. The company has transferred the goods in kind to the customer;

C. The company has transferred the legal ownership or major risks and rewards of ownership of the product to the customer;

D. The customer has accepted the goods or services, etc.

(2) Income measurement

The company measures revenue based on the transaction price allocated to each individual performance obligation. Transaction price refers to the amount of consideration that the company expects to be entitled to receive due to the transfer of goods to customers.

Where there is a variable consideration in a contract, the company shall determine the best estimate of the variable consideration according to the expected value or the amount most likely to occur, but including the transaction price of the variable consideration, no more than the amount by which it is highly unlikely that a significant reversal of the accumulated recognized income will occur when the associated uncertainty is removed.

The company's main revenue recognition policy is described as follows:

A. Handling fee and commission income

i. Brokerage business income

The commission income from securities brokerage and futures brokerage business commission income is recognized as income on the trading day.

ii. Income from investment banking

Revenue from the securities underwriting business is recognized when the company completes the performance obligations in the underwriting contract; revenue from the sponsorship business and financial advisory business is recognized when the company performs the performance obligations or at the time when the performance obligations are completed.

iii. Income from asset management and fund management business

The income from the entrusted client's asset management business and the income from fund management fees shall, in the course of the company's performance of its contractual obligations, be calculated in accordance with the income stipulated in the contract or agreement, when the amount of accumulated income recognized is unlikely to be significantly reversed, it shall be recognized as current income.

iv. Income from investment consulting business

Revenue from investment consulting services is recognized during the company's performance of its performance obligations or at the point when the performance obligations are completed.

B. Interest income

Interest income is measured at the effective interest rate for all financial instruments measured at amortized cost and for financial instruments measured at fair value whose changes are included in other composite income. The effective interest rate is the interest rate at which the expected future cash inflow or outflow of a financial instrument is discounted to the carrying balance of the financial asset or the amortized cost of the financial liability over the expected life of the instrument. The calculation of the real interest rate takes into account the contractual terms of the financial instrument (such as prepayment rights) and includes all fees attributable to the real interest rate component and all transaction costs, excluding the expected credit loss.

Interest income is determined and reported as "interest income" by multiplying the book balance of financial assets by the actual interest rate, with the exception of: 1) for financial assets purchased or derived from which a credit impairment has occurred, the interest income shall be determined from the initial recognition on the basis of the amortized cost of the financial assets and the actual interest rate adjusted by the credit; 2) for financial assets purchased or derived from which no credit impairment has occurred but which became a credit impairment during the subsequent period, the interest income shall be determined on the basis of the amortized cost of the financial assets (that is, the net amount of the book balance less the provision for expected credit losses) and the actual interest rate. If the financial instrument no longer has a credit impairment due to an improvement in its credit risk during the subsequent period, and this improvement is objectively linked to an event that occurred after the application of the above provisions, the interest income is calculated by multiplying the actual interest rate by the carrying balance of the financial asset.

C. Investment income

For details on the revenue recognition of financial instruments, please refer to *Item 3.4.9. Financial Instruments* of *Article 3. Important Accounting Policies and Accounting Estimates.*

3.4.24 Contract cost

Contract costs include incremental costs incurred to obtain contracts and contract performance costs.

The incremental cost incurred to obtain the contract refers to the cost (such as sales commission, etc.) that the company would not incur without obtaining the contract. If the cost is expected to be recovered, the company will recognize it as an asset as a contract acquisition cost. The company's expenses incurred to obtain the contract, other than the expected incremental cost to be recovered, are included in the current profit and loss when incurred.

If the cost incurred to fulfill the contract is not within the scope of other *Accounting Standards for Business Enterprises* such as inventory and meets the following conditions at the same time, the company will recognize it as an asset as the contract performance cost:

(1) The cost is directly related to a current or expected contract;

(2) This cost increases the company's future resources for fulfilling contract performance obligations;

(3) The cost is expected to be recovered.

The assets recognized by the company's contract acquisition costs and the assets recognized by the contract performance costs (hereinafter referred to as "contract cost-related assets") shall be amortized on the same basis as the revenue recognition of the goods or services related to the asset and included in the current profit and loss. If the amortization period does not exceed one year, it shall be included in the current profit and loss when it occurs.

When the book value of assets related to contract costs is higher than the difference between the following two items, the company makes provision for impairment of the excess part and recognizes it as an asset impairment loss:

(1) The company expects to obtain the remaining consideration due to the transfer of goods or services related to the asset;

(2) Estimate the cost to be incurred for the transfer of the related goods or services.

If the depreciation factors in the previous period change afterwards, so that the difference of 1 minus 2 is higher than the book value of the asset, the original provision for asset depreciation shall be reversed and included in the current profit and loss. However, the book value of the asset after the reversal shall not exceed the book value of the asset on the reversal date under the assumption that no impairment provision is made.

3.4.25 Profit distribution

The net profit realized by the company from 1st Jan to 30th Jun 2020is distributed in the following order:

(1) Make up for previous years' losses;

(2) Withdraw 10% of the statutory surplus reserve fund;

(3) Withdraw the general trading risk reserve at 10%;

(4) Withdraw trading risk reserves at a rate of 10% specified by the Ministry of Finance and the China Securities Regulatory Commission;

(5) Appropriate discretionary surplus reserve fund according to the company's articles of association or the resolution of the general meeting of shareholders;

(6) Distribute according to the deliberated profit distribution plan

The statutory surplus reserve of the company has reached 50% of the registered capital and can no longer be drawn. The general risk reserve and transaction risk reserve provided by the company are used to make up for losses in securities transactions, and the withdrawn public reserve can be used to make up for losses or convert into equity. When the statutory surplus reserve is converted into share capital, the retained reserve shall not be less than 25% of the company's registered capital before the conversion.

3.4.26 Government subsidies

(1) Government subsidies are recognized when the following conditions are met at the same time

A. The company can meet the conditions attached to the government subsidy;

B. The company can receive government subsidies. If a government subsidy is a monetary asset, it shall be measured at the amount received or receivables. If a government grant is a non-monetary asset, it shall be measured at its fair value; if its fair value cannot be obtained reliably, it shall be measured at its nominal amount.

(2) Judgment basis and accounting treatment methods of government subsidies related to assets

Government documents stipulate that government subsidies used for purchase, construction or other forms of long-term assets are classified as asset-related government subsidies. If the government document is not clear, the judgment shall be based on the basic conditions that must be met to obtain the subsidy, and the capital-related government subsidies shall be regarded as the basic conditions for the formation of long-term assets through acquisition and construction or other methods. Government subsidies related to assets are used to offset the book value of related assets or recognized as deferred income. If government subsidies related to assets are recognized as deferred income, they shall be included in profit and loss in installments in accordance with a reasonable and systematic method during the useful life of the relevant assets. Government subsidies measured at their nominal amounts are directly included in the current profits and losses. If the relevant asset is sold, transferred, scrapped or damaged before the end of its useful life, the undistributed deferred income balance shall be transferred to the current profit and loss of asset disposal.

(3) Judgment basis and accounting treatment method of government subsidies related to income

Government grants other than government grants related to assets are classified as government grants related to income. For government subsidies that contain both asset-related parts and income-related parts, it is difficult to distinguish between assets-related and income-related government subsidies, and they are generally classified as income-related government subsidies. If government subsidies related to income are used to compensate related costs or losses in subsequent periods, they are recognized as deferred income. During the period when related costs or losses are recognized, they are included in current profits and losses or offset related costs; If it is used to compensate related costs or losses incurred, it shall be directly included in the current profit and loss or offset related costs.

(4) Government subsidies related to the company's daily operating activities are included in other income or offset related costs in accordance with the nature of the economic business. Government subsidies not related to the company's daily activities are included in non-operating income and expenditure.

3.4.27 Deferred income tax assets/deferred income tax liabilities

Deferred tax assets and liabilities shall be measured at the temporary differences between the book value of certain assets or liabilities and their tax base (or between the book value of those Item that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws), and the tax rates that are expected to apply to the period when the asset is realized or the liability is settled according to the requirements of tax laws.

Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. At balance sheet date, the book value of deferred tax assets shall be reviewed and if it is probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized, the Company shall recognize deferred tax assets that not been recognized in previous period.

On the balance sheet date, the book value of deferred income tax assets is reviewed. If it is likely that sufficient taxable income cannot be obtained in the future to offset the benefits of deferred income tax assets, the book value of deferred income tax assets shall be written down. When it is possible to obtain sufficient taxable income, the reduced amount shall be reversed.

The company's current income tax and deferred income tax are included in the current profit and loss as income tax expenses or income, but does not include income tax arising from the following situations: business combination; transactions or events directly recognized in the owner's equity.

3.4.28 Lease

(1) Accounting treatment methods for operating leases

When the company is the lessee, during each period of the lease term, the rent is included in the relevant asset cost or recognized as the current profit and loss according to the straight-line method, and the initial direct expenses incurred are directly included in the current profit and loss. Contingent rents are included in the current profits and losses when they actually occur.

When the company is the lessor, during each period of the lease period, the rent is recognized as the current profit and loss according to the straight-line method, and the initial direct expenses incurred are directly included in the current profit and loss except for the larger amount which is capitalized and included in the profit and loss in installments. Contingent rents are included in the current profits and losses when they actually occur.

(2) Accounting Treatment Method of Financial Lease

When the company is the lessee, on the commencement date of the lease, the company shall take the lower of the fair value of the leased asset and the present value of the minimum lease payment as the recorded value of the leased asset, the minimum lease payment is the value recorded as long-term payables, the difference being the unrecognized financing costs, and the initial direct costs incurred are included in the value of the leased asset. During each period of the lease term, the financing costs for the period recognized are calculated using the actual interest rate method.

When the company is the lessor, on the start date of the lease term, the company uses the sum of the minimum lease payment on the lease start date and the initial direct cost as the recorded value of the financial lease receivables, and records the unguaranteed residual value; The difference between the sum of the minimum lease payment, initial direct expenses and unguaranteed residual value and the sum of its present value is recognized as unrealized financing income. In each period of the lease period, the actual interest rate method is used to calculate and confirm the current financing income.

3.4.29 Margin trading business

Margin trading and securities lending business refers to the business activity in which the company lends funds to customers for buying securities or lending securities for them to sell, and the customers deposit corresponding collateral. The margin trading and securities lending business of the company is divided into two types: margin trading and securities lending.

The financing business is accounted for in accordance with the relevant provisions of *Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments*. For the funds raised by the company, the creditor's rights receivables shall be recognized and the corresponding interest income shall be recognized.

In the securities lending business, the securities financed in accordance with the *Accounting Standards for Business Enterprises No. 23-Transfer of Financial Assets* are not terminate the recognition of the securities and recognize the corresponding interest income.

The company acts as a securities brokerage business for accounting treatment when it conducts margin trading and securities trading on behalf of its clients.

The company reasonably predicts possible future losses based on the loaned funds and the probability of default, and fully reflects the performance risks of the loaned funds and securities that it should bear.

3.4.30 Hedge accounting

(1) The hedge is a fair value hedge.

(2) For hedges that meet the following conditions, use hedge accounting methods for processing:

A. The hedging relationship is only composed of eligible hedging instruments and hedged instruments;

B. At the beginning of the hedging, the company officially designated the hedging tool and the hedged item, and prepared written documents on the hedging relationship and the risk management strategy and risk management objectives of the company engaged in hedging;

C. The hedging relationship meets the requirements for hedging effectiveness.

(3) When the hedging meets the following conditions at the same time, the company determines that the hedging relationship meets the requirements for hedging validity:

A. There is an economic relationship between the hedged item and the hedging instrument;

B. The influence of credit risk is not dominant in the value changes caused by the economic relationship between the hedged item and the hedging instrument;

C. The hedging ratio of the hedging relationship is equal to the ratio of the number of hedged items that the company actually hedges to the actual number of hedging instruments used to hedge it, but does not reflect the imbalance in the relative weights of the hedged items and hedging instruments.

The company continuously evaluates whether the hedging relationship meets the requirements for hedging effectiveness on the hedging start date and thereafter. If the hedging relationship no longer meets the hedging effectiveness requirements due to the hedging ratio, but the risk management objective of the designated hedging relationship has not changed, the company shall rebalance the hedging relationship.

(4) Hedging accounting treatment

A. The gains or losses from hedging instruments are included in the current profits and losses. If a hedging instrument is selected to hedge a non-trading equity instrument (or its component parts) that is measured at fair value and whose changes are included in other comprehensive income, the gains or losses generated by the hedging instrument are included in other comprehensive income.

The gain or loss of the hedged item due to the risk exposure is calculated into the current profit and loss, and the book value of the confirmed hedged item that is not measured at fair value is adjusted. The hedged item is classified as a financial asset (or its component parts) measured at fair value and whose changes are included in other comprehensive income in accordance with Article 18 of the *Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments*, its gains or losses due to hedged risk exposures are included in the current profit and loss, and its book value has been measured at fair value and no further adjustments will be made; If the hedged item is a non-trading equity instrument investment (or its component parts) that the company chooses to be measured at fair value and whose changes are included in other comprehensive income, the gain or loss due to the hedged risk exposure is included in other comprehensive income, its book value has been measured at fair value and will not be adjusted.

If the hedged item is an unrecognized definite commitment (or its component parts), the cumulative change in fair value caused by the hedged risk after the hedging relationship is designated is recognized as an asset or liability, and the related gains or losses are included in the profit and loss of each relevant period. When a certain commitment is fulfilled to obtain an asset or assume a liability, the initial recognition amount of the asset or liability is adjusted to include the cumulative change in the fair value of the confirmed hedged item.

If the hedged item is a financial instrument (or its component parts) measured at amortized cost, the company's adjustments to the book value of the hedged item are amortized at the actual interest rate recalculated on the amortization date and included in the current profit and loss. If the hedging project is a financial asset (or its component parts) classified as fair value and whose changes are accounted for in other comprehensive income in accordance with Article 18 of *Accounting Standards for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments*, the accumulated recognized hedging gains or losses are amortized in the same manner and included in the current profit or loss without adjusting the book value of the Financial Asset (or its components) .

3.4.31 Client transaction settlement funds

The client's trading settlement funds received by the company shall be kept in a special account of the depository bank and shall be managed separately from its self-owned funds, funds for clearing and settlement on behalf of clients for Securities Trading shall be deposited with the clearing agency designated by the exchange and shall be accounted for in the clearing settlement funds. When the company receives the funds for Securities Trading on behalf of customers and recognizes them as assets and liabilities, and when the money for securities trading on behalf of customers is liquidated with the liquidation agency, the handling fee, securities management fee, securities settlement risk fund and other related fees paid according to regulations shall be recognized as handling fee expenses, the handling fee charged to the customer according to the regulations shall be recognized as the handling fee income when the settlement of the securities purchase and sale proceeds is made with the customer.

3.4.32 Accounting method for securities underwriting business

The company's securities underwriting methods include balance underwriting and agency sales. Under the balance underwriting method, unsold securities after the end of the issuance period are converted into revenue of financial assets held for trading at the agreed issuance price.

The company will include the relevant expenses of the issuance project before the establishment of the project into the current profit and loss. After the project is established, the separately identifiable issuance expenses are recorded in the underwriting expenses to be transferred, and the profits and losses are carried forward after the project is successfully issued. All project expenses that have been confirmed to be unsuccessful are recorded in the current profit and loss.

3.4.33 Business of financial assets held under resale agreements and financial assets sold under repurchase agreements

The financial assets held under resale agreements refers to the purchase of related assets (including bonds and bills) from the counterparty at a certain price in accordance with the contract or agreement, and the reselling of the same financial product at the agreed price on the expiry date of the contract or agreement. The financial assets held under resale agreements is accounted for according to the actual payment when the related assets of the buy-back resale is purchased, and is listed in the item of Financial assets held under resale agreements" on the balance sheet.

and financial assets sold under repurchase agreements refer to the sale of related assets (including bonds and bills) to counterparties at a certain price in accordance with the contract or agreement, and on the expiry date of the contract or agreement, the same financial product is repurchased at the agreed price. Financial assets sold under repurchase agreements is accounted for according to the actual amount received when the relevant assets are sold-back repurchase, and is listed in the "Financial assets sold under repurchase agreements" item of the balance sheet. The financial products sold are still listed in the company's balance sheet according to the original classification and are accounted for in accordance with relevant accounting policies.

The interest income and expenditure of business of financial assets held under resale agreements and financial assets sold under repurchase agreement is confirmed at the actual interest rate during the resale or repurchase period. If the actual interest rate differs slightly from the contractual interest rate, the interest income and expenditure are calculated at the contractual interest rate.

Based on credit impairment losses, the company conducts impairment accounting treatments on the business of financial assets held under resale agreements and confirms loss reserves. For details, please refer to the financial asset impairment in *Item 3.4.9 Financial Instruments* of *Article 3. Important Accounting Policies and Accounting Estimates*.

3.4.34 Accounting method for client asset management business

Corporate customer asset management business is divided into targeted asset management business, collective asset management business, and special asset management business.

The company uses each product as the main body of accounting for the different asset management plans it manages, establishes separate accounts, independently accounts, and prepares separate financial reports. Different asset management plans are independent of each other in terms of register registration, account setting, fund transfer, and account book records. The accounting of collective asset management business products is carried out in accordance with the accounting method of the securities investment fund, and the collective asset plan is evaluated at fair value on each valuation day.

3.4.35 Accounting method for refinancing business

Where the company borrows funds or securities through the refinancing business of China Securities Finance Corporation, the capital received is recognized as an asset and a liability to the lender is recognized at the same time, and the interest expenses incurred by the refinancing business are included in the current profit and loss; As for the incorporated securities, since the main benefits or risks are not enjoyed or borne by the company, they are not included in the balance sheet.

3.4.36 General risk reserve and transaction risk reserve

The company separately accrued general risk reserves and transaction risk reserves based on 10% of the net profit realized in the year.

3.4.37 Segment report

The company determines its business segments based on its internal organizational structure, management requirements, and internal reporting systems. The company's business segments refer to the components that meet the following conditions:

(1) This component can generate income and expenses in daily activities;

(2) The management can regularly evaluate the operating results of this component to decide to allocate resources to it and evaluate its performance;

(3) Be able to obtain relevant accounting information such as the financial status, operating results and cash flow of the component.

3.4.38 Recognition standards and accounting treatment methods for termination of operations

The components that meet one of the following conditions, have been disposed of or are classified as held for sale and can be distinguished separately, are recognized as discontinued operations:

(1) This component represents an independent main business or a separate main business area;

(2) This component is part of a related plan to dispose of an independent main business or a separate main business area;

(3) This component is a subsidiary acquired exclusively for resale.

4. Changes in Important Accounting Policies and Accounting Estimates

Content And Reason Of Accounting Policy Changes	Approval Procedure	Remarks (Name and Amount of Report Items That Are Significantly
The Company began to implement the "Accounting Standards for Business Enterprises No. 14-Revenue" (hereinafter referred to as the "New Revenue Standards") revised and released by the Ministry of Finance in 2017 on January 1, 2020. The new revenue standard no longer distinguishes business types and adopts a unified revenue recognition model. The amount of revenue recognition should be the amount of consideration that is expected to be entitled to the transfer of goods and services to the customer; The five-step method of revenue recognition was introduced, and the judgments and estimates required for each link were standardized. It uses "transfer of control rights" instead of "transfer of risk rewards" as the criterion for determining the timing of income. It provides clearer guidance on the accounting treatment of contracts involving multiple transaction arrangements. It has made specific specifications for the revenue recognition and measurement of certain specific transactions (or events).	Deliberated and approved at the 32nd meeting of the 8th Board of Directors of the company.	The adoption of the new revenue standard will not have a significant impact on the company's financial status and operating results.

Note: The company implements the new income standards for the first time, and there is no need to adjust the amount of retained earnings at the beginning of the year and other related items in the financial statements, and there is no need to retrospectively adjust the previous comparison data.

5. Taxation

5.1 Main taxes and tax rates

Tax Categories	Tax Base	Tax Rate
VAT	Selling goods or providing taxable services	13%, 6% or 3%
Property Tax	If levied by price, it shall be paid at 1.2% of the residual value after deducting 30% from the original value of the property; if levied by rent, it shall be paid at 12% of the rental income	1.2% or 12%
Urban Maintenance and	Turnover tax payables	7%

Tax Categories	Tax Base	Tax Rate
Construction Tax		
Education Surcharge	Turnover tax payables	3%
Local Education Surcharge	Turnover tax payables	2%
Corporate Income Tax	Taxable income	25%, 15% or 16.5%

5.2 Details of taxpayers with different corporate income tax rates

Name of Companies	Income tax rate (%)
Southwest Futures Co., Ltd.	15
Southwest Securities Equity Investment Co., Ltd.	15
Southwest Securities International Securities Co., Ltd.	16.5
Southwest Securities International Investment Co., Ltd.	16.5
Other taxpayers	25

5.3 Tax incentives

According to the *Notice on Taxation Policy Issues Concerning the Further Implementation of the Western Development Strategy* (Caishui [2011] No. 58) issued by the Ministry of Finance and the General Administration of Customs and the State Administration of Taxation, from January 1, 2011 to December 31, 2020, corporate income tax is levied at a reduced rate of 15% for encouraged industrial enterprises located in the western region. Southwest Futures Co., Ltd. and Xizheng Equity Investment Co., Ltd. will temporarily pay corporate income tax at a rate of 15% in the first half of 2020.

6. Notes on The Main Items of The Consolidated Financial Statements

6.1 Cash and cash equivalents

Items	30 Jun 2020			1 Jan 2020		
	Foreign	Exchange rate	RMB	Foreign	Exchange rate	RMB
Cash:			80,579.82			44,838.97
Of which: RMB			51,941.40			23,223.95
HKD	13,000.00	0.9134	11,874.20	5,074.00	0.8958	4,545.29
SGD	3,299.20	5.0813	16,764.22	3,299.20	5.1739	17,069.73
Bank savings:			14,512,939,995.98			13,422,774,972.20
Company own			3,959,760,065.04			3,633,441,059.03

Items	30 Jun 2020			1 Jan 2020		
	Foreign	Exchange rate	RMB	Foreign	Exchange rate	RMB
funds balances						
Of which: RMB			3,387,425,366.30			2,914,017,986.79
USD	27,637,005.15	7.0795	195,656,177.96	6,982,612.23	6.9762	48,712,099.44
HKD	412,086,908.12	0.9134	376,400,181.88	748,413,564.87	0.8958	670,428,871.41
AUD	29,886.33	4.8657	145,417.92	29,881.30	4.8843	145,949.23
EUR	620.66	7.9610	4,941.07	623.07	7.8155	4,869.60
GBP	3,830.83	8.7144	33,383.38	3,845.45	9.1501	35,186.25
CAD				16.65	5.3421	88.95
SGD	5,262.12	5.0813	26,738.41	5,292.62	5.1739	27,383.49
JPY	1,031,153.00	0.0658	67,858.12	1,070,809.00	0.0641	68,623.87
Customer funds balances			10,553,179,930.94			9,789,333,913.17
Of which: RMB			10,493,904,100.22			9,726,633,014.79
USD	5,607,449.71	7.0795	39,697,940.22	5,429,467.41	6.9762	37,877,050.55
HKD	21,434,082.00	0.9134	19,577,890.50	27,711,372.88	0.8958	24,823,847.83
Other monetary funds:			1,894,173.77			1,893,104.62
Of which: RMB			1,894,173.77			1,893,104.62
Total			14,514,914,749.57			13,424,712,915.79

Of which: margin trading business

Items	30 Jun 2020			1 Jan 2020		
	Foreign	Exchange rate	RMB	Foreign	Exchange rate	RMB
Own credit funds			75,491,643.97			93,214,724.91
Of which: RMB			75,491,643.97			93,214,724.91
Customer credit funds			1,182,328,678.00			1,394,086,221.41
Of which: RMB			1,182,328,678.00			1,394,086,221.41
Total			1,257,820,321.97			1,487,300,946.32

Note: As of 30 June 2020, there are no funds with restrictions on use and potential recovery risks due to mortgage, pledge, or freezing.

6.2 Settlement reserve

Items	30 Jun 2020			1 Jan 2020		
	Foreign	Exchange rate	RMB	Foreign	Exchange rate	RMB
Customer settlement funds			779,206,437.64			1,295,908,632.37
Of which: RMB			779,206,437.64			1,295,908,632.37
Company settlement funds			2,264,917,235.89			1,477,655,137.03
Of which: RMB			2,209,871,784.67			1,425,159,623.01
USD	3,883,950.90	7.0795	27,496,430.40	4,093,234.82	6.9762	28,555,224.75
HKD	30,160,959.95	0.9134	27,549,020.82	26,725,038.26	0.8958	23,940,289.27
Customer credit settlement funds:			255,972,676.38			138,556,156.96
Of which: RMB			255,972,676.38			138,556,156.96
Total			3,300,096,349.91			2,912,119,926.36

6.3 Margin accounts receivable

(1) List by category

Items	30 Jun 2020	1 Jan 2020
Within the Territory of China	10,764,584,318.33	10,318,935,016.91
Of which: Individual	7,995,547,050.37	7,690,436,148.20

Items	30 Jun 2020	1 Jan 2020
Institution	2,769,037,267.96	2,628,498,868.71
Less: Impairment provision	33,335,934.33	32,941,656.28
Subtotal	10,731,248,384.00	10,285,993,360.63
Beyond the Territory of China	133,920,666.95	293,359,600.97
Of which: Individual	24,590,769.48	55,611,800.19
Institution	109,329,897.47	237,747,800.78
Less: Impairment provision	195,595.91	1,275,714.80
Subtotal	133,725,071.04	292,083,886.17
Total	10,864,973,455.04	10,578,077,246.80

(2) Fair value of collateral provided by customers to the company for financing business

Types of collateral	Fair value of collateral	
	30 Jun 2020	1 Jan 2020
Funds	1,145,268,257.58	1,251,368,067.62
Stock	38,791,489,961.98	34,756,759,569.41
Total	39,936,758,219.56	36,008,127,637.03

(3) The margin account corresponding to the credit income right of the company's financing business due to the transfer of funds: None.

(4) Explanation of Margin account

Aging	30 Jun 2020				1 Jan 2020			
	Book balance		Loss allowance		Book balance		Loss allowance	
	Amount	Proportion (%)	Amount	Proportion of provision (%)	Amount	Proportion (%)	Amount	Proportion of provision (%)
1-3 months	3,948,467,515.73	36.23	13,332,553.37	0.34	3,248,640,579.60	30.61	11,653,688.53	0.36
3-6 months	6,849,892,756.03	62.85	19,897,124.00	0.29	7,256,226,331.04	68.38	22,188,549.89	0.31
More than 6 months	100,144,713.52	0.92	301,852.87	0.30	107,427,707.24	1.01	375,132.66	0.35
Total	10,898,504,985.28	100.00	33,531,530.24	0.31	10,612,294,617.88	100.00	34,217,371.08	0.32

6.4 Derivative financial assets

Categories	30 Jun 2020					
	Hedging instruments			Non-hedging instruments		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives				2,470,000,000.00	1,395,195.01	
Of which: interest rate swap				2,470,000,000.00	1,395,195.01	
Equity derivatives				529,320.00		9,019.50
Of which: options				529,320.00		9,019.50
Futures						
Total				2,470,529,320.00	1,395,195.01	9,019.50

Continued

Categories	1 Jan 2020					
	Hedging instruments			Non-hedging instruments		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives				300,000,000.00	73,452.31	
Of which: interest rate swap				300,000,000.00	73,452.31	
Equity derivatives				416,735,392.07	6,140.00	15,884,343.01

Categories	1 Jan 2020					
	Hedging instruments			Non-hedging instruments		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Of which: options				20,540.00	6,140.00	
Futures				416,714,852.07		15,884,343.01
Total				716,735,392.07	79,592.31	15,884,343.01

6.5 Refundable deposits

Items	30 Jun 2020			1 Jan 2020		
	Foreign	Exchange rate	RMB	Foreign	Exchange rate	RMB
Trading deposits			1,041,697,471.14			771,085,127.66
Of which: RMB			1,035,212,705.51			765,227,541.20
USD	270,000.00	7.0795	1,911,465.00	270,000.00	6.9762	1,883,574.00
HKD	5,006,898.00	0.9134	4,573,300.63	4,436,272.00	0.8958	3,974,012.46
Credit deposits			16,458,154.04			12,108,638.74
Of which: RMB			16,458,154.04			12,108,638.74
Futures deposits			60,500,336.85			90,393,448.00
Of which: RMB			60,500,336.85			90,393,448.00
Stock option deposits			5,499,781.42			5,597,756.77
Of which: RMB			5,499,781.42			5,597,756.77
Total			1,124,155,743.45			879,184,971.17

6.6 Accounts receivables

(1) Listed in detail

Items	30 Jun 2020	1 Jan 2020
Clearing receivables	128,325,151.81	9,512,000.00
Receivables for asset management fees	5,992,835.51	4,854,827.08
Receivables for custodian fee	359,499.52	379,848.65
Total	134,677,486.84	14,746,675.73
Less: Loss allowance (according to simplified model)		
Less: Loss allowance (according to the general model)		
Book value of accounts receivables	134,677,486.84	14,746,675.73

(2) Disclosure under the category of loss allowance

Categories	30 Jun 2020				
	Book balance		Loss allowance		Book value
	Amount	Ratio (%)	Amount	Ratio (%)	
Loss allowance under single item					
Loss allowance under portfolio	134,677,486.84	100.00			134,677,486.84
Of which: no collection risk portfolio	134,677,486.84	100.00			134,677,486.84
Total	134,677,486.84	100.00			134,677,486.84
Loss allowance under single item					
Loss allowance under portfolio	14,746,675.73	100.00			14,746,675.73
Of which: no collection risk portfolio	14,746,675.73	100.00			14,746,675.73
Total	14,746,675.73	100.00			14,746,675.73

(3) Accounts receivables actually written off in the current period: none.

(4) Top five accounts receivables of the 30 Jun 2020 collected by the owing party

Institution Names	Nature of Payment	30 Jun 2020	Aging	Proportion to the total balance of accounts receivables at 30 Jun 2020 (%)	Loss allowance at 30 Jun 2020
Hong Kong Securities Clearing Company Ltd.,	Clearing receivables	91,234,323.01	Within 1 year	67.74	
China Securities Depository and Clearing Co., Ltd.	Clearing receivables	37,090,828.80	Within 1 year	27.54	
Huaying No. 5 Asset Management Plan	Management fee receivables	2,182,481.43	Within 1 year	1.62	
Anxing No. 7 Asset Management Plan	Management fee receivables	765,104.14	Within 1 year	0.57	
Peng Rui No. 2 Asset Management Plan	Management fee receivables	628,477.74	Within 1 year	0.47	
Total		131,901,215.12		97.94	

6.7 Financial assets held under resale agreements

(1) List by business category

Items	30 Jun 2020	1 Jan 2020
Stock pledge repurchase	1,517,673,795.85	1,479,189,174.95
Bond pledge repo	93,468,000.00	164,619,945.24
Agreed repurchase securities	23,671,554.18	35,982,014.40
Less: Impairment provision	128,944,035.53	119,704,290.84
Total	1,505,869,314.50	1,560,086,843.75

(2) List by type of financial assets

Items	30 Jun 2020	1 Jan 2020
Stock	1,541,345,350.03	1,515,171,189.35
Bond	93,468,000.00	164,619,945.24
Less: Impairment provision	128,944,035.53	119,704,290.84
Book value of Financial assets held under resale agreements	1,505,869,314.50	1,560,086,843.75

(3) Amount of collateral

Items	30 Jun 2020	1 Jan 2020
Collateral	4,640,987,138.53	4,814,412,536.90

Note: Treasury bond reverse repurchase transactions operated by the exchange are automatically matched by the exchange to guarantee the full value of the collateral, and the counterparty pledge library information cannot be obtained. Therefore, the amount does not include the fair value of the collateral assets obtained by the reverse repurchase of exchange government bonds. The balance of the above-mentioned financial assets purchased under resale agreements as of 30 Jun, 2020 is RMB 93,468,000.00.

(4) Agreed repurchase financing funds are disclosed based on the remaining maturity

Term	30 Jun 2020	1 Jan 2020
Within 1 month		340,819.73
1 to 3 months	929,337.50	2,991,873.07
3 months to 1 year	22,742,216.68	32,649,321.60
Total	23,671,554.18	35,982,014.40

(5) Stock pledged repurchase funds are classified and disclosed based on the remaining maturity

Term	30 Jun 2020	1 Jan 2020
Within 1 month	337,541,157.82	411,031,610.74
1 to 3 months	203,460,472.21	33,080,483.33
3 months to 1 year	926,565,221.38	784,522,497.55
More than 1 year	50,106,944.44	250,554,583.33
Total	1,517,673,795.85	1,479,189,174.95

(6) Credit risk exposure of margin account of stock pledge repurchase

30 Jun 2020	Stage one Expected credit losses in the next 12 months	Stage two Expected credit loss for the entire duration (no credit impairment occurred)	Stage three Expected credit loss for the entire duration (credit impairment has occurred)	Total
Book balance	1,233,262,193.59		284,411,602.26	1,517,673,795.85
Impairment provision	6,781,855.17		122,083,978.10	128,865,833.27
Amount of collateral	4,361,401,051.53		234,691,712.00	4,596,092,763.53

Continued

1 Jan 2020	Stage one Expected credit losses in the next 12 months	Stage two Expected credit loss for the entire duration (no credit impairment occurred)	Stage three Expected credit loss for the entire duration (credit impairment has occurred)	Total
Book balance	1,204,986,571.15		274,202,603.80	1,479,189,174.95
Impairment provision	6,975,773.97		112,603,274.50	119,579,048.47
Amount of collateral	4,351,872,796.90		248,760,736.00	4,600,633,532.90

6.8 Financial assets held for trading

(1) List by category

Items	30 Jun 2020 Fair Value: Financial Assets Classified as Those Measured at Fair Value Whose Changes Are Included in The Profits and Losses of The Current Period	30 Jun 2020 Fair Value: Total Fair Value	30 Jun 2020 Initial Cost: Financial Assets Classified as Those Measured at Fair Value Whose Changes Are Included in The Profits and Losses of The Current Period	30 Jun 2020 Initial Cost: Total Initial Cost
Bond	15,905,012,215.62	15,905,012,215.62	15,578,721,387.40	15,578,721,387.40
Fund	1,907,610,948.60	1,907,610,948.60	1,881,907,660.47	1,881,907,660.47
Stock	3,621,329,481.11	3,621,329,481.11	3,282,225,500.52	3,282,225,500.52
Bank wealth management products	100,109.20	100,109.20	100,000.00	100,000.00
Brokerage Asset Management Products	311,710,599.35	311,710,599.35	328,045,177.04	328,045,177.04
Others	1,299,765,591.57	1,299,765,591.57	1,147,097,211.93	1,147,097,211.93
Total	23,045,528,945.45	23,045,528,945.45	22,218,096,937.36	22,218,096,937.36

Continued

Items	1 Jan 2020 Fair Value: Financial Assets Classified as Those Measured at Fair Value Whose Changes Are Included in The Profits and Losses of The Current Period	1 Jan 2020 Fair Value: Total Fair Value	1 Jan 2020 Initial Cost: Financial Assets Classified as Those Measured at Fair Value Whose Changes Are Included in The Profits and Losses of The Current Period	1 Jan 2020 Initial Cost: Total Initial Cost
Bond	11,538,683,481.06	11,538,683,481.06	11,351,398,539.36	11,351,398,539.36
Fund	2,149,658,212.45	2,149,658,212.45	2,143,110,649.46	2,143,110,649.46
Stock	2,652,027,651.38	2,652,027,651.38	2,549,738,554.59	2,549,738,554.59
Bank wealth management products	201,753,888.89	201,753,888.89	200,000,000.00	200,000,000.00

Items	1 Jan 2020			
	Fair Value		Initial Cost	
	Financial Assets Classified as Those Measured at Fair Value Whose Changes Are Included in The Profits and Losses of The Current Period	Total Fair Value	Financial Assets Classified as Those Measured at Fair Value Whose Changes Are Included in The Profits and Losses of The Current Period	Total Initial Cost
Brokerage Asset Management Products	273,927,862.18	273,927,862.18	282,869,273.60	282,869,273.60
Others	851,317,737.87	851,317,737.87	510,980,658.45	510,980,658.45
Total	17,667,368,833.83	17,667,368,833.83	17,038,097,675.46	17,038,097,675.46

(2) Current securities financing in Financial assets held for trading

Items	Fair value of 30 Jun 2020	Fair value of 1 Jan 2020
Securities lending	32,098,564.50	41,912,068.00
Total	32,098,564.50	41,912,068.00

(3) Fair value of pledged bonds provided by the company for securities repurchase business

Items	Fair value of 30 Jun 2020
Bonds	8,367,875,844.10

(4) Fair value of the bonds pledged by the company due to the bond lending business

Items	Fair value of 30 Jun 2020
Bonds	1,834,745,048.36

6.9 Other debt investments

(1) List by item

Items	30 Jun 2020 Initial costs	Interest	Changes in fair value	Book value	Accumulated impairment provision
National debt	631,710,392.93	10,193,227.42	2,070,115.87	643,973,736.22	
Local debt	8,210,659,243.39	140,736,125.29	223,992,221.61	8,575,387,590.29	706,062.53
Financial debt	19,799,486.07	682,652.05	384,653.93	20,866,792.05	15,580.91
corporate debt	92,443,615.11	2,886,282.82	2,277,134.49	97,607,032.42	211,338.61
Corporate debt	728,164,876.30	25,053,424.13	5,533,189.30	758,751,489.73	1,131,555.61
Others	259,000,000.00	3,346,383.57	2,051,294.00	264,397,677.57	392,358.52
Total	9,941,777,613.80	182,898,095.28	236,308,609.20	10,360,984,318.28	2,456,896.18

Continued

Items	1 Jan 2020 Initial cost	Interest	Changes in fair value	Book value	Accumulated impairment provision
National debt	514,869,219.71	6,659,497.75	6,138,845.68	527,667,563.14	
Local debt	9,440,378,918.49	156,296,930.82	200,241,578.51	9,796,917,427.82	926,084.55
Financial debt	19,704,778.33	327,594.52	411,181.67	20,443,554.52	14,960.53
corporate debt	72,065,763.40	2,148,629.37	2,056,239.60	76,270,632.37	106,626.88
Corporate debt	727,926,175.69	17,296,605.50	4,794,674.31	750,017,455.50	2,200,565.55
Others	200,000,000.00	9,534,246.58	2,828,000.00	212,362,246.58	364,144.32
Total	10,974,944,855.62	192,263,504.54	216,470,519.77	11,383,678,879.93	3,612,381.83

(2) Fair value of pledged bonds provided by the company for securities repurchase business

Items	Fair value of 30 Jun 2020
Bonds	9,463,686,758.91

6.10 Other equity investments

(1) Investment of other equity instruments

Items	30 Jun 2020			
	Initial cost	Fair value	Dividend income recognized from 1st Jan to 30th Jun 2020	Reasons for designating fair value measurement and its changes included in Other comprehensive income
Non-trading equity instruments	3,350,179,504.41	3,268,177,071.50	15,717,991.85	Holding for non-trading purposes
Total	3,350,179,504.41	3,268,177,071.50	15,717,991.85	

Continued

Items	1 Jan 2020			
	Initial cost	Fair value	Dividend income recognized from 1st Jan to 30th Jun 2019	Reasons for designating fair value measurement and its changes included in Other comprehensive income
Non-trading equity instruments	3,347,226,742.03	3,317,992,713.71	11,268,680.10	Holding for non-trading purposes
Total	3,347,226,742.03	3,317,992,713.71	11,268,680.10	

Note: At the end of the reporting period, Other equity investments include the company's special account investment in China Securities Finance Corporation Limited (hereinafter referred to as "Securities"), non-trading equity and stocks. For securities company special account investment, the company and other securities companies that invest in the special account share the investment risk and investment income according to the investment ratio, and the securities company conducts unified operation and investment management. As of 30 June 2020, based on the investment account report provided by the Securities Finance Corporation, the fair value of the company's investment in the special account is RMB 2,089,831,050.36.

(2) Other equity investments derecognized from 1st Jan to 30th Jun 2020

Items	Fair value at the time of derecognition	dividend income	Amount of accumulated gains or losses at the time of derecognition transferred from Other comprehensive income to retained earnings in the current period	Reasons for disposing of the investment
Non-trading equity instruments	154,847,527.43	321,554.55	11,515,824.87	Business needs
Total	154,847,527.43	321,554.55	11,515,824.87	

6.11 Long term equity investments

(1) Long term equity investments

Items	30 Jun 2020			1 Jan 2020		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Investment in associates	2,269,579,478.38	208,252,876.04	2,061,326,602.34	2,221,648,225.35	208,252,876.04	2,013,395,349.31
Total	2,269,579,478.38	208,252,876.04	2,061,326,602.34	2,221,648,225.35	208,252,876.04	2,013,395,349.31

(2) Details of Long-term equity investments

Investee	1 Jan 2020	Movement							30 Jun 2020	Impairment provision 30 Jun 2020
		Additional investment	Reduce investment	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other equity changes	Declare cash dividends or profits	Impairment provision		
Joint venture										
Yinhua Fund Management Co., Ltd.	1,889,306,585.24			193,497,130.57	197,143.44		142,449,789.22		1,940,551,070.03	208,252,876.04
Chongqing Share Transfer Center Co., Ltd.	124,088,764.07			3,387,209.90			6,700,441.66		120,775,532.31	
Total	2,013,395,349.31			196,884,340.47	197,143.44		149,150,230.88		2,061,326,602.34	208,252,876.04

6.12 Investment real estate

(1) Investment real estate measured by cost method

Items	Houses and buildings	Total
I. Original book value		
1. 1 Jan 2020	99,101,099.69	99,101,099.69
2. Increase	80,022,582.03	80,022,582.03
Transfer in	80,022,582.03	80,022,582.03
3. Decreases		
(1) Disposal		
(2) Other transfer out		
4. 30 Jun 2020	179,123,681.72	179,123,681.72
II. Accumulated depreciation and amortization		
1. 1 Jan 2020	59,554,452.33	59,554,452.33
2. Increase	42,170,272.28	42,170,272.28
(1) Provision or amortization	1,727,504.53	1,727,504.53

Items	Houses and buildings	Total
(2) Transfer in	40,442,767.75	40,442,767.75
3. Reduction		
(1) Disposal		
(2) Other transfer out		
4. 30 Jun 2020	101,724,724.61	101,724,724.61
III. Impairment provision		
1. 1 Jan 2020	7,491,322.43	7,491,322.43
2. Increase		
(1) Provision		
3. Decreases		
(1) Disposal		
(2) Other transfer out		
IV. 30 Jun 2020	7,491,322.43	7,491,322.43
4. Book value		
1. 30 Jun 2020	69,907,634.68	69,907,634.68
2. 1 Jan 2020	32,055,324.93	32,055,324.93

(2) Investment real estate that has not obtained the property right certificate

Items	Book value	Reasons for not getting the title certificate
houses and buildings	2,594,147.60	Related property rights are being processed
Total	2,594,147.60	

(3) As of 30 Jun 2020, the company has no major investment real estate with restricted ownership such as mortgage guarantees.

6.13 Fixed assets

(1) Details of fixed assets

Items	Houses and buildings	Electronic equipment	mechanical equipment	Transportation equipment	office equipment	Total
I. Original book value						
1.1 Jan 2020	442,076,566.05	264,337,329.15	8,822,079.05	33,935,704.10	28,755,193.63	777,926,871.98
2. Increase		3,420,618.72			106,028.34	3,526,647.06
Purchase		3,420,618.72			106,028.34	3,526,647.06

Items	Houses and buildings	Electronic equipment	mechanical equipment	Transportation equipment	office equipment	Total
3. Decreases	80,022,582.03	1,887,821.07	64,352.00	91,103.01	216,414.81	82,282,272.92
(1) Disposal or scrap		1,887,821.07	64,352.00	91,103.01	216,414.81	2,259,690.89
(2) Transfer out	80,022,582.03					80,022,582.03
4. 30 Jun 2020	362,053,984.02	265,870,126.80	8,757,727.05	33,844,601.09	28,644,807.16	699,171,246.12
II. Accumulated depreciation						
1. 1 Jan 2020	183,450,632.59	240,448,052.89	7,951,401.56	28,532,880.67	20,303,924.83	480,686,892.54
2. Increase	6,951,808.77	5,794,870.86	110,308.62	1,252,282.42	1,378,993.33	15,488,264.00
(1) Provision	6,951,808.77	5,794,870.86	110,308.62	1,252,282.42	1,378,993.33	15,488,264.00
3. Decreases	40,442,767.75	1,618,245.15	58,093.52	88,369.92	201,646.29	42,409,122.63
(1) Disposal or scrap		1,618,245.15	58,093.52	88,369.92	201,646.29	1,966,354.88
(2) Transfer out	40,442,767.75					40,442,767.75
4. 30 Jun 2020	149,959,673.61	244,624,678.60	8,003,616.66	29,696,793.17	21,481,271.87	453,766,033.91
III. Impairment provision						
1.1 Jan 2020	7,125,166.62					7,125,166.62
2. Increase						
(1) Provision						
3. Decreases						
(1) Disposal or scrap						
4. 30 Jun 2020	7,125,166.62					7,125,166.62
IV. Book value						
1. 30 Jun 2020	204,969,143.79	21,245,448.20	754,110.39	4,147,807.92	7,163,535.29	238,280,045.59
2.1 Jan 2020	251,500,766.84	23,889,276.26	870,677.49	5,402,823.43	8,451,268.80	290,114,812.82

(2) As of 30 Jun 2020, the company has no major temporarily idle fixed assets.

(3) As of 30 Jun 2020, the company has no fixed assets leased through financial leases.

(4) As of 30 Jun 2020, the company has no major fixed assets that have not obtained the ownership certificate.

(5) As of 30 Jun 2020, there are no mortgages, guarantees or other restrictions on ownership of fixed assets.

6.14 Construction in progress

(1) Construction in progress

Items	30 Jun 2020			1 Jan 2020		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Jiangbeizui Building	650,009,446.49		650,009,446.49	574,160,498.08		574,160,498.08
Total	650,009,446.49		650,009,446.49	574,160,498.08		574,160,498.08

2. Changes in construction in progress

Items	1 Jan 2020	Increase	Decrease			30 Jun 2020	Sources of funds
			Transfer to fixed assets	Transfer to intangible assets	Transfer to long-term deferred expenses		
Jiangbeizui Building	574,160,498.08	75,848,948.41				650,009,446.49	Self-owned funds
Total	574,160,498.08	75,848,948.41				650,009,446.49	

6.15 Intangible assets

(1) Situation of intangible assets

Items	Land use rights	computer software	Transaction seat fees	Others	Total
I. Original book value					
1.1 Jan 2020	158,578,919.84	229,680,091.35	8,455,624.87	1,400,000.00	398,114,636.06
2. Increase		5,986,588.44			5,986,588.44
(1) Purchase		5,986,588.44			5,986,588.44
(2) Internal R&D					
(3) Increase in business combination					
3. Decreases					
(1) Disposal					
4.30 Jun 2020	158,578,919.84	235,666,679.79	8,455,624.87	1,400,000.00	404,101,224.50
II Accumulated amortization					
1.1 Jan 2020	38,392,791.37	184,845,597.60	8,455,624.87		231,694,013.84
2. Increase	2,003,102.16	14,005,660.25			16,008,762.41
(1) Provision	2,003,102.16	14,005,660.25			16,008,762.41
3. Decreases					
(1) Disposal					
4.30 Jun 2020	40,395,893.53	198,851,257.85	8,455,624.87		247,702,776.25
III Impairment provision					
1.1 Jan 2020					
2. Increase					
(1) Provision					
3. Decreases					
(1) Disposal					
4.30 Jun 2020					
IV Book value					
1. 30 Jun 2020	118,183,026.31	36,815,421.94		1,400,000.00	156,398,448.25
2.1 Jan 2020	120,186,128.47	44,834,493.75		1,400,000.00	166,420,622.22

(2) As of 30 Jun 2020, there are no mortgages, guarantees or other restrictions on ownership of intangible assets.

(3) As of 30 Jun 2020, the company has no intangible assets formed through internal research and development.

(4) As of 30 Jun 2020, the company has no land use rights for which the title certificate has not been completed.

6.16 Goodwill

(1) Original book value of goodwill

Name of the investee or the matters forming goodwill	1 Jan 2020	Increase		Decrease	30 Jun 2020
		Business merger formation	Others	Disposal	
Southwest Securities International Securities Co., Ltd.	272,432,975.00		5,352,556.78		277,785,531.78
Southwest Futures Co., Ltd.	40,620,597.75				40,620,597.75
Total	313,053,572.75		5,352,556.78		318,406,129.53

Note: The increase in the Period from 1st Jan to 30th Jun 2020 is due to exchange rate changes.

(2) Goodwill impairment provision

Name of the investee or the matters forming goodwill	1 Jan 2020	Increase		Decrease	30 Jun 2020
		Accrual	Others	Disposal	
Southwest Securities International Securities Co., Ltd.	91,030,737.17		1,788,502.99		92,819,240.16
Southwest Futures Co., Ltd.	29,597,900.00				29,597,900.00
Total	120,628,637.17		1,788,502.99		122,417,140.16

Note: The increase in the Period from 1st Jan to 30th Jun 2020 is due to exchange rate changes.

(3) Southwest Securities International Securities Co., Ltd. is a listed company on the main board of Hong Kong. The recoverable amount of Western Securities International Securities Co., Ltd. is calculated based on fair value minus disposal expenses, and the fair value is calculated based on the average closing price of the five trading days before the end of the period. On 30 Jun 2020, according to the above method, no additional provision for goodwill impairment loss is required.

6.17 Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets that are not presented on net off basis

Items	30 Jun 2020		1 Jan 2020	
	Deductible temporary differences	**Deferred tax assets**	**Deductible temporary differences**	**Deferred tax assets**
Assets impairment Provision	213,454,266.12	41,363,566.54	208,775,713.16	40,193,928.31
Changes in the fair value of Other equity investments	82,002,432.91	20,500,608.23	29,234,028.32	7,308,507.08
Employee benefits payable	836,125,125.87	209,031,281.47	516,777,464.49	129,194,366.12
Deductible loss	199,771,998.37	43,148,401.68	486,598,464.85	114,855,018.30
Structured entity parent company bears losses	195,572,057.69	56,154,239.52	226,698,113.44	67,326,408.30
Others	4,206,189.20	630,928.38	4,206,189.20	630,928.38
Total	1,531,132,070.16	370,829,025.82	1,472,289,973.46	359,509,156.49

(2) Deferred income tax liabilities that are not presented on net off basis

Items	30 Jun 2020		1 Jan 2020	
	Deductible temporary differences	**Deferred tax assets**	**Deductible temporary differences**	**Deferred tax assets**
Changes in fair value of trading financial instruments and derivative financial instruments	469,532,464.18	95,386,401.53	277,559,670.39	47,536,905.45
Changes in the fair value of Other debt investments	238,765,505.38	59,691,376.35	220,082,901.60	55,020,725.40
Total	708,297,969.56	155,077,777.88	497,642,571.99	102,557,630.85

6.18 Other assets

Items	30 Jun 2020	1 Jan 2020
Interest receivables	31,051,030.39	31,051,030.39
Dividend receivables	148,120,159.49	2,037,420.45
Other receivables	138,781,808.19	303,395,056.13
Long-term prepaid expenses	36,017,916.03	48,980,195.64
Advances	31,350,740.70	23,343,915.13
Prepaid taxes	76,694,583.43	71,002,639.13
Other assets	12,660,005.22	5,055,045.92
Total	474,676,243.45	484,865,302.79

(1) Interest receivables

Items	30 Jun 2020	1 Jan 2020
Bond interest receivables	35,946,259.80	35,946,259.80
Interest receivables for Financial assets held under resale agreements	5,083,945.20	5,083,945.20
Less: Impairment provision	9,979,174.61	9,979,174.61
Total	31,051,030.39	31,051,030.39

(2) Dividends receivables

Items	30 Jun 2020	1 Jan 2020
Account age within 1 year	148,120,159.49	2,037,420.45
Of which: fund, stock dividends	5,670,370.27	2,037,420.45
Dividends from associates	142,449,789.22	
Total	148,120,159.49	2,037,420.45

(3) Other receivables

A. Listed by evaluation method

Categories	30 Jun 2020				
	Book balance		Loss allowance		Book value
	Amount	Ratio (%)	Amount	Proportion of provision (%)	
Loss allowance under single item	696,860,610.61	92.55	611,428,686.18	87.74	85,431,924.43
Loss allowance under portfolio	56,112,453.90	7.45	2,762,570.14	4.92	53,349,883.76
Total	752,973,064.51	100.00	614,191,256.32	81.57	138,781,808.19

Continued

Categories	1 Jan 2020				
	Book balance		Loss allowance		Book value
	Amount	Ratio (%)	Amount	Proportion of provision (%)	
Loss allowance under single item	683,944,355.77	86.63	482,303,940.25	70.52	201,640,415.52
Loss allowance under portfolio	105,547,960.98	13.37	3,793,320.37	3.59	101,754,640.61
Total	789,492,316.75	100.00	486,097,260.62	61.57	303,395,056.13

B. List by aging

Aging	30 Jun 2020			
	Book balance		Loss allowance	
	Amount	Ratio (%)	Amount	Proportion of provision (%)
Within 1 year	360,256,344.43	47.84	257,778,803.38	71.55
1-2 years	182,496,464.39	24.24	180,220,281.43	98.75
2-3 years	2,161,502.17	0.29	219,514.64	10.16
over 3 years	208,058,753.52	27.63	175,972,656.87	84.58
Total	752,973,064.51	100.00	614,191,256.32	81.57

Continued

Aging	1 Jan 2020			
	Book balance		Loss allowance	
	Amount	Ratio (%)	Amount	Proportion of provision (%)
Within 1 year	416,176,608.67	52.71	147,275,830.94	35.39
1-2 years	164,823,429.85	20.88	162,916,822.41	98.84
2-3 years	2,110,609.17	0.27	435,486.72	20.63
over 3 years	206,381,669.06	26.14	175,469,120.55	85.02
Total	789,492,316.75	100.00	486,097,260.62	61.57

C. Other receivables are listed based on the nature of the funds:

Nature of Payment	30 Jun 2020	1 Jan 2020
Investment receivables	120,000,000.00	120,000,000.00
Lending	567,704,655.05	554,079,926.94
Refundable deposits	36,933,858.27	38,337,539.47
Suspense payment receivables	13,539,609.55	65,192,662.45
Others	14,794,941.64	11,882,187.89
Total Other receivables	752,973,064.51	789,492,316.75
Less: Impairment provision for Other receivables	614,191,256.32	486,097,260.62
Total	138,781,808.19	303,395,056.13

D. Top five Other receivables of the 30 Jun 2020 collected by the owing party

Institution Names	Nature of Payment	30 Jun 2020	Aging	Percentage of Other accounts receivables balance (%)	Loss allowance
Customer who owes short-term financing #80819069	Lending	261,078,293.77	Within 1 year	34.67	245,591,461.63
Customer who owes short-term financing #80818983	Lending	153,034,545.60	1-2 years	20.32	153,034,545.60
Henan Futian Livestock Development Co., Ltd.	Investment funds	120,000,000.00	over 3 years	15.94	120,000,000.00
Customer who owes short-term financing #80809619	Lending	15,266,119.83	over 3 years	2.03	15,266,119.83
Customer who owes short-term financing #80819400	Lending	14,487,984.08	1-2 years	1.92	14,487,984.08
Total		563,866,943.28		74.88	548,380,111.14

(4) Long-term deferred expenses

Items	1 Jan 2020	Increase	Amortization	30 Jun 2020
Fixed asset improvement	34,364,511.45	1,196,054.55	9,675,762.78	25,884,803.22
Network engineering	3,768,815.44	157,541.59	978,845.15	2,947,511.88
Others	10,846,868.75	10,708,654.13	14,369,921.95	7,185,600.93
Total	48,980,195.64	12,062,250.27	25,024,529.88	36,017,916.03

(5) Advances to suppliers

A. Aging analysis

Aging	30 Jun 2020			
	Book balance	ratio（%）	Loss allowance	Book value
Within 1 year	23,826,081.88	76.00		23,826,081.88
1-2 years	4,985,884.43	15.90		4,985,884.43
2-3 years	729,341.53	2.33		729,341.53
over 3 years	1,809,432.86	5.77		1,809,432.86
Total	31,350,740.70	100.00		31,350,740.70

Continued

Aging	1 Jan 2020			
	Book balance	Ratio (%)	Loss allowance	Book value
Within 1 year	13,039,090.87	55.86		13,039,090.87
1-2 years	8,058,575.88	34.52		8,058,575.88
2-3 years	858,808.23	3.68		858,808.23
over 3 years	1,387,440.15	5.94		1,387,440.15
Total	23,343,915.13	100.00		23,343,915.13

B. Top five Advances to suppliers of the 30 Jun 2020 collected by the owing party

Institution Names	Nature of Payment	Book balance	Percentage of advances balance (%)
Hang Seng Electronics Co., Ltd.	Business platform purchase	6,673,434.81	21.29
Chongqing Branch of People's Life Insurance Company of China	insurance	2,699,685.60	8.61
Beijing Xincheng Huayuan Investment Consulting Co., Ltd.	rent	2,013,862.00	6.42
Zhong Haitao	rent	1,199,999.99	3.83
Chongqing Yixun Network Technology Co., Ltd.	Business platform purchases	928,505.30	2.96
Total		13,515,487.70	43.11

6.19 Margin accounts receivable

Items	30 Jun 2020	1 Jan 2020
Securities lending	32,098,564.50	42,091,242.00
—Financial assets held for trading	32,098,564.50	41,912,068.00
—Other equity instrument investment		179,174.00
Total Securities lending	32,098,564.50	42,091,242.00
Less: Impairment provision		
Book value of Securities lending	32,098,564.50	42,091,242.00

6.20 Asset impairment Provision

Items	1 Jan 2020	Increase	Decrease		30 Jun 2020
			Inversed	Resold	
Impairment provision for margin account	34,217,371.08	15,384.55	701,225.39		33,531,530.24
Impairment Provision for Financial assets held under resale agreements	119,704,290.84	9,239,744.69			128,944,035.53
Impairment provision for Other debt investments	3,612,381.83		1,155,485.65		2,456,896.18
Loss allowance of Other receivables	486,097,260.62	128,093,995.70			614,191,256.32
Impairment provision for interest receivables	9,979,174.61				9,979,174.61
Subtotal of credit impairment provision for financial instruments and Other items	653,610,478.98	137,349,124.94	1,856,711.04		789,102,892.88
Impairment provision for Long-term equity investments	208,252,876.04				208,252,876.04
Impairment provision for investment real estate	7,491,322.43				7,491,322.43

Impairment provision for fixed assets	7,125,166.62			7,125,166.62
Impairment provision for Goodwill	120,628,637.17	1,788,502.99		122,417,140.16
Loss allowance of commodities		490,825.00		490,825.00
Subtotal of Other asset impairment provision	343,498,002.26	2,279,327.99		345,777,330.25
Total	997,108,481.24	139,628,452.93	1,856,711.04	1,134,880,223.13

6.21 Expected Credit Loss Reserves of Financial Instruments and Other Items

The three-stage expected credit loss provision of the company's financial assets is summarized as follows:

	30 Jun 2020			
Categories	**Expected credit losses in the next 12 months**	**Expected credit loss for the entire duration (no credit impairment occurred)**	**Expected credit loss for the entire duration (credit impairment has occurred)**	**Total**
Impairment Provision for Margin account	28,960,015.09	4,375,919.24	195,595.91	33,531,530.24
Impairment Provision for Financial assets held under resale agreements	6,860,057.43		122,083,978.10	128,944,035.53
Impairment provision for Other debt investments	2,456,896.18			2,456,896.18
Loss allowance of Other receivables	51,683.11	1,372.94	614,138,200.27	614,191,256.32
Impairment provision for interest receivables			9,979,174.61	9,979,174.61
Total	38,328,651.81	4,377,292.18	746,396,948.89	789,102,892.88

Continued

Categories	1 Jan 2020t			
	Expected credit losses in the next 12 months	Expected credit loss for the entire duration (no credit impairment occurred)	Expected credit loss for the entire duration (credit impairment has occurred)	Total
Impairment Provision of Margin account	29,763,192.06	4,173,939.32	280,239.70	34,217,371.08
Impairment Provision for Financial assets held under resale agreements	7,101,016.34		112,603,274.50	119,704,290.84
Impairment provision for Other debt investments	3,612,381.83			3,612,381.83
Loss allowance of Other receivables	236,481.08	21,015.41	485,839,764.13	486,097,260.62
Impairment provision for interest receivables			9,979,174.61	9,979,174.61
Total	40,713,071.31	4,194,954.73	608,702,452.94	653,610,478.98

6.22 Short-term debt instruments

Bond name	face value	Value date	Coupon rate	Bond maturity	Issuance amount
Receipt certificate	1.00	2019/7/2—2020/6/30	Floating income/2.60-6.26	20 days-365 days	3,178,650,000.00
Corporate debt	100.00	2020/4/24	2.70	365 days	2,000,000,000.00
Total					5,178,650,000.00

Continued

Bond name	1 Jan 2020	Increase	Decrease	30 Jun 2020
Receipt certificate	1,310,320,447.71	1,913,046,903.60	1,349,722,387.22	1,873,644,964.09
Corporate debt		2,010,060,273.97		2,010,060,273.97
Total	1,310,320,447.71	3,923,107,177.57	1,349,722,387.22	3,883,705,238.06

6.23 Placements from other financial institutions

Items	30 Jun 2020	1 Jan 2020
Due to Banks		400,233,333.34
Due to China Securities Finance Corporation Limited	2,017,333,333.34	1,008,069,444.44

Items	30 Jun 2020	1 Jan 2020
Total	2,017,333,333.34	1,408,302,777.78

Due to China Securities Finance Corporation Limited:

remaining period	30 Jun 2020		1 Jan 2020	
	Balance	Interest rate range (%)	Balance	Interest rate range (%)
1-3 months	1,009,930,555.56	3.25		
3-12 months	1,007,402,777.78	3.25	1,008,069,444.44	3.50
Total	2,017,333,333.34		1,008,069,444.44	

6.24 Financial liabilities held for trading

Categories	Fair value at 30 Jun 2020			Fair value at 1 Jan 2020		
	Financial Liabilities classified as those measured at fair value whose changes are included in the profits and losses of the current period	Financial Liabilities designated at fair value whose changes are recorded in the profit or loss of the current period	Total	Financial Liabilities classified as those measured at fair value whose changes are included in the profits and losses of the current period	Financial Liabilities designated at fair value whose changes are recorded in the profit or loss of the current period	Total
Interests enjoyed by third parties in structured entities		614,776,324.73	614,776,324.73		779,275,790.12	779,275,790.12
Others	238,500.00		238,500.00	488,250.00		488,250.00
Total	238,500.00	614,776,324.73	615,014,824.73	488,250.00	779,275,790.12	779,764,040.12

6.25 Financial assets sold under repurchase agreements

(1) List by business type

Items	30 Jun 2020	1 Jan 2020
Financial assets sold under repurchase agreements	16,767,105,501.61	12,500,361,456.18
Pledged quotation repurchase	170,924,643.98	89,970,195.91
Other repurchase agreements		1,925,319,891.09
Total	16,938,030,145.59	14,515,651,543.18

(2) List by type of financial assets

Items	30 Jun 2020	1 Jan 2020
Bonds	16,866,709,488.91	12,590,331,652.09
Others	71,320,656.68	1,925,319,891.09
Total	16,938,030,145.59	14,515,651,543.18

(3) Amount of collateral

Items	30 Jun 2020	1 Jan 2020
Bonds	18,426,538,285.91	14,262,636,657.08
Others	112,093,782.01	2,072,885,342.01
Total	18,538,632,067.92	16,335,521,999.09

(4) Quotation repurchase funds are classified based on the remaining period

Term	30 Jun 2020	Interest rate range (%)	1 Jan 2020	Interest rate range (%)
Within a month	154,604,038.16	2.00-3.30	89,655,195.91	2.00-3.00
Within one month to three months	16,320,605.82		315,000.00	
Total	170,924,643.98		89,970,195.91	

6.26 Securities brokerage payment

Items	30 Jun 2020	1 Jan 2020
General brokerage business:		
Of which: Individual	10,509,504,840.83	8,021,118,650.05
Institution	1,404,639,737.87	1,970,182,015.17
Subtotal	11,914,144,578.70	9,991,300,665.22
Credit business:		

Items	30 Jun 2020	1 Jan 2020
Of which: Individual	1,112,433,647.81	893,233,621.62
Institution	32,834,609.77	357,877,164.15
Subtotal	1,145,268,257.58	1,251,110,785.77
Total	13,059,412,836.28	11,242,411,450.99

6.27 Proceeds from underwriting securities received on behalf of customers

Items	30 Jun 2020	1 Jan 2020
Securities	176,250,000.00	
Total	176,250,000.00	

6.28 Employee benefits payable

(1) List by category

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
1. Short-term salaries	1,115,152,528.53	786,120,750.88	659,215,338.16	1,242,057,941.25
2. Post-employment benefits-set an Accrual plan	1,488,021.76	15,783,687.45	15,050,639.00	2,221,070.21
3. benefits for discharge	148,953.79	657.79	31,595.60	118,015.98
4. Post-employment benefits-defined benefit plan	29,864,731.41	1,443,570.54	493,279.90	30,815,022.05
Total	1,146,654,235.49	803,348,666.66	674,790,852.66	1,275,212,049.49

(2) Short-term salaries

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
1. Salaries, bonuses, allowances, and subsidies	1,082,431,187.72	735,969,221.20	613,852,828.13	1,204,547,580.79
2. Employee benefits		5,843,419.14	5,843,419.14	
3. Social insurance premiums	1,431,460.99	14,431,019.55	14,207,536.43	1,654,944.11
Of which: medical insurance premium	208,784.53	13,881,306.76	13,813,904.96	276,186.33
Work injury insurance premium	34,453.25	172,872.32	171,748.13	35,577.44
Maternity insurance	1,188,223.21	376,840.47	221,883.34	1,343,180.34

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
4. Housing Provident Fund	80,979.00	23,164,560.34	23,167,676.34	77,863.00
5. Labor union funds and employee education funds	31,208,900.82	6,712,530.65	2,143,878.12	35,777,553.35
Total	1,115,152,528.53	786,120,750.88	659,215,338.16	1,242,057,941.25

(3) Defined contribution plan liabilities included in post-employment benefits

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
Basic retirement insurance	1,053,812.81	8,272,758.74	7,699,297.34	1,627,274.21
Unemployment insurance premium	417,495.89	302,759.29	291,845.88	428,409.30
Corporate Annuity Payment	16,713.06	7,208,169.42	7,059,495.78	165,386.70
Total	1,488,021.76	15,783,687.45	15,050,639.00	2,221,070.21

A. Present value of defined benefit plan obligations

Items	Period from 1st Jan to 30th June
1 Jan 2020	29,864,731.41
The defined benefit cost included in the current comprehensive income	1,443,570.54
①Net interest	531,950.60
②Re-measurement changes	911,619.94
Other changes	-493,279.90
①Welfare paid	-493,279.90
30 Jun 2020	30,815,022.05

B. Net liabilities of defined benefit plan

Items	Period from 1st Jan to 30th June
1 Jan 2020	29,864,731.41

Defined benefit cost included in current profit and loss	531,950.60
Defined benefit cost included in Other comprehensive income	911,619.94
Other changes	-493,279.90
30 Jun 2020	30,815,022.05

C. The content of the defined benefit plan

The company provides the following supplementary post-retirement benefits for employees who retire before 1 Jan 2013: For those whose pension is lower than the social average salary, an additional subsidy of 500 yuan per person per month will be added; for those whose pension is higher than the social average salary, an additional subsidy of 800 yuan per person per month will be added.

D. Major actuarial assumptions of the income plan

In the actuarial assumptions, the discount rate is 3.57%, and the social average wage growth rate is set to 10.00%-4.00% in Chongqing and Shenzhen. The average life expectancy in Chongqing is 75.02 years for men and 80.70 years for women. The average life expectancy in Shenzhen is 78.38 years for men and 83.38 years for women.

6.29 Taxes payables

Items	30 Jun 2020	1 Jan 2020
VAT	17,519,471.00	12,289,983.90
corporate income tax	3,431,477.96	2,914,299.67
Personal Income Tax	10,757,202.25	12,650,056.35
Urban maintenance and construction tax	173,180.22	106,219.74
Education surcharge and local education surcharge	195,950.71	148,600.84
Investor Protection Fund	8,791,796.51	10,403,943.25
Others	1,396,122.09	865,746.90
Total	42,265,200.74	39,378,850.65

6.30 Accounts Payables

Items	30 Jun 2020	1 Jan 2020

Liquidation payables	162,691,275.24	79,455,337.90
Fees and commissions	19,251,383.09	19,920,944.40
Custodian fee payables	644,470.46	549,457.96
Total	182,587,128.79	99,925,740.26

6.31 Bonds payables

Items	Face value	Value date	Bond maturity	Issued amount	Coupon rate	1 Jan 2020	Increase	Decrease	30 Jun 2020
14 Southwest 02	100.00	2015-7-23	5 years	1,949,530,000.00	5.37	2,011,868,754.09	38,819,202.24		2,050,687,956.33
17 Southwest C1	100.00	2017-12-21	3 years	1,000,000,000.00	6.27	1,001,889,589.06	31,264,109.60		1,033,153,698.66
18 Southwest C1	100.00	2018-5-8	3 years	1,900,000,000.00	6.10	1,975,573,150.66	57,791,232.87	115,900,000.00	1,917,464,383.53
19 Southwest 01	100.00	2019-4-2	3 years	2,500,000,000.00	3.85	2,570,576,747.43	48,454,746.00	96,250,000.00	2,522,781,493.43
19 Southwest 02	100.00	2019-7-18	3 years	2,500,000,000.00	3.77	2,541,107,397.69	47,370,009.96		2,588,477,407.65
19 Southwest C1	100.00	2019-9-12	3 years	2,640,000,000.00	4.50	2,676,128,219.17	59,237,260.26		2,735,365,479.43
Receipt certificate	1.00	2018-4-27	2 years	1,000,000,000.00	6.20	1,104,295,890.34	19,873,972.67	1,124,169,863.01	
Receipt certificate	1.00	2018-5-22	2 years	100,000,000.00	6.00	100,657,534.20	2,317,808.27	102,975,342.47	
Receipt certificate	1.00	2018-5-29	2 years	70,000,000.00	6.00	70,379,726.05	1,703,013.68	72,082,739.73	
2-year offshore USD bonds	200,000.00	2019-4-17	2 years	1,396,140,463.70	6.90	1,407,526,454.32	72,151,119.51	48,047,791.09	1,431,629,782.74
Total				15,055,670,463.70		15,460,003,463.01	378,982,475.06	1,559,425,736.30	14,279,560,201.77

6.32 Other liabilities

(1) List by category

Items	30 Jun 2020	1 Jan 2020
Dividend payables	38,020,702.61	38,020,702.61
Other payables	150,748,817.51	120,255,542.32
Agent redemption of bonds	511,638.50	511,638.50
Advance receipt	715,033.00	343,695.65
Futures risk reserve	14,063,904.78	13,230,742.45
Total	204,060,096.40	172,362,321.53

(2) Dividends payables

Items	30 Jun 2020	1 Jan 2020
Ordinary dividend payables	38,020,702.61	38,020,702.61
Total	38,020,702.61	38,020,702.61

(3) Other payables

Items	30 Jun 2020	1 Jan 2020
Refundable deposits	54,316,607.09	52,610,080.49
Payables interim payment	49,219,669.20	32,347,048.48
Information system and equipment balance	3,437,165.14	3,080,519.13
Others	43,775,376.08	32,217,894.22
Total	150,748,817.51	120,255,542.32

(4) Agent redemption of bond payments

Items	30 Jun 2020	1 Jan 2020
Corporate bonds	511,638.50	511,638.50
Total	511,638.50	511,638.50

(5) Advance receipts

Aging	30 Jun 2020	1 Jan 2020
Others	715,033.00	343,695.65
Total	715,033.00	343,695.65

6.33 Share capital

Items	1 Jan 2020	Movement				30 Jun 2020
		issue new shares	Bonus shares	Provident Fund Conversion	Others	
Total number of shares	5,645,109,124.00					5,645,109,124.00

6.34 Capital Reserve

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
Capital premium (equity premium)	7,455,313,014.10			7,455,313,014.10
Other capital reserves	312,946,704.93			312,946,704.93
Total	7,768,259,719.03			7,768,259,719.03

6.35 Other comprehensive income

Items	1 Jan 2020	Period from 1st Jan to 30th Jun 2020							30 Jun 2020
		Amount before income tax in the current period	Less: Income tax expense	Less: Retained income included in Other comprehensive income in the previous period	Less: Retained income included in Other comprehensive income in the previous period	Total	Attributable to the parent company after tax	Attributable to minority shareholders after tax	
1.Other comprehensive income that cannot be reclassified into profit and loss	-34,723,891.75	-38,325,591.37	-9,353,492.86		11,515,824.87	-40,487,923.38	-40,487,923.38		-75,211,815.13
Of which:	-12,798,370.51	-911,619.94				-911,619.94	-911,619.94		-13,709,990.45
Re-measurement of changes in defined benefit plans	-21,925,521.24	-37,413,971.43	-9,353,492.86		11,515,824.87	-39,576,303.44	-39,576,303.44		-61,501,824.68
Changes in the fair value of Other equity investments	218,490,089.80	61,312,089.52	9,039,169.20	13,105,554.78		39,167,365.54	39,739,140.93	-571,775.39	258,229,230.73

6.35 Other comprehensive income

Items	1 Jan 2020	Period from 1st Jan to 30th Jun 2020							30 Jun 2020
		Amount before income tax in the current period	Less: Income tax expense	Less: Retained income included in Other comprehensive income in the previous period	Less: Retained income included in Other comprehensive income in the previous period	Total	Attributable to the parent company after tax	Attributable to minority shareholders after tax	
2. Other comprehensive income reclassified into profit and loss	1,430,641.42	197,143.44				197,143.44	197,143.44		1,627,784.86
Of which:	162,352,889.83	36,824,641.45	9,206,160.36	12,739,914.02		14,878,567.07	14,878,567.07		177,231,456.90
Other comprehensive income that can be converted to profit or loss under the equity method	2,709,286.37	-667,964.64	-166,991.16	365,640.76		-866,614.24	-866,614.24		1,842,672.13
Changes in the fair value of Other debt investments	58,535,261.31	24,958,269.27				24,958,269.27	25,530,044.66	-571,775.39	84,065,305.97

6.35 Other comprehensive income

Items	1 Jan 2020	Period from 1st Jan to 30th Jun 2020							30 Jun 2020
		Amount before income tax in the current period	Less: Income tax expense	Less: Retained income included in Other comprehensive income in the previous period	Less: Retained income included in Other comprehensive income in the previous period	Total	Attributable to the parent company after tax	Attributable to minority shareholders after tax	
Impairment provision for Other debt investment credit	-6,537,989.13								-6,537,989.13
Total	183,766,198.05	22,986,498.15	-314,323.66	13,105,554.78	11,515,824.87	-1,320,557.84	-748,782.45	-571,775.39	183,017,415.60

Continued

Items	1 Jan 2019	Period from 1st Jan to 30th Jun 2019							30 Jun 2019
		Amount before income tax in the current period	Less: Income tax expense	Less: Retained income included in Other comprehensive income in the previous period	Less: Retained income included in Other comprehensive income in the previous period	Total	Attributable to the parent company after tax	Attributable to minority shareholders after tax	
1. Other comprehensive income that cannot be reclassified into profit and loss in the future	-168,385,801.63	147,636,164.32	37,214,829.43		-5,907,486.40	116,328,821.29	116,328,821.29		-52,056,980.34
Of which:	-8,602,529.69	-1,223,153.33				-1,223,153.33	-1,223,153.33		-9,825,683.02
Re-measurement of changes in defined benefit plans	-159,783,271.94	148,859,317.65	37,214,829.43		-5,907,486.40	117,551,974.62	117,551,974.62		-42,231,297.32
Changes in the fair value of Other equity investments	185,885,915.35	12,986,888.06	2,744,298.71	26,955,042.21		-16,712,452.86	-16,994,895.59	282,442.73	168,891,019.76
2. Other comprehensive income that will be reclassified into profit and loss in the future	1,181,496.46	210,092.90				210,092.90	210,092.90		1,391,589.36
Of which:	141,485,145.97	12,726,839.25	3,181,709.81	26,955,042.21		-17,409,912.77	-17,409,912.77		124,075,233.20
Other comprehensive income that can be converted to profit or loss under the equity method	3,432,149.96	-1,749,644.39	-437,411.10			-1,312,233.29	-1,312,233.29		2,119,916.67

Items	1 Jan 2019	Period from 1st Jan to 30th Jun 2019							30 Jun 2019
		Amount before income tax in the current period	Less: Income tax expense	Less: Retained income included in Other comprehensive income in the previous period	Less: Retained income included in Other comprehensive income in the previous period	Total	Attributable to the parent company after tax	Attributable to minority shareholders after tax	
Changes in the fair value of Other debt investments	46,325,112.09	1,799,600.30				1,799,600.30	1,517,157.57	282,442.73	47,842,269.66
Other debt investment credit impairment provision	-6,537,989.13								-6,537,989.13
Total	17,500,113.72	160,623,052.38	39,959,128.14	26,955,042.21	-5,907,486.40	99,616,368.43	99,333,925.70	282,442.73	116,834,039.42

6.36 Surplus reserve

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
Statutory surplus reserves	1,100,648,039.52			1,100,648,039.52
Total	1,100,648,039.52			1,100,648,039.52

6.37 General risk reserve

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
General risk preparation	1,062,158,045.32			1,062,158,045.32
Transaction risk reserve	1,062,158,045.32			1,062,158,045.32
Total	2,124,316,090.64			2,124,316,090.64

6.38 Undistributed profits

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 31th Dec 2019
Undistributed profit at 1 Jan 2020/1 Jan 2019 before adjustment	2,771,469,583.10	2,518,032,956.48
Adjust the total amount of undistributed profit (increase +, decrease -)		-215,968,700.09
Adjust the undistributed profit at 1 Jan 2020/1 Jan 2019	2,771,469,583.10	2,302,064,256.39
Plus: net profit attributable to owners of the parent company	428,437,825.00	1,042,001,454.67
Less: Appropriate statutory surplus reserve		126,697,654.87
Withdraw general risk reserves		253,395,309.74
Ordinary stock dividend payables	451,608,729.92	169,353,273.72
Others	-9,308,070.48	23,149,889.63
Undistributed profit at 30 Jun 2020/ 1 Jan 2020	2,757,606,748.66	2,771,469,583.10

6.39 Net interest income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Interest income		
Of which: Monetary funds and interest income from clearing settlement funds	197,738,835.27	186,510,600.14
Interest income of Margin account	361,557,837.62	381,066,875.31
interest income of Financial assets held under resale agreements	52,240,150.50	60,471,295.17
Of which: Interest income from agreed repurchase	1,113,416.45	13,837,376.35
Interest income from equity pledge repurchase	50,493,277.83	45,098,466.47
Interest income from Other debt investments	204,010,171.87	269,061,161.04
Other	3,931.87	3,005,957.26
Subtotal of interest income	815,550,927.13	900,115,888.92
Interest expense		
Of which: interest expenses payables on short-term financing	39,747,177.57	66,619,021.71
Interest expense for Placements from other financial institutions	30,867,105.42	10,162,771.43
Of which: refinancing interest expense	26,958,333.34	
Interest expense for Financial assets sold under repurchase agreements	191,341,087.60	286,685,153.94
Of which: interest expense on quotation repurchase	1,231,669.39	982,825.47
Interest expense of securities trading agent	22,905,316.07	21,088,290.28
Payables bond interest expense	357,943,113.01	372,475,212.62
Of which: subordinated bond interest expense	148,324,361.79	140,491,370.97
Other	16,022,511.48	34,934,947.94
Subtotal of interest expenses	658,826,311.15	791,965,397.92
Net interest income	156,724,615.98	108,150,491.00

6.40 Net fee and commission income

(1) List by item

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
1. Net income from securities brokerage business	330,589,309.98	327,867,439.41
Securities brokerage business	445,685,569.81	440,853,296.20

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
income		
Of which: brokerage of securities trading	389,555,867.40	376,728,018.21
Trading unit seat lease	46,697,016.94	50,161,863.22
Agency sales of financial products business	9,432,685.47	13,963,414.77
Securities brokerage business expenses	115,096,259.83	112,985,856.79
Of which: brokerage of securities trading	115,096,259.83	112,985,856.79
2. Net income from futures brokerage business	12,475,815.16	10,012,677.60
Futures brokerage business income	17,569,727.77	16,403,409.33
Futures brokerage business expenses	5,093,912.61	6,390,731.73
3. Net income from investment banking	110,562,168.54	136,214,224.59
Investment banking income	112,473,545.89	137,394,597.33
Of which: securities underwriting business	71,011,188.68	37,372,601.11
Securities Sponsor Business	8,287,836.40	8,651,517.62
Financial advisory business	33,174,520.81	91,370,478.60
Investment banking expenses	1,911,377.35	1,180,372.74
Of which: securities underwriting business	1,911,377.35	1,175,662.19
Securities Sponsor Business		4,710.55
4. Net income from asset management business	15,366,746.53	27,231,760.37
Asset management business income	29,878,965.53	45,418,112.33
Asset management business expenses	14,512,219.00	18,186,351.96
5. Net income from fund management business	8,239,046.84	744,245.71
Fund management business income	8,239,046.84	851,964.75
Fund management business expenses		107,719.04
6. Net income from investment consulting business	3,320,086.05	5,442,746.39

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Investment consulting business income	4,126,676.03	6,691,092.54
Investment consulting business expenses	806,589.98	1,248,346.15
7. Other net fee and commission income		250,934.31
Other fees and commission income		250,934.31
Total	480,553,173.10	507,764,028.38
Of which: total fee and commission income	617,973,531.87	647,863,406.79
Total fees and commission expenses	137,420,358.77	140,099,378.41

(2) Financial advisory business

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Net income of financial advisory business in mergers and acquisitions-Other	18,367,924.53	29,223,550.29
Net income from Other financial advisory services	14,806,596.28	62,146,928.31
Total	33,174,520.81	91,370,478.60

(3) Agency sales of financial products

Agency sales of financial products business	Period from 1st Jan to 30th Jun 2020		Period from 1st Jan to 30th Jun 2019	
	Total sales amount	Total sales revenue	Total sales amount	Total sales revenue
Fund	906,824,036.46	2,049,817.80	1,166,824,018.42	5,397,875.10
Trust	1,418,828,114.27	6,419,339.32	823,646,395.65	1,639,717.84
Others	208,873,883.26	963,528.35	1,332,435,516.76	6,925,821.83
Total	2,534,526,033.99	9,432,685.47	3,322,905,930.83	13,963,414.77

6.41 Investment income

(1) Details of investment income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Long-term equity investments income calculated by the equity method	196,884,340.47	159,670,330.45
Financial instrument investment income	503,012,748.31	380,185,391.43
Of which: income obtained during the holding period	428,355,643.50	480,213,567.69
− Trading financial instruments	412,316,097.10	466,000,788.35
− Other equity instrument investment	16,039,546.40	14,212,779.34
Income from disposal of financial instruments	74,657,104.81	-100,028,176.26
− Trading financial instruments	-23,078,156.68	21,683,713.66
− Other debt investment	22,952,462.68	31,816,104.71
-Derivative financial instruments	74,782,798.81	-153,527,994.63
Total	699,897,088.78	539,855,721.88

(2) Listed by the investment income of trading financial instruments

Trading financial instruments		Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Financial assets classified as those measured at fair value whose changes are included in the profits and losses of the current period	Holding period income	412,316,097.10	466,000,788.35
	Gains from disposal	-23,078,156.68	18,352,743.66
Financial Liabilities classified as those measured at fair value whose changes are included in the profits and losses of the current period	Holding period income		
	Gains from disposal		3,330,970.00

(3) Investment income from associates and joint ventures

See "6.11 Long-term equity investments".

6.42 Other income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Special talent award		20,893,900.00
Three-generation fee income	6,761,924.69	47,624.45

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Treasury	11,007,301.36	4,353,708.67
Industry support funds		2,815,700.00
Total	17,769,226.05	28,110,933.12

6.43 Profit or loss from changes in fair value

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Financial assets held for trading	183,524,582.96	485,402,742.54
Of which: designated as financial assets measured at fair value and whose changes are included in the current profit and loss		
Financial liabilities held for trading	50,864,754.21	-19,891,922.29
Of which: designated as financial liabilities measured at fair value and whose changes are included in the current profit and loss	51,335,480.42	-19,065,252.29
Derivative financial instruments	11,462,123.16	-15,304,148.69
Total	245,851,460.33	450,206,671.56

6.44 Other business income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Rental income	484,668.15	184,854.72
Commodity sales revenue	17,697,512.70	70,138,889.27
Others	19,241.49	2,078,632.61
Total	18,201,422.34	72,402,376.60

6.45 Asset disposal income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Non-current asset disposal	303,704.43	189,448.90
Total	303,704.43	189,448.90

6.46 Taxes and surcharges

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Urban maintenance and construction tax	4,258,667.76	4,329,295.45
Education surcharge	1,792,793.42	1,828,067.18
Local education surcharge	1,194,085.98	1,208,212.90
property tax	1,542,235.57	2,594,781.84
Others	519,577.82	700,302.74
Total	9,307,360.55	10,660,660.11

6.47 Business and management fees

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Staff costs	802,437,046.72	786,952,259.41
Rental fees	58,200,173.85	54,777,254.18
Depreciation	15,488,264.00	20,618,156.63
Travel expenses	4,934,459.39	15,297,014.55
Business Hospitality	7,210,894.28	11,076,762.80
Investor Protection Fund	3,856,806.35	25,613,137.14
Electronic equipment operating fee	26,306,755.63	23,798,091.13
Consulting fee	17,304,450.40	6,575,476.24
Postage	8,822,038.95	12,509,622.93
Other	51,276,707.62	62,953,914.09
Total	995,837,597.19	1,020,171,689.10

6.48 Credit impairment loss

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Impairment loss of Margin accounts	-701,225.39	-33,711,062.35
Impairment loss of Financial assets held under resale agreements	9,239,744.69	8,459,544.47
Other debt investment impairment losses	-1,155,485.65	-1,749,644.39
Bad debt losses on Other receivables	121,621,596.72	78,697,160.78

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Other credit impairment losses		-1,479,743.34
Total	129,004,630.37	50,216,255.17

6.49 Other asset impairment losses

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Goodwill impairment losses		15,414,638.23
Commodity impairment losses	490,825.00	-1,233.00
Total	490,825.00	15,413,405.23

6.50 Other operating income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Amortization of investment real estate	1,727,504.53	1,743,674.21
Three generation fee expenditure	2,426,166.49	22,679.56
Bulk commodity sales cost	17,677,199.70	69,117,576.68
Others		1,012,824.06
Total	21,830,870.72	71,896,755.51

6.51 Non-operating income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019	Amount included in the current non-recurring profit and loss
Others	383,910.74	278,957.21	383,910.74
Total	383,910.74	278,957.21	383,910.74

6.52 Non-operating expenses

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019	Amount included in the current non-recurring profit and loss
External donation	12,801,222.00	3,360,700.00	12,801,222.00
Compensation expenditure	30,000.00	912,238.00	30,000.00
Others	4,191.93	1,346.78	4,191.93
Total	12,835,413.93	4,274,284.78	12,835,413.93

6.53 Income tax expenses

(1) List by category

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Income tax expense		
Of which: current income tax	7,440,594.32	23,704,453.12
Deferred income tax	49,721,727.90	34,763,514.32
Total	57,162,322.22	58,467,967.44

(2) Reconciliation between accounting profit and income tax expense

Items	Period from 1st Jan to 30th Jun 2020
The total profit	453,018,024.19
Income tax expense calculated at statutory/applicable tax rate	113,254,506.05
The impact of different tax rates applied to subsidiaries	1,485,734.16
Adjust the impact of income tax in previous periods	1,302,543.11
Impact of non-taxable income	-93,839,042.02
Impact of non-deductible costs, expenses and losses	688,643.30
Impact of deductible temporary differences or deductible losses of unrecognized deferred income tax assets in the current period	34,269,937.62
Income tax expense	57,162,322.22

6.54 Items of Other comprehensive income and their income tax impact and transfer-in profit and loss situation

For details, please refer to *Items 6.35. Other Comprehensive Income* of *Article 6, Notes on The Main Items of The Consolidated Financial Statements*.

6.55 Notes on Cash Flow Statement Items

(1) Other cash received related to operating activities

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Derivative financial instrument profit	74,782,798.81	
Government subsidies, etc.	17,769,226.05	28,110,933.12
Proceeds from underwriting securities received on behalf of customers	176,250,000.00	

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Settlement payables	83,235,937.34	
Collection of asset management products to pay taxes	43,701,866.98	49,008,208.60
Bulk commodity sales	17,697,512.70	70,138,889.27
Others	92,645,264.82	91,867,918.02
Total	506,082,606.70	239,125,949.01

(2) Other cash paid related to operating activities

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Increase in refundable deposits	244,970,772.28	18,506,767.78
Cash payments	136,180,684.42	178,766,210.05
Derivative financial instrument losses		153,527,994.63
Bulk Commodity Purchase	17,677,199.70	69,117,576.68
Clearing receivables	118,813,151.81	
Others	39,577,995.44	106,582,628.98
Total	557,219,803.65	526,501,178.12

(3) Other cash paid related to financing activities

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Payment of cash from third parties in structured entities	121,451,622.63	632,308,602.18
Capital reduction of subsidiaries within the scope of consolidation		11,207,547.17
Total	121,451,622.63	643,516,149.35

6.56 Supplementary Information on Cash Flow Statement

(1) Net profit adjusted to cash flow from operating activities

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
1. Adjust net profit to cash flow from operating activities		
Net profit	395,855,701.97	478,996,262.92
Plus: Asset impairment Provision	490,825.00	15,413,405.23

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Credit impairment loss	129,004,630.37	50,216,255.17
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	17,215,768.53	22,361,830.84
Amortization of intangible assets	16,008,762.41	18,790,031.05
Amortization of long-term deferred expenses	25,024,529.88	26,470,168.14
Losses on disposal of fixed assets, intangible assets and Other long-term assets (returns are listed with "-")	-303,704.43	-189,448.90
Loss from changes in fair value (returns are listed with "-")	-245,851,460.33	-450,206,671.56
Interest income	-204,010,171.87	-269,061,161.04
Interest expense	405,301,818.28	439,094,234.33
Exchange loss (return is listed with "-")	-2,640,120.20	-3,138,651.61
Investment loss (return is listed with "-")	-117,624,016.39	-213,575,863.04
Decrease in deferred income tax assets (increase and fill with "-")	1,872,231.82	20,336,346.81
Increase in deferred income tax liabilities (decrease is listed with "-")	47,849,496.08	14,427,167.51
Decrease in financial assets measured at fair value and whose changes are included in the current profit and loss (increase is filled with "-")	-5,179,999,261.90	-2,876,985,830.21
Decrease of operating receivables Items (increase is filled with "-")	-734,480,987.85	-897,740,610.04
Increase in business payables Items (decrease is listed with "-")	5,298,660,916.59	5,213,384,126.04
Net cash flow from operating activities	-147,625,042.04	1,588,591,591.64
2. Major investment and financing activities that do not involve cash receipts and expenditures:		
Conversion of debt into capital		
Convertible corporate bonds due within one year		
Financing lease of fixed assets		
3. Net increase in cash and cash equivalents:		
Face value of cash at 30 Jun 2020/30 Jun 2019	14,514,805,757.36	15,978,479,255.33

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Less: face value of cash at 1 Jan 2020/1 Jan 2019	13,424,085,562.06	10,509,698,812.72
Plus: face value of cash equivalents at 30 Jun 2020/30 Jun 2019	3,300,091,796.98	2,595,618,254.17
Less: face value of cash equivalents at 1 Jan 2020/1 Jan 2019	2,911,904,159.78	3,276,097,164.20
Net increase in cash and cash equivalents	1,478,907,832.50	4,788,301,532.58

(2) Composition of cash and cash equivalents

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
1. Cash	14,514,805,757.36	13,424,085,562.06
Of which: cash on hand	80,579.82	44,838.97
Bank deposit available for payment at any time	14,512,831,003.77	13,422,147,618.47
Other currency funds that can be used for payment at any time	1,894,173.77	1,893,104.62
2. Cash equivalents	3,300,091,796.98	2,911,904,159.78
Of which: clearing settlement funds	3,300,091,796.98	2,911,904,159.78
3. Balance of cash and cash equivalents at 30 Jun 2020/1January 2019	17,814,897,554.34	16,335,989,721.84

6.57 Assets with restricted ownership or use rights

Items	30 Jun 2020	Reason for restriction
Financial assets held for trading	8,367,875,844.10	Collateral used as sell-back repurchase financial assets
Financial assets held for trading	54,817,217.36	Suspended stocks
Financial assets held for trading	341,389,917.61	Restricted shares
Financial assets held for trading	32,098,564.50	Securities lending
Financial assets held for trading	1, 834, 745, 048. 36	pledge bonds
Investment in Other equity instruments	100,187,965.99	Suspended stocks
Investment in Other equity instruments	307,529,797.97	Refinancing guarantee

Items	30 Jun 2020	Reason for restriction
Other debt investments	9,463,686,758.91	Collateral used as sell-back repurchase financial assets
Total	18,667,586,066.44	

6.58 Foreign currency monetary items

Items	Foreign at 30 Jun 2020	Exchange rate	RMB at 30 Jun 2020
Money funds			14,514,914,749.57
Of which: USD	33,244,454.86	7.0795	235,354,118.18
EUR	620.66	7.9610	4,941.07
HKD	433,533,990.12	0.9134	395,989,946.58
AUD	29,886.33	4.8657	145,417.92
GBP	3,830.83	8.7144	33,383.38
JPY	1,031,153.00	0.0658	67,858.12
SGD	8,561.32	5.0813	43,502.63
RMB			13,883,275,581.69
Other receivables			752,973,064.51
Of which: HKD	557,165,119.71	0.9134	508,914,620.34
RMB			244,058,444.17
Settlement reserve			3,300,096,349.91
Of which: USD	3,883,950.90	7.0795	27,496,430.40
HKD	30,160,959.95	0.9134	27,549,020.82
RMB			3,245,050,898.69

Note: Western Securities International Investment Co., Ltd. is a wholly-owned subsidiary of Southwest Securities Co., Ltd., established in Hong Kong in November 2013, with a capital of HK$1.570 billion. It is mainly engaged in equity and item investment, its main place of business is Hong Kong, and its bookkeeping currency is HKDs.

7. Changes in the scope of consolidation

7.1 Disposal of subsidiaries: None.

7.2 Changes in the scope of consolidation due to Other reasons

The parent company Chongqing Xizheng Small Loan Co., Ltd. has completed the business and commercial cancellation in Jun 2020, and will no longer be included in the scope of the consolidated statement from the date of cancellation.

8. Rights and interests in Other entities

8.1 Rights and interests in subsidiaries

(1) The composition of enterprise groups

Name of Subsidiary	Principal place of business	Registration location	Business nature	Shareholding ratio (%)		Acquired
				Direct	Indirect	
Southwest Securities Equity Investment Co., Ltd.	Chongqing	Chongqing	Equity investment	100		Established
Southwest Securities Innovation Investment Co., Ltd.	Chongqing	Chongqing	Engage in investment business	100		Established
Southwest Securities Chongqing Equity Investment Fund Management Co., Ltd.	Chongqing	Chongqing	Equity investment management and consulting		100	Established
Southwest Securities International Investment Co., Ltd.	Hong Kong	Hong Kong	Equity investment	100		Established
Southwest Futures Co., Ltd.	Chongqing	Chongqing	Futures brokerage, investment consulting, asset management	100		Business combination not under common control
Chongqing Dingfu Ruize	Chongqing	Chongqing	Basis trading, warehouse receipt service, cooperative		100	Established

Name of Subsidiary	Principal place of business	Registration location	Business nature	Shareholding ratio (%)		Acquired
				Direct	Indirect	
Risk Management Co., Ltd.			hedging, pricing service			
Southwest Securities International Securities Co., Ltd.	Hong Kong	Hong Kong	Brokerage business, proprietary business, etc.		73.52	Business combination not under common control

Note: The company's shareholding ratio in subsidiaries is consistent with the voting rights ratio.

(2) Important non-wholly owned subsidiaries

Subsidiary name	Minority shareholders' shareholding ratio	Profit and loss attributable to minority shareholders from January to Jun 2020	Dividends declared to minority shareholders in the current period	Minority shareholders' equity balance as of 30 Jun 2020
Southwest Securities International Securities Co., Ltd.	26.48%	-32,582,123.03		-69,285,924.48
Total	26.48%	-32,582,123.03		-69,285,924.48

(3) Main financial information of important non-wholly-owned subsidiaries

Subsidiary name	30 Jun 2020/Period from 1st Jan to 30th Jun 2020					
	Total assets	Total liabilities	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Southwest Securities International Securities Co., Ltd.	1,811,843,090.07	1,543,724,883.53	62,511,062.47	-121,897,429.61	-120,527,584.95	-182,434,036.46

Continued

Subsidiary name	30 Jun 2019/Period from 1st Jan to 30th Jun 2019					
	Total assets	Total liabilities	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Southwest Securities International Securities Co., Ltd.	1,522,061,476.81	1,410,312,943.94	57,962,034.69	-52,743,694.80	-52,456,548.17	250,843,616.75

8.2 Transactions in which the owner's equity share in the subsidiary changes and the subsidiary still controls the transaction

During the reporting period, Southwest Securities International Investment Co., Ltd. disposed 0.70% of the equity of West Securities International Securities Co., Ltd., and its shareholding ratio was reduced from 74.22% to 73.52%. The disposal does not affect Southwest Securities International Investment Co., Ltd.'s control over West Securities International Securities Co., Ltd.

8.3 Rights and interests in joint ventures

(1) Important associates

Joint venture name	Principal place of business	Registration location	Business nature	Shareholding ratio (%)		Accounting Treatment Method of Investment in Joint Ventures
				Direct	Indirect	
Yinhua Fund Management Co., Ltd.	Beijing	Shenzhen	Fund management	44.10		Equity method

(2) Main financial information of important associates

Items	30 Jun 2020/ Period from 1st Jan to 30th Jun 2020	30 Jun 2019/ Period from 1st Jan to 30th Jun 2019
	Yinhua Fund Management Co., Ltd.	Yinhua Fund Management Co., Ltd.
Total assets	4,337,082,214.73	3,907,386,771.01

Items	30 Jun 2020/ Period from 1st Jan to 30th Jun 2020	30 Jun 2019/ Period from 1st Jan to 30th Jun 2019
	Yinhua Fund Management Co., Ltd.	Yinhua Fund Management Co., Ltd.
Total liabilities	1,488,062,874.71	1,174,556,484.22
Equity attributable to shareholders of the parent company	2,849,019,340.02	2,732,830,286.79
Share of net assets calculated based on shareholding ratio	1,256,542,885.80	1,205,298,401.01
Adjustment matters	684,008,184.23	684,008,184.23
--Goodwill	892,261,060.27	892,261,060.27
- Impairment	-208,252,876.04	-208,252,876.04
Book value of equity investment in associates	1,940,551,070.03	1,889,306,585.24
Operating income	1,389,247,925.63	1,058,506,078.86
Net profit	438,725,230.53	333,757,668.61
Other comprehensive income	446,992.67	453,730.00
Total comprehensive income	439,172,223.20	334,211,398.61
Dividends received from associates	142,449,789.22	100,217,010.15

Note: "Dividends received from associates in the current period" item, as of the end of the reporting period, belong to associates that have announced that they have not paid dividends for the current period.

(3) Summary financial information of unimportant associates

Items	30 Jun 2020/ Period from 1st Jan to 30th Jun 2020	30 Jun 2019/ Period from 1st Jan to 30th Jun 2019
Associates:		
Total investment Book value	120,775,532.31	124,088,764.07
The total number of the following items calculated according to the shareholding ratio		
-Net profit	3,387,209.90	12,483,198.59
-Total comprehensive income	3,387,209.90	12,483,198.59

(4) There are no major restrictions on the ability of associates to transfer funds to the company.

8.4 Equity in structured entities not included in the scope of consolidated financial statements

(1) Basic information of structured entities not included in the scope of consolidated financial statements

On 30 Jun 2020, the structured entities associated with the company that are not covered by the consolidated financial statements of the company, which includes the Asset Management Plan, funds and limited partnerships initiated by the company. Its nature and purpose of these structured entities is primarily to manage investors' assets and earn management fees, which are financed by the issuance of investment products to investors. The company's income from these structured entities that are not included in the scope of the consolidated financial statements mainly includes directly holding investments or earning management fee income by managing these structured entities. This includes asset management plans established by other institutions invested by the company, limited partnerships, and bank wealth management products. The nature and purpose of these structured entities is mainly to obtain investment income. The income that the company enjoys in these structured entities that are not included in the scope of the consolidated financial statements mainly includes investment income from direct holding investments.

On 30 Jun 2020, structured entities initiated by the company but not included in the scope of the consolidated financial statements are mainly engaged in investment business. The total entrusted funds of this type of structured entity on 30 Jun 2020 is RMB 37,399,565,896.49.

(2) At 30 Jun 2020, the company directly holds the equity of the structured entity initiated and established by the company in the company's balance sheet, the face value of the relevant assets and the maximum loss risk exposure are listed as follows:

Items	Book value		Maximum loss exposure	
	30 Jun 2020	1 Jan 2020	30 Jun 2020	1 Jan 2020
Financial assets held for trading	136,086,268.76	156,263,899.73	136,086,268.76	156,263,899.73

9. Disclosure of fair value

(1) Ending fair value of assets and liabilities measured at fair value

The input value used in fair value measurement is divided into three levels:

The input value of the first level is the unadjusted quotation of the same asset or liability in the active market that can be obtained on the measurement date.

The Level-2 input value is the directly or indirectly observable input value of related assets or liabilities other than the Level-1 input value.

The input value of the third level is the unobservable input value of the related asset or liability.

The level of the fair value measurement result is determined by the lowest level of the input value that is significant to the fair value measurement as a whole.

Items	30 Jun 2020			
	Level-1 fair value measurement	Level-2 fair value measurement	Level-3 fair value measurement	Total
I. Continuous fair value measurement				
(1) Financial assets held for trading	4,564,835,796.95	17,180,927,556.93	1,299,765,591.57	23,045,528,945.45
1. Financial assets measured at fair value with changes included in the current profit and loss	4,564,835,796.95	17,180,927,556.93	1,299,765,591.57	23,045,528,945.45
(1) Investment in loans	457,286,555.75	15,447,825,769.07		15,905,112,324.82
(2) Investment in equity instruments	4,107,549,241.20	1,733,101,787.86	1,299,765,591.57	7,140,416,620.63
(2) Other debt investments		10,360,984,318.28		10,360,984,318.28
(3) Other equity investments	626,939,971.73	2,564,847,838.65	76,389,261.12	3,268,177,071.50
(4) Derivative financial assets		1,395,195.01		1,395,195.01
Total assets continuously measured at fair value	5,191,775,768.68	30,108,154,908.87	1,376,154,852.69	36,676,085,530.24

Items	30 Jun 2020			
	Level-1 fair value measurement	Level-2 fair value measurement	Level-3 fair value measurement	Total
(5) Financial liabilities held for trading	238,500.00	614,776,324.73		615,014,824.73
1. Financial liabilities measured at fair value with changes included in the current profit and loss	238,500.00			238,500.00
2. Designated as financial liabilities that are measured at fair value and whose changes are included in the current profit and loss		614,776,324.73		614,776,324.73
(6) Derivative financial liabilities		9,019.50		9,019.50
Total liabilities continuously measured at fair value	238,500.00	614,785,344.23		615,023,844.23
II. Non-continuous fair value measurement				

Continued

Items	1 Jan 2020			
	Level-1 fair value measurement	Level-2 fair value measurement	Level-3 fair value measurement	Total
I. Continuous fair value measurement				
(1) Financial assets held for trading	4,456,540,815.70	12,359,510,280.26	851,317,737.87	17,667,368,833.83
1. Financial assets measured at fair value with changes included in the current profit and loss	4,456,540,815.70	12,359,510,280.26	851,317,737.87	17,667,368,833.83
(1) Investment in loans	710,955,808.75	11,029,481,561.20		11,740,437,369.95
(2) Investment in equity instruments	3,745,585,006.95	1,330,028,719.06	851,317,737.87	5,926,931,463.88
(2) Other debt investments	251,957,047.62	11,131,721,832.31		11,383,678,879.93
(3) Other equity investments	640,264,702.65	2,601,338,749.94	76,389,261.12	3,317,992,713.71
(4) Derivative financial assets		79,592.31		79,592.31
Total assets continuously measured at fair value	5,348,762,565.97	26,092,650,454.82	927,706,998.99	32,369,120,019.78
(5) Financial liabilities held for trading	488,250.00	779,275,790.12		779,764,040.12
1. Financial liabilities measured at fair value with changes included in the current profit and loss		15,884,343.01		15,884,343.01
2. Designated as financial liabilities that are measured at fair value and whose changes are included in the current profit and loss	488,250.00	795,160,133.13		795,648,383.13

Items	1 Jan 2020			
	Level-1 fair value measurement	Level-2 fair value measurement	Level-3 fair value measurement	Total
(6) Derivative financial liabilities				

(2) Basis for fair value measurement categorized within Level 2

The market price of the company's Level-1 fair value measurement items is the closing price at 30 Jun 2020 in active markets such as exchanges.

(3) Valuation techniques used and the qualitative and quantitative information of key parameters for fair value measurement categorized within Level 2

Items	Valuation Techniques	Input Value
Loans	Discounted cash flow method	Bond yield
Equity instruments	Investment target market price combination method, discount method	Market price of the investment subject, discounts for lack of market liquidity
Derivative financial liabilities	Discounted cash flow method	Forward interest rate, discount rate
Designated as measured at fair value and changed	Market price combination method	Market price of investment

(4) Valuation techniques used and the qualitative and quantitative information of key parameters for fair value measurements categorized within Level 3

The third level fair value measurement items are all non-listed equity investment. For unlisted equity investments with insufficient recent information to determine their fair value, the company takes cost as an appropriate estimate of their fair value. For other unlisted equity investments, the company adopts valuation techniques to determine its fair value. Valuation techniques include cash flow discount method and market comparison method. The measurement of its fair value uses important unobservable parameters, for example, liquidity discount, volatility, risk-adjusted discount and market multiplier. The fair value of unlisted equity investment has no significant sensitivity to these unobservable input values.

Level-3 fair value measurement items, adjustment information between the opening and closing face value and sensitivity analysis of unobservable parameters.

Items	Other equity investments	Financial assets held for trading
initial balance	76,389,261.12	851,317,737.87
Changes in fair value included in profit or loss		32,424,600.00
Buy-in		774,050,000.00

Items	Other equity investments	Financial assets held for trading
Disposal		20,416,828.69
Transfer out		337,609,917.61
30 Jun 2020	76,389,261.12	1,299,765,591.57

(5) Changes in valuation techniques and reasons for changes during the period

No.

(6) The fair value of financial assets and financial liabilities not measured by fair value

The company's financial assets and financial liabilities not measured at fair value mainly include: Monetary funds, clearing settlement funds, Margin account, Financial assets held under resale agreements, refundable deposits, receivables, Other financial assets, Short-term debt instruments, Financial assets sold under repurchase agreements, securities trading agents, accounts payables, bonds payables and other financial liabilities, etc. As of 30 Jun 2020, and December 31, 2019, there was no significant difference between the book value and the fair value of the financial assets and financial liabilities of the company above.

10. Related parties and related transactions

10.1 The company's parent company

Parent Institution Name	Registration location	Business nature	Registered capital	Parent company's shareholding ratio in the company (%)	Proportion of voting rights of the parent company to the company (%)
Chongqing Yufu Capital Operation Group Co., Ltd.	Chongqing	Asset Management	10 billion yuan	26.99	26.99

After the reporting period, the company non-publicly issued 1 billion A shares to Chongqing Yufu, Chongqing Urban Investment, Chongqing Real Estate Group, and Chongqing Development Investment. According to the related transaction regulations, Chongqing Yufu's subscription for the company's non-public offering of shares for the company's controlling shareholder constitutes a related transaction. Regarding this non-public offering and related transactions, the company disclosed relevant announcements on the Shanghai Stock Exchange website on August 24, 2019, December 27, 2019, May 16, 2020, May 30, 2020, and June 20, 2020. The non-public issuance of A shares was approved by the China Securities Regulatory Commission Securities Regulatory License [2020] No. 1090 in Jun 2020. The non-public issuance of A shares was approved by the China Securities Regulatory Commission Securities Regulatory License [2020] No. 1090 in Jun

2020. The company proceeded to complete the issuance work accordingly. The issue price is determined by the higher of 90% of the average price of the company's A-share trading on the 20 trading days (excluding pricing base date) prior to the pricing base date and the company's audited net asset value per share at the end of the most recent period before the issue, which is RMB 4.90 / share. Chongqing Yufu subscribed for 330 million shares, and the subscription amount is approximately RMB 1.617 billion. On July 22, 2020, the subscribed shares will complete the registration, custody and sales restriction procedures at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. For details, please refer to the *Report on Non-public Issuance of Shares* disclosed by the company on the designated information disclosure newspaper and the website of the Shanghai Stock Exchange on July 24, 2020. After this issuance, Chongqing Yufu holds 1,853,443,610 shares of the company, accounting for 27.89% of the total share capital after the issuance.

10.2 The company's subsidiaries

For details of the company's subsidiaries, please refer to Note 8.1.

10.3 The company's associates

For details of the company's joint ventures or associates, please refer to Note 8.3.

10.4 Other related parties

Other related parties	Short name of Other related parties
Chongqing Bank Co., Ltd.	The company in which the director, supervisor or senior manager of the company's controlling shareholder serves as its director or senior manager
Chongqing Urban Construction Investment (Group) Co., Ltd.	The shareholder who holds more than 5% of the company's shares
Ancheng Property Insurance Co., Ltd.	The company whose director, supervisor or senior manager is the company's controlling shareholder
Boshi Fund Management Co., Ltd.	The company whose directors, supervisors or senior executives serve as directors or senior executives
Chongqing Yuqianer Equity Investment Fund Management Co., Ltd.	The company controlled by the company's controlling shareholder

10.5 Related party transactions

(1) Fund agency sales

The company conducts fund agency business with related parties and receives and replaces handling fees:

Unit: RMB 0,000

Related parties	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Yinhua Fund Management Co., Ltd.	34.69	79.18
Boshi Fund Management Co., Ltd.	0.33	0.80
Total	35.02	79.98

(2) Asset management business

The company provides asset management business services to related parties and collects corresponding product management fee income:

Unit: RMB 0,000

Related parties	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Chongqing Bank Co., Ltd.	482.39	518.26
Chongqing Urban Construction Investment (Group) Co., Ltd.		0.80
Total	482.39	519.06

(3) Purchase financial products

The company purchases fund products and wealth management products disclosed by related parties and settles profits:

Unit: RMB 0,000

Related parties	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Boshi Fund Management Co., Ltd.	28.83	
Yinhua Fund Management Co., Ltd.	431.18	102.00
Total	460.01	102.00

4. Investment advisory services

The company accepts the entrustment of related parties to provide related consulting services and collect consulting service fees:

Unit: RMB 0,000

Related parties	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Chongqing Yuqianer Equity Investment Fund Management Co., Ltd.	37.24	
Total	37.24	

(5) Purchase insurance services

The company's purchase of fixed assets and vehicle insurance needs in its daily operations, insuring the related parties:

Unit: RMB 0,000

Related parties	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Ancheng Property Insurance Co., Ltd.	5.00	2.90
Total	5.00	2.90

6. Lease

The company as the lessor:

Unit: RMB 0,000

Name of Lessees	Types of leased assets	Rental income recognized from 1st Jan to 30th Jun 2020	Rental income recognized from 1st Jan to 30th Jun 2019
Yinhua Fund Management Co., Ltd.	Seat lease	710.46	878.91
Boshi Fund Management Co., Ltd.	Seat lease	48.77	62.07
Total		759.23	940.98

10.6 Accounts receivables and payables by related parties

1. Items receivables

Items	Related party	30 Jun 2020		1 Jan 2020	
		Book balance	Loss allowance	Book balance	Loss allowance
Other receivables	Chongqing Share Transfer Center Co., Ltd.	385,249.58		106,842.33	

2. Payables items

No.

10.7 Related party commitments

No.

10.8 Senior Executives' Remuneration

During the reporting period, there were a total of 17 directors, supervisors, and senior managers of the company (including resignation). The total remuneration payables in the first half of 2020 was RMB 2,108,800, and the total remuneration paid was RMB 4,955,300.

11. Contingencies

1. Dispute Over Bond Trading by The Company Against Tongyi Industrial Group Co., Ltd.

On September 16-17, 2019, as the manager of the "Southwest Securities Double Happiness Golden Bond Bank of China No. 1 Collective Asset Management Plan", "Southwest Securities Double Happiness Golden Bond No. 2 Collective Asset Management Plan", "Southwest Securities Double Happiness Golden Bond No. 3 Collective Asset Management Plan", "Southwest Securities Double Happiness Golden Bond No. 4 Collective Asset Management Plan", "Southwest Securities Double Happiness Golden Bond No. 5 Collective Asset Management Plan", "Southwest Securities Double Happiness Shengyu Strategy No. 2 Collective Asset Management Plan", "Southwest Securities Shengyu Fixed Increase Strategy No. 1 Collective Asset Management Plan", "Southwest Securities Double Happiness Shengyu Mixed Allocation No. 4 Collective Asset Management Plan" (hereinafter referred to as the asset management plan), the Company, on behalf of the asset management plan, filed a lawsuit with the Chongqing First Intermediate People's Court and Chongqing Jiangbei District People's Court, respectively, in respect of breaching the contract of the 2016 corporate bond (bond abbreviation: 16 Tongyi Bond) and failure to perform its resale obligations and requesting the Company to compensate for bond principal of RMB 231,326,000 and the corresponding interests, liquidated damages, overdue interest, attorney fees, litigation fees, etc.. At present, the first-instance judgments of Shengyu Mixed Allocation No. 4, Jinzhuang No. 2, Jinzhuang No. 3, Shengyu Dingzeng Strategy No. 1, and Shengyu Strategy No. 2 have been issued. The court has supported most of the company's litigation requests and is currently in the execution stage. The Jinzhuang Zhongyin No. 1, Jinzhuang No. 4, and Jinzhuang No. 5 cases are currently in the first trial stage. The above asset management plan is included in the company's consolidation scope. As the manager of the asset management plan, the company strictly performs the duties of the manager in accordance with the regulatory provisions and the asset management plan contract. The final litigation result of the case shall be borne by the asset management plan investor. The company enjoys rights and assumes corresponding obligations with the participation of self-owned funds (approximately 231 million yuan in principal) in accordance with the asset management plan contract.

2. Disputes Over Stock Pledged Repurchase Transactions by The Company Against Zhang Lin and Tang Jun

In May 2019, the company filed a lawsuit with the Chongqing First Intermediate People's Court; In Jun 2020, the court ruled that the defendant Zhang Lin should repay the company’s financing principal of RMB 34.99 million and pay interest, liquidated damages, and attorney fees; The company's 3.141 million shares of "Daisheng Technology" (stock code 300176) held by Zhang Lin enjoy the priority right of repayment within the scope of the aforementioned claims, and Tang Jun assumes joint and several guarantee liabilities for the aforementioned debts. The judgment is currently being served by announcement.

3. Southwest Securities Innovation Investment Co., Ltd. applied for the implementation of Zhang Paopin and Deng Zulan's mortgage loan contract dispute case

Chongqing Southwest Securities Microfinance Co., Ltd., a wholly-owned subsidiary of the company, filed a lawsuit with the Jiangbei District People's Court in August 2015, requesting the court to order the defendant Zhang Paopin to repay the principal amount of 11.7 million yuan and bear the interest and the cost of realizing the debt, and order the defendant Deng Zulan to bear joint liability for repayment. At present, the case has entered the execution stage, and the principal of RMB 10,034,200 has been recovered. Since Chongqing Southwest Securities Small Loan Co., Ltd. has been cancelled, the company's wholly-owned subsidiary Xizheng Innovation Investment Co., Ltd. has been transferred to the company during the liquidation period. On February 27, 2020, the People's Court of Jiangbei District ruled that the applicant was changed to Xizheng Innovation Investment Co., Ltd.

4. Southwest Securities Innovation Investment Co., Ltd. applied for the execution of a dispute over a guarantee contract with six guarantors including Deng Gang and Deng Lijuan

Chongqing Southwest Securities Microfinance Co., Ltd., a wholly-owned subsidiary of the company, filed a lawsuit with the People’s Court of Yubei District, Chongqing City in July 2016, requesting the court to order the six guarantors Deng Gang, Deng Lijuan, Deng Suxuan, Wu Kaiping, Zhao Honglang, and Chongqing Yinglin Technology Development Co., Ltd. to jointly pay the loan principal of 10 million yuan, interest, penalty interest and compound interest owed by Chongqing Gongxin Technology Development (Group) Co., Ltd. to Southwest Securities Small Loans. In September 2016, the People's Court of Yubei District in the first instance determined that six guarantors, including Deng Gang, Deng Lijuan, Deng Suxuan, Wu Kaiping, Zhao Honglang, and Chongqing Yinglin Technology Development Co., Ltd., shall bear joint and several liability for the principal, interest, compound interest and penalty interest of the loan. At present, the case has entered the implementation stage and the principal of 695 thousand yuan has been recovered. Since Chongqing Southwest Securities Microfinance Co., Ltd. has been cancelled, the company has transferred the creditor's rights transfer company's wholly-owned subsidiary Southwest Securities Innovation Investment Co., Ltd. during the liquidation period; On December 25, 2019, the People's Court of Yubei District ruled that the change applicant was Southwest Securities Innovation Investment Co., Ltd.

5. As of the date of this report, investors have sued the company's securities misrepresentation liability disputes due to the Anzhong share restructuring project in a total of 6 pending litigation cases, involving approximately 140,000 yuan, and the cases are currently in the first instance stage..

12. Commitments

As of 30 Jun 2020, the company has no major commitments that need to be disclosed.

13. Events after the balance sheet date

Important non-adjusting matters

(1) Application for non-public issuance of A shares

The company's 2019 non-public issuance of A shares has completed the registration and custody procedures at the Shanghai Branch of China Securities Depository and Clearing Co., Ltd. on July 22, 2020. The issue price is RMB 4.9 per share, and the number of issued shares is 1 billion. The total amount of funds was RMB 4.90 billion. After deducting the issuance expenses, the net amount of funds raised was RMB 4.886 billion. Among them, Chongqing Yufu subscribed for 330 million shares, with a subscription amount of RMB 1.617 billion. Chongqing Urban Investment has subscribed 350 million shares, with a subscription amount of RMB 1.715 billion; Chongqing Development Investment subscribed for 200 million shares with a subscription amount of RMB 980 million;Chongqing Real Estate Group subscribed for 120 million shares with a subscription amount of RMB 588 million . The shares subscribed by Chongqing Yufu for this non-public offering shall not be transferred within 60 months from the date of acquiring the equity. The shares of this non-public offering subscribed by Chongqing Urban Investment, Chongqing Development Investment, and Chongqing Real Estate Group shall not be transferred within 36 months from the date of acquiring the equity. After the restriction period ends, the shares will be implemented in accordance with the relevant regulations of the China Securities Regulatory Commission and the Shanghai

Stock Exchange. Where laws and regulations have other provisions on the restricted period, those provisions shall prevail. For other specific information, please refer to the company's announcement on July 24, 2020 in the designated information disclosure newspaper and the Shanghai Stock Exchange website.

(2) Providing guarantees for subsidiaries

On August 13, 2020, as approved by the company's second extraordinary general meeting of shareholders in 2020, it was agreed that the company will provide joint and several liability guarantees for the offshore debt financing of Southwest Securities International Securities or its affiliates, with a total guarantee amount not exceeding USD 200 million dollars (or equivalent in HKDs) with a term not exceeding three years (including three years).

14. Other important matters

14.1 Branch information

(1) Determining basis and accounting policy of report segment

The company determines the operating segment based on the internal organizational structure, management requirements, and internal reporting system, and determines the reporting segment based on the operating segment. The company's reporting divisions are: brokerage business, proprietary business, investment banking business, asset management business and other businesses.

(2) Financial information of report segment

Period from 1st Jan to 30th Jun 2020:

Items	Securities brokerage business	Securities proprietary business	Investment banking business	Asset management business
Operating income	873,166,041.58	666,125,889.55	100,293,031.74	15,365,466.80
Of which: net fee and commission income	362,876,190.93	-130,126.19	100,229,761.22	15,358,221.83
Investment income				
Other income	510,289,850.65	666,256,015.74	63,270.52	7,244.97
Operating expenses	491,740,577.98	90,719,666.51	84,682,409.13	22,614,933.83
Operating profit (loss)	381,425,463.60	575,406,223.04	15,610,622.61	-7,249,467.03
Total assets	26,530,701,153.24	35,796,496,952.74	9,590,378.32	72,086,736.51
Total liabilities	15,303,332,664.03	17,784,122,800.49	223,939,515.75	46,737,726.34

Items	Securities brokerage business	Securities proprietary business	Investment banking business	Asset management business
Additional information				
Depreciation and amortization expense	28,141,242.19	665,651.01	3,034,796.37	695,454.85
Capital expenditure	12,886,633.79	176,424.49	73,677.29	50,792.03

Continued

Items	Corporate headquarters and others	Inter-segment elimination	Total
Operating income	-33,009,618.46		1,621,940,811.21
Of which: net fee and commission income	2,219,125.31		480,553,173.10
Investment income			
Other income	-35,228,743.77		1,141,387,638.11
Operating expenses	466,713,696.38		1,156,471,283.83
Operating profit (loss)	-499,723,314.84		465,469,527.38
Total assets	10,035,337,327.01	-106,023,482.28	72,338,189,065.54
Total liabilities	19,470,385,145.96		52,828,517,852.57
Additional information			
Depreciation and amortization expense	25,711,916.40		58,249,060.82
Capital expenditure	8,387,958.17		21,575,485.77

Period from 1st Jan to 30th Jun 2019:

Items	Securities brokerage business	Securities proprietary business	Investment banking business	Asset management business
Operating income	922,192,271.46	696,960,416.65	132,269,693.80	53,746,058.04
Of which: net fee and commission income	352,464,446.17	-2,779,462.05	132,161,266.11	53,738,160.48
Investment income				
Other income	569,727,825.29	699,739,878.70	108,427.69	7,897.56
Operating expenses	453,364,202.90	83,872,335.78	103,137,072.12	41,472,627.96

Items	Securities brokerage business	Securities proprietary business	Investment banking business	Asset management business
Operating profit (loss)	468,828,068.56	613,088,080.87	29,132,621.68	12,273,430.08
Total assets	25,654,164,702.18	36,656,436,287.65	14,329,509.54	98,766,613.86
Total liabilities	13,171,034,720.39	16,623,095,104.40	59,108,148.19	23,538,765.23
Additional information				
Depreciation and amortization expense	28,927,661.94	286,272.27	3,445,833.46	913,453.04
Capital expenditure	18,657,230.30	34,854.60	188,004.36	55,428.14

Continued

Items	Corporate headquarters and others	Inter-segment elimination	Total
Operating income	-95,350,116.90		1,709,818,323.05
Of which: net fee and commission income	-27,820,382.33		507,764,028.38
Investment income			
Other income	-67,529,734.57		1,202,054,294.67
Operating expenses	486,512,526.36		1,168,358,765.12
Operating profit (loss)	-581,862,643.26		541,459,557.93
Total assets	9,702,246,397.88	-165,867,477.47	71,960,076,033.64
Total liabilities	22,248,711,312.82		52,125,488,051.03
Additional information			
Depreciation and amortization expense	34,048,809.32		67,622,030.03
Capital expenditure	16,775,560.94		35,711,078.34

14.2 Assets and liabilities measured at fair value

Items	1 Jan 2020t	Gains and losses from changes in fair value	Cumulative changes in fair value included in equity	Impairment accrued	30 Jun 2020
monetary assets					
1. Financial assets held for trading	17,667,368,833.83	183,524,582.96			23,045,528,945.45

Items	1 Jan 2020t	Gains and losses from changes in fair value	Cumulative changes in fair value included in equity	Impairment accrued	30 Jun 2020
(Excluding derivative financial assets)					
2. Derivative financial assets	-15,804,750.70	11,462,123.16			1,386,175.51
3. Other debt investments	11,383,678,879.93		177,231,456.90	-1,155,485.65	10,360,984,318.28
4. Other equity investments	3,317,992,713.71		-61,501,824.68		3,268,177,071.50
Financial assets subtotal	32,353,235,676.77	194,986,706.12	115,729,632.22	-1,155,485.65	36,676,076,510.74
Financial liabilities	779,764,040.12	50,864,754.21			615,014,824.73

14.3 Basic classification table for the measurement of financial assets

30 Jun 2020

Financial Assets	Financial assets measured at amortized cost	Financial assets classified as those measured at fair value and whose changes are included in Other comprehensive income	Investment designated as a non-tradable Equity Instrument measured at fair value and whose changes are included in Other comprehensive income	Financial assets measured at fair value and recorded in current profit and loss are classified
Cash and cash equivalents	14,514,914,749.57			
Settlement reserve	3,300,096,349.91			
Margin accounts receivable	10,864,973,455.04			
Derivative financial assets				1,395,195.01
Financial assets held under resale agreements	1,505,869,314.50			

30 Jun 2020

Financial Assets	Financial assets measured at amortized cost	Financial assets classified as those measured at fair value and whose changes are included in Other comprehensive income	Investment designated as a non-tradable Equity Instrument measured at fair value and whose changes are included in Other comprehensive income	Financial assets measured at fair value and recorded in current profit and loss are classified
Accounts receivables	134,677,486.84			
Refundable deposits	1,124,155,743.45			
Financial assets held for trading				23,045,528,945.45
Other debt investments		10,360,984,318.28		
Other equity investments			3,268,177,071.50	
Other assets	317,952,998.07			
Total	31,762,640,097.38	10,360,984,318.28	3,268,177,071.50	23,046,924,140.46

Continued

Financial Assets	1 Jan 2020 Financial assets measured at amortized cost	Financial assets classified as those measured at fair value and whose changes are included in Other comprehensive income	Investment designated as a non-tradable Equity Instrument measured at fair value and whose changes are included in Other comprehensive income	Financial assets measured at fair value and recorded in current profit and loss are classified
Financial assets measured at amortized cost	13,424,712,915.79			
Settlement reserve	2,912,119,926.36			
Margin accounts receivable	10,578,077,246.80			
Derivative financial assets				79,592.31
Financial assets held under resale agreements	1,560,086,843.75			
Accounts receivables	14,746,675.73			
Refundable deposits	879,184,971.17			
Financial assets held for trading				17,667,368,833.83
Debt investment				
Other debt investments		11,383,678,879.93		
Other equity investments			3,317,992,713.71	
Other assets	336,483,506.97			
Total	29,705,412,086.57	11,383,678,879.93	3,317,992,713.71	17,667,448,426.14

14.4 Basic classification table for the measurement of financial liabilities

30 Jun 2020

Financial liabilities	Financial liabilities measured at amortized cost	As financial liabilities measured at fair value and recorded in current profit and loss	Financial liabilities that are designated as measured at fair value in accordance with the Recognition and Measurement of Financial Instruments standards and their changes are included in the current profit and loss	Financial liabilities that are designated to be measured at fair value in accordance with the Hedging Accounting standards and their changes are included in the current profit and loss
Short-term debt instruments	3,883,705,238.06			
Placements from other financial institutions	2,017,333,333.34			
Financial liabilities held for trading		238,500.00	614,776,324.73	
Derivative financial liabilities		9,019.50		
Financial assets sold under repurchase agreements	16,938,030,145.59			
Securities brokerage payment	13,059,412,836.28			
Proceeds from underwriting securities received on behalf of customers	176,250,000.00			
Payables	182,587,128.79			
Bonds payables	14,279,560,201.77			
Other liabilities	188,769,520.12			

Total	50,725,648,403.95	247,519.50	614,776,324.73

Continued

1 Jan 2020

Financial liabilities	Financial liabilities measured at amortized cost	As financial liabilities measured at fair value and recorded in current profit and loss	Financial liabilities that are designated as measured at fair value in accordance with the Recognition and Measurement of Financial Instruments standards and their changes are included in the current profit and loss	Financial liabilities that are designated to be measured at fair value in accordance with the Hedging Accounting standards and their changes are included in the current profit and loss
Short-term debt instruments	1,310,320,447.71			
Placements from other financial institutions	1,408,302,777.78			
Financial liabilities held for trading		488,250.00	779,275,790.12	
Derivative financial liabilities		15,884,343.01		
Financial assets sold under repurchase agreements	14,515,651,543.18			
Securities brokerage payment	11,242,411,450.99			
Payables	99,925,740.26			
Bonds payables	15,460,003,463.01			
Other liabilities	158,276,244.93			
Total	44,194,891,667.86	16,372,593.01	779,275,790.12	

15. Notes on main items of the financial statements of the parent company

15.1 Long-term equity investments

(1) List by category

Items	30 Jun 2020			1 Jan 2020		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Investment in subsidiary	4,797,108,500.00	481,401,925.54	4,315,706,574.46	4,447,108,500.00	481,401,925.54	3,965,706,574.46
Investment in associates	2,250,849,261.01	208,252,876.04	2,042,596,384.97	2,202,918,007.98	208,252,876.04	1,994,665,131.94
Total	7,047,957,761.01	689,654,801.58	6,358,302,959.43	6,650,026,507.98	689,654,801.58	5,960,371,706.40

(2) Investment in subsidiaries

Investee	1 Jan 2020	Increase	Decrease	Impairment provision	30 Jun 2020	30 Jun 2020 of impairment provision
Southwest Securities Equity Investment Co., Ltd.	800,000,000.00				800,000,000.00	
Southwest Securities Innovation Investment Co., Ltd.	1,800,000,000.00	350,000,000.00			2,150,000,000.00	
Southwest Futures Co., Ltd.	509,207,000.00				509,207,000.00	29,597,900.00
Southwest Securities International Investment Co., Ltd.	856,499,574.46				856,499,574.46	451,804,025.54

Investee	1 Jan 2020	Increase	Decrease	Impairment provision	30 Jun 2020	30 Jun 2020 of impairment provision
Total	3,965,706,574.46	350,000,000.00			4,315,706,574.46	481,401,925.54

(3) Investment in associates and joint ventures

Investee	1 Jan 2020	Movement								30 Jun 2020	30 Jun 2020 of Impairment provision
		Additional investment	Reduce investment	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other equity changes	Declared cash dividends or profits	Impairment provision	Other		
Yinhua Fund Management Co., Ltd.	1,889,306,585.24			193,497,130.57	197,143.44		142,449,789.22			1,940,551,070.03	208,252,876.04
Chongqing Share Transfer Center Co., Ltd.	105,358,546.70			3,387,209.90			6,700,441.66			102,045,314.94	
Total	1,994,665,131.94			196,884,340.47	197,143.44		149,150,230.88			2,042,596,384.97	208,252,876.04

15.2 Employee benefits payable

(1) List of Employee benefits payable

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
Short-term salary	1,012,566,345.20	709,418,380.45	581,549,609.09	1,140,435,116.56
Post-employment benefits-setting up a deposit plan	1,467,611.20	14,585,480.42	13,997,408.11	2,055,683.51
Dismissal benefits	148,953.79	657.79	31,595.60	118,015.98
Post-employment benefits-defined benefit plan	29,864,731.41	1,443,570.54	493,279.90	30,815,022.05
Total	1,044,047,641.60	725,448,089.20	596,071,892.70	1,173,423,838.10

(2) List of short-term salary

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
Salaries, bonuses, allowances and subsidies	981,733,259.35	662,149,782.36	538,752,708.83	1,105,130,332.88
Employee benefits		5,447,554.85	5,447,554.85	
social Security fee	1,428,426.49	13,415,771.17	13,190,745.30	1,653,452.36
Of which: medical insurance premium	206,107.03	12,924,186.07	12,855,598.52	274,694.58
Work injury insurance premium	34,402.25	126,379.08	125,203.89	35,577.44
Maternity insurance	1,187,917.21	365,206.02	209,942.89	1,343,180.34
housing fund		22,477,807.14	22,477,807.14	
Labor union funding and employee education funding	29,404,659.36	5,927,464.93	1,680,792.97	33,651,331.32
Total	1,012,566,345.20	709,418,380.45	581,549,609.09	1,140,435,116.56

(3) List the set deposit plan

Items	1 Jan 2020	Increase	Decrease	30 Jun 2020
Basic retirement insurance	1,050,242.81	7,230,726.72	6,653,695.32	1,627,274.21
Unemployment insurance premium	417,368.39	295,257.92	284,217.01	428,409.30
Corporate Annuity Payment		7,059,495.78	7,059,495.78	
Total	1,467,611.20	14,585,480.42	13,997,408.11	2,055,683.51

A. Present value of defined benefit plan obligations

Items	Period from 1st Jan to 30th June
1 Jan 2020	29,864,731.41
Defined benefit cost included in the current comprehensive income	1,443,570.54
①Net interest	531,950.60
②Re-measurement changes	911,619.94
Other changes	-493,279.90
①Welfare paid	-493,279.90
30 Jun 2020	30,815,022.05

B. Defined benefit plan net debt

Items	Period from 1st Jan to 30th June
1 Jan 2020	29,864,731.41
Defined benefit cost included in current profit and loss	531,950.60
Defined benefit cost included in Other comprehensive income	911,619.94
Other changes	-493,279.90
30 Jun 2020	30,815,022.05

C. Content of the defined benefit plan

The company provides the following supplementary post-retirement benefits for employees who retire before January 1, 2013: For those whose pension is lower than the social average salary, make up for the social average salary, and an additional subsidy of 500 yuan per person per month; for those with a pension higher than the social average salary, an additional 800 yuan subsidy per person per month.

D. Major actuarial assumptions for defined benefit plans

In the actuarial assumptions, the discount rate is 3.57%. The social average wage growth rate is set to be 10.00%-4.00% in Chongqing and Shenzhen. The average life expectancy in Chongqing is 75.02 years for men and 80.70 years for women, and in Shenzhen. The average life expectancy per capita is 78.38 years for men and 83.38 years for women.

15.3 Net interest income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Interest income	778,526,729.10	812,090,883.17

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Of which: Monetary funds and interest income from clearing settlement funds	178,297,247.26	158,521,022.07
Interest income from margin financing	352,059,985.60	331,660,968.09
interest income from Financial assets held under resale agreements	44,159,324.37	52,847,731.97
Of which: Interest income from agreed repurchase	1,113,416.45	13,837,376.35
Interest income from equity pledge repurchase	42,921,844.87	37,568,635.56
Interest income from Other debt investments	204,010,171.87	269,061,161.04
Interest expense	598,734,994.74	697,230,347.61
Of which: interest expenses payables on short-term financing	39,747,177.57	66,619,021.71
Interest expense for Placements from other financial institutions	30,809,750.01	10,120,013.92
Of which: refinancing interest expense	26,958,333.34	
Interest expense on Financial assets sold under repurchase agreements	191,341,087.60	286,685,153.94
Of which: interest expense on quotation repurchase	1,231,669.39	982,825.47
Interest expense of securities trading agent	21,569,791.39	20,271,065.92
Payables bond interest expense	306,856,204.39	305,006,334.91
Of which: subordinated bond interest expense	148,324,361.79	140,491,370.97
Other interest expense	8,410,983.78	8,528,757.21
Net interest income	179,791,734.36	114,860,535.56

15.4 Net fee and commission income

(1) Net fee and commission income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
1. Net income from securities brokerage business	328,705,893.03	327,085,612.26
Securities brokerage business income	441,600,203.51	437,729,223.21
Of which: brokerage of securities trading	385,470,501.10	373,603,945.22

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Trading unit seat lease	46,697,016.94	50,161,863.22
Agency sales of financial products business	9,432,685.47	13,963,414.77
Securities brokerage business expenses	112,894,310.48	110,643,610.95
Of which: brokerage of securities trading	112,894,310.48	110,643,610.95
2. Net income from futures brokerage business		
3. Net income from investment banking	101,828,984.90	123,440,617.29
Investment banking income	103,740,362.25	123,459,485.21
Of which: securities underwriting business	71,011,188.68	33,929,245.26
Securities Sponsor Business	1,886,792.45	
Financial advisory business	30,842,381.12	89,530,239.95
Investment banking expenses	1,911,377.35	18,867.92
Of which: securities underwriting business	1,911,377.35	18,867.92
4. Net income from asset management business	16,477,032.96	29,631,120.86
Asset management business income	30,989,251.96	47,817,472.82
Asset management business expenses	14,512,219.00	18,186,351.96
5. Net income from fund management business	208,763.48	409,969.39
Fund management business income	208,763.48	409,969.39
6. Net income from investment consulting business	2,281,550.11	3,056,171.69
Investment consulting business income	2,281,550.11	3,056,171.69
7. Other net fee and commission income		
Total	449,502,224.48	483,623,491.49
Of which: total fee and commission income	578,820,131.31	612,472,322.32
Total fees and commission expenses	129,317,906.83	128,848,830.83

(2) Net income from financial consulting business

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Net income of financial advisory business in mergers and acquisitions-Other	18,367,924.53	29,223,550.29
Net income from Other financial advisory services	12,474,456.59	60,306,689.66

(3) Agency sales of financial products

Items	Period from 1st Jan to 30th Jun 2020		Period from 1st Jan to 30th Jun 2019	
	Total sales	Gross sales revenue	Total sales	Gross sales revenue
Fund	906,824,036.46	2,049,817.80	1,166,824,018.42	5,397,875.10
Trust	1,418,828,114.27	6,419,339.32	823,646,395.65	1,639,717.84
Other	208,873,883.26	963,528.35	1,332,435,516.76	6,925,821.83
Total	2,534,526,033.99	9,432,685.47	3,322,905,930.83	13,963,414.77

15.5 investment income

(1) Details of investment income

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Long-term equity investments income calculated by cost method	80,395,221.09	285,001,177.49
Long-term equity investments income calculated by the equity method	196,884,340.47	159,670,330.45
Financial instrument investment income	349,342,148.63	195,935,858.91
Of which: income obtained during the holding period	373,342,780.08	399,418,670.67
-Financial instruments held for trading	357,303,233.68	385,205,891.33
− Other equity investments	16,039,546.40	14,212,779.34
Income from disposal of financial instruments	-24,000,631.45	-203,482,811.76

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
-Financial instruments held for trading	-43,275,459.95	-81,646,314.47
− Other debt investment	22,952,462.68	31,816,104.71
-Derivative financial instruments	-3,677,634.18	-153,652,602.00
Total	626,621,710.19	640,607,366.85

(2) List of investment income of trading financial instruments

Transactional financial instruments		Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Financial assets classified as those measured at fair value whose changes are included in the profits and losses of the current period	Holding period income	357,303,233.68	385,205,891.33
	Gains from disposal	-43,275,459.95	-84,977,284.47
Financial Liabilities classified as those measured at fair value whose changes are included in the profits and losses of the current period	Holding period income		
	Gains from disposal		3,330,970.00

15.6 Profit or loss from changes in fair value

Sources of income from changes in fair value	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Financial assets held for trading	199, 439, 931. 60	480,351,489.17
Financial liabilities held for trading		-826,670.00
Derivative financial instruments	-4,284,293.91	-15,255,679.30
Total	195,155,637.69	464,269,139.87

15.7 Business and management fees

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
employee's salary	724,536,469.26	726,337,528.20
Rental fees	47,371,268.91	45,437,441.03
Depreciation	14,237,926.31	18,213,192.79
Investor Protection Fund	3,819,804.44	25,585,412.02

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Post and telecommunications fees	8,310,478.33	11,976,990.02
Business Hospitality	6,886,432.98	10,308,986.98
Electronic equipment operating fee	20,172,785.08	17,539,221.02
Consulting fee	3,593,787.01	3,875,740.76
Travel expenses	4,443,307.62	14,021,321.60
Others	40,093,265.58	49,368,293.31
Total	873,465,525.52	922,664,127.73

16. Financial Instrument Risk

16.1 Risk management policy and organizational structure

(1) Risk management policy

The goal of corporate risk management is to improve the risk control index system with net capital as the core, to establish a risk control system covering all business and management activities, to manage market risk and credit risk, to control operational risk and to guard against liquidity risk, to ensure that the overall risk of the company can be measured, controlled and affordable. Based on this risk management objective, the company establishes and improves a comprehensive risk management system that is consistent with its own development strategy, it mainly includes operational management system, sound organizational structure, reliable information technology system, quantitative risk index system, professional talent team, effective risk coping institution and good risk management culture.

In accordance with the relevant requirements of the Company Law, Regulations for Comprehensive Risk Management of Securities Companies, Guidelines for Internal Control of Securities Companies and other relevant requirements, the company has formulated a series of rules and regulations, including the Internal Control System, Risk Management System, Liquidity Risk Management Measures, Market Risk Management Measures, Operational Risk Management Measures, Credit Risk Management Measures, Stress Test Management Measures , Business Authorization Management Measures, and Risk Control Index Dynamic Monitoring Management Measures, Net Capital Risk Control Index Monitoring Implementation Rules, Stock Pledge Type Repo Transaction Business Risk Management Measures, Stock Option Brokerage Business Risk Management Measures, Measures for the Risk Management of Proprietary Trading of Derivatives on the Exchange, Guide for Risk Monitoring of Margin Trading Business, Guide for Risk Monitoring of Agreed Repurchase Business, Guide for Risk Monitoring of Brokerage Business, Asset Management Business Risk Monitoring Operation Guide, Securities Investment Business Risk Monitoring Operation Guide, etc., and has established comprehensive and systematic risk control policies and procedures, and strictly follows the principles of standardization, quantification and systematization, to accurately identify, carefully evaluate, dynamically monitor, timely respond and manage all kinds of risks such as liquidity risk, market risk, credit risk, operation risk and innovative business risk, in order to achieve measurable, controllable and affordable risk.

The company has formulated the Internal Rating Management Measures, The Measures for the Management of Valuation of Financial Instruments, the Measures for the Administration of Impairment of Financial Instruments, the Measures for the Management of Information Technology Risks, the Measures for the Management of Risks of Overseas Operating Institutions, Science Innovation Board Business Compliance and Risk Management Measures, Science Innovation Board Business Risk Incident Emergency Response Plan and other risk management systems, and has also revised the Market Risk Management Measures, Credit Risk Management Measures, Measures for the Management of Operational Risks, Measures for the Management of Risks in RMB Interest Rate Swap Business, Measures for the Management of Risks in Margin Trading, Measures for the Administration of Inquiry and Quotation of Initial Public Offerings, Measures for the Management of Key Monitoring Accounts, Measures for the Management of Fixed Income Measures for the Whitelist and Quota Management of Investment Business Counterparties, Measures for the Management of Risks in Stock Option Brokerage Business, Guide for Risk Monitoring of Brokerage Business, Guide for Risk Monitoring of Credit Trading Business, Proprietary Business Risk Monitoring Operation Guide and other risk management systems based on management requirements and business development, so as to continue to improve the company's comprehensive risk management system.

(2) Risk management organization structure

The company manages the overall risk with a layered structure and a centralized management model. The risk management organization consists of four levels: the board of directors and the risk control committee; the manager, the chief risk officer, and the risk and compliance management committee; internal control departments such as risk control, compliance, and audit; various functional departments and business units.

The company’s board of directors is responsible for supervising, inspecting and evaluating the company’s risk management work, establishing a risk control committee, responsible for formulating the company’s risk management system, objectives and policies, reviewing risk control strategies, assessment reports of major risk events, and major risk control solutions.

The manager of the company is responsible for the implementation of various risk management tasks in operation and management. The company has a chief risk officer responsible for overall risk management. The chief risk officer is not concurrently or in charge of positions or departments that conflict with his duties. The chief risk officer has the right to attend or attend meetings related to the performance of his duties, read relevant documents, and obtain necessary information. The directors and shareholders of the company shall not violate the prescribed procedures and directly issue instructions to the chief risk officer or interfere with his work.

The company sets up an independent risk management department to promote the overall risk management under the leadership of the chief risk officer, monitor, evaluate and report the overall risk level of the company, and provide risk management recommendations for business decision-making, assist, guide and check the risk management of each department and branch. The company's liquidity risk management is jointly responsible by the risk management department and the capital management department, and the reputation risk management is the responsibility of the company's office. When all the departments and branches of the company and all staff find hidden risks, they proactively and promptly report to the chief risk officer or risk management department.

The company sets up full-time and part-time positions for compliance and risk control according to the scope of responsibility to assist the person in charge to perform risk management duties. The person in charge of each branch of the company shall fully understand and fully consider various business-related risks in decision-making, identify, evaluate, respond to, and report related risks in a timely manner, and bear direct responsibility for the effectiveness of risk management.

The company further promotes the establishment of a sound risk management organization structure and system process, and urges subsidiaries to further improve the risk management organization structure, to ensure that risk management covers all business lines and major risk types, and achieve full risk management coverage; The company incorporates subsidiary risk management into the company's comprehensive risk management reporting system. The subsidiary risk management post of the Risk Control Department is responsible for summarizing and reporting the business risk status of subsidiaries to ensure that the company fully understands the risk status of subsidiaries in a timely manner.

16.2 Credit risk

Credit risk refers to the risk of losses caused by the failure of the borrower or counterparty to perform.

The credit risk faced by the company mainly comes from two aspects: The first is the credit risk of financing businesses such as margin trading, agreed repurchase securities trading, and stock pledged repurchase, that is, the risk of loss to the company due to the failure of the customer to fulfill the contractual agreement; The second is the default risk of bond investments, that is, the risk that the issuer or counterparty of the investment bonds defaults and refuses to pay the principal and interest at maturity, resulting in asset loss or changes in returns. With the rapid development of the company's credit business scale, if a default risk event occurs, credit risk exposure may cause certain losses to the company.

The credit risk of corporate financing businesses mainly involves the provision of false information by customers, failure to repay liabilities in full and on time, violation of contractual agreement in position size and structure, violation of regulatory provisions in transaction behavior, and legal disputes involving collateral provided. The company mainly manages the credit risk of financing business by means of risk education, credit investigation, credit granting, mark-to-market every day, customer risk hint, forced liquidation, establishment of business ban entry standard, strengthening project due diligence and follow-up management, judicial recourse, etc...

The credit risk management of bond investment mainly uses risk limits, credit ratings and other means, and uses credit risk limits and internal ratings to classify and authorize from the three levels of investment products, issuers and counterparties. Among them, limit management covers two major categories: position limit and transaction limit. Position limits include indicators such as portfolio credit risk value, counterparty credit risk exposure, credit bond individual bond concentration, and proportion of low-rated credit bond holdings; Transaction limits include low-rated bond transaction limits and counterparty settlement risk limits. Settlement risk limits are for different types of counterparties, adopt different transaction settlement methods, and set different authorization limits. All businesses that exceed the authorized transaction limit must be reported to the higher-level authorized organization for approval. The internal credit rating management system of the counterparty includes the internal credit rating of the counterparty, the measurement of counterparty credit risk exposure, and the stress test of counterparty credit risk.

During the reporting period, in order to further enhance the level of credit risk prevention and control, and to standardize the internal rating system for Bond Investment, the company established an internal rating management system flow, built an internal rating system, and formed an internal rating group, a special post has been set up to be responsible for the internal rating system for bond investment transactions, and a corresponding risk limit index system has been set up according to the internal rating results, so as to ensure that the rating results can effectively guide bond investment transactions, control and reduce the risk of credit default in bond investment. At the same time, the company formulates and improves the *Measures for the White List and Quota Management of Counterparties of Fixed Income Investment Business of Southwest Securities Co., Ltd.*, establishes a counterparty whitelist and credit management institution, unifies management of the company's proprietary and asset management bond counterparties, and further clarifies the counterparty whitelist standards, credit line calculation rules, credit line management rules and due diligence standards.

In order to further standardize the development of the company's Stock Pledge Business and prevent the risk of default in stock pledge financing, the Risk Control Department, by strictly controlling business scale, limiting business concentration, strengthening project risk assessment, strengthening credit management, improving due diligence, upgrading the risk monitoring system, strengthening business risk monitoring and improving the process of clearing and insurance recovery, effectively prevent and reduce the risk of default in stock financing. At present, the risk exposure level of the stock pledge financing business in which the company's self-owned funds participate is significantly lower than the industry average, and the overall maintenance guarantee ratio is much higher than the warning value. The stock pledge financing business risk is generally controllable and bearable. As of the end of the reporting period, the company's margin financing and securities lending business maintained an overall guarantee ratio of 365.37%, the agreed repurchase business's overall performance guarantee ratio was 189.66%, and the stock pledge repurchase business's overall performance guarantee ratio was 302.84%.

Expected credit loss measurement

Based on expected credit losses, the company conducts impairment accounting treatments on financial assets included in the expected credit loss measurement and confirms loss reserves.

The company adopts a three-stage model to measure expected credit losses on financial assets and other debt investments measured at amortized costs, except for monetary funds, clearing settlement funds, deposits, and receivables. The company divides the following three stages according to the changes in the credit risk of the relevant financial assets since the initial confirmation date:

Stage 1: For financial instruments that have not significantly increased their credit risk after initial recognition, their loss reserves shall be measured at an amount equivalent to the expected credit losses of the financial instrument in the next 12 months;

Stage 2: For a financial instrument that has significantly increased credit risk since initial recognition, but there is no objective evidence of impairment, its loss provision shall be measured according to the expected credit loss during the entire lifetime of the financial instrument;

Stage 3: For financial instruments that have undergone credit impairment after initial recognition, their loss reserves shall be measured at an amount equivalent to the expected credit losses during the entire duration of the financial instrument.

The evaluation factors involved in the expected credit loss model mainly include the probability of default, the risk of default exposure and LGD, etc.: the probability of default represents the estimation of the probability of default in the relevant transaction within a specific time period; Its calculation involves historical data and expectations of future conditions; the default risk exposure refers to the amount that the company should be reimbursed when the default occurs in the next 12 months or the entire remaining duration; LGD represents an estimate of the loss incurred from a transaction in which a default has occurred. The measurement of expected credit losses is based on the probability-weighted results of the default probability, default risk exposure, and LGD.

Whether credit risk has increased significantly

When the company initially recognizes financial assets, it will detect whether its credit risk has increased significantly based on impairment requirements. If the credit risk of the financial instrument has increased significantly since the initial recognition, the loss provision shall be measured at an amount equivalent to the expected credit loss during the entire life of the financial instrument.

When making credit risk-related assessments, the company will consider all reasonable and well-founded qualitative and quantitative information, including historical experience and forward-looking information that does not require unnecessary additional costs or efforts. The company considers different factors when evaluating whether the credit risk of each asset portfolio has increased significantly.

When assessing whether the credit risk has increased significantly, the following factors may be considered:

(1) Whether the external market indicators of the credit risk of the same financial instrument or similar financial instruments with the same expected duration have changed significantly;

(2) Whether the actual or expected external credit rating of financial instruments has changed significantly;

(3) Whether the actual or expected internal rating of the debtor has been downgraded;

(4) Unfavorable changes in business, financial or economic conditions that are expected to cause significant changes in the debtor's ability to perform its debt service obligations;

(5) Whether the actual or expected operating results of the debtor have changed significantly;

(6) Whether the regulatory, economic or technical environment of the debtor has undergone significant adverse changes;

(7) Whether the value of the collateral used as debt collateral or the guarantee provided by a third party or the quality of credit enhancement has changed significantly;

(8) A major adverse change in the effectiveness of actual or expected credit enhancement measures;

(9) Whether the expected performance and repayment behavior of the debtor has changed significantly. The company has combined forward-looking information when judging whether the credit risk of financial assets has increased significantly since the initial recognition and when measuring expected credit losses. Through historical data analysis, the company has identified key economic indicators that affect the credit risks and expected credit losses of various business types. Key economic indicators include macroeconomic indicators and indicators that reflect market volatility, such as GDP, producer price index, consumer price index, stock index, etc.

Specific standards for the three-stage division of major financial assets, specific measurement methods and parameters for impairment

(1) Standards for dividing risk stages

A. The company divides its bond investment business into risk stages according to the following standards:

Risk phase division	Criteria for the classification
Stage 1	Except for Stage 2 and Stage 3, other debts that have not triggered a significant increase in credit risk or have experienced credit impairment conditions.
Stage 2	The principal or interest is overdue and less than or equal to 30 days;
	At the time of initial confirmation, the rating of domestic bonds with a bond subject rating above AA (inclusive) is downgraded, and the subject rating is below AA (excluding) after the downgrade;
	At the time of initial confirmation, the rating of domestic bonds with a bond subject rating below AA is downgraded;
	Other conditions that can be identified as a significant increase in credit risk.
Stage 3	The principal or interest has been overdue for more than 30 days;
	The external rating is default level (domestic default level is D) or the bond issuer has other default bonds in the open market;
	Other conditions that can be determined as breach of contract.

B. The company divides the risk stage of the margin trading and securities lending business according to the following criteria:

Risk phase division	Criteria for the classification
Stage 1	The ratio of performance guarantee is ≧150%;
	Meet other conditions that have not triggered a significant increase in credit risk and have not triggered an impairment.
Stage 2	130%≦Performance guarantee ratio <150%;
	The performance guarantee ratio is only <130% on the same day and the previous working day;
	Other conditions that can be identified as a significant increase in credit risk.
Stage 3	The ratio of performance guarantee for two consecutive working days is <130%;
	Other conditions that can be determined as breach of contract.

C. The company divides the risk stages of stock pledged repurchase transaction business and agreed repurchase securities transaction business according to the following standards:

Risk phase division	Criteria for the classification
Stage 1	Except for Phase 2 and Phase 3, other businesses that have not triggered a significant increase in credit risk or where credit impairment conditions have occurred.
Stage 2	The maximum number of days overdue for principal or interest is less than or equal to 30 days;

Risk phase division	Criteria for the classification
	The company's internal customer risk is classified as early warning level;
	The percentage of performance guarantee is lower than the call-in line but higher than the liquidation line;
	Other conditions that can be identified as a significant increase in credit risk.
Stage 3	The maximum number of days overdue for principal or interest is greater than 30 days;
	The company's internal customer risk is classified as default level; the performance guarantee ratio is lower than the liquidation line; it is proposed to deal with the business in default or meet other conditions for default.

Note: It is sufficient that one of the above classification standards is satisfied.

The company's stock pledged repurchase transaction business and agreed repurchase securities transaction business implement differentiated management of the nature of the shares used as collateral. In principle, the company's own capital investment projects have a liquidation line of 130% and a call-up line of 150% for tradable shares; a liquidation line of 150% and a call-up line of 170% for restricted shares.

(2) Specific measurement methods and parameters for impairment

A. Probability of default/LGD method in the first and second stages of impairment provision method

The first and second stages use the probability of default/LGD model to measure expected credit losses, which are measured according to the Exposure at Default (EAD), historical actual Probability of Default (PD), LGD and forward-looking factors of assets or portfolios of different risk levels Expect credit losses and make provision for impairment. Among them, the default risk exposure for provision of impairment is the sum of the principal and the accrued interest receivables under different performance guarantee ratios; The historical actual PD is obtained based on migration rate conversion or internal master scale mapping of external ratings and obtained after forward-looking adjustment, and LGD is obtained after adjustment based on external LGD.

B. Method of impairment provision in the third stage

The company takes into account the total recoverable contract cash flow for each transaction, factors taken into account include, but are not limited to, the credit standing and repayment ability of the financier, the value of other encumbered assets, the provision of joint and several guarantees by third parties and other credit enhancement measures, etc. , and combined with the total value of the project collateral, performance guarantee ratio and other indicators, the project impairment calculation, and the corresponding provision for impairment.

Without considering collateral or other credit enhancements, the company's maximum credit risk exposure is the Book value of financial assets (that is, the balance after deducting the confirmed impairment provision):

Subjects involving credit risk	30 Jun 2020	1 Jan 2020
Cash and cash equivalents	14,514,834,169.75	13,424,668,076.82
Settlement reserve	3,300,096,349.91	2,912,119,926.36
Refundable deposits	1,124,155,743.45	879,184,971.17
Financial assets held for trading	17,018,972,670.29	12,982,884,020.74
Margin accounts receivable	10,864,973,455.04	10,578,077,246.80
Derivative financial assets	1,395,195.01	79,592.31
Financial assets held under resale agreements	1,505,869,314.50	1,560,086,843.75
Accounts receivables	134,677,486.84	14,746,675.73
Other equity investments		179,174.00
Other debt investments	10,360,984,318.28	11,383,678,879.93
Financial assets in Other assets	317,952,998.07	336,483,506.97
Total	59,143,911,701.14	54,072,188,914.58

16.3 Liquidity risk

Liquidity risk refers to the risk that the company cannot obtain sufficient funds in a timely manner at a reasonable cost to repay due debts, perform other payment obligations, and meet the funding needs for normal business development. The company’s liquidity risk mainly includes asset liquidity risk and liability liquidity risk. Asset liquidity risk refers to the possibility that the assets held by the company cannot be realized in a timely manner or the realization cost is too high, resulting in the loss of self-operated investment and customer assets; Liability liquidity risk refers to the company's lack of cash, inability to maintain normal business expenditures or inability to pay debts on time, and insufficient liquidity to deal with the risk of large-scale redemption of company management products by customers. In addition, factors such as large underwriting of investment banking business, excessive investment scale of proprietary business, mismatch of maturity, and excessively high proportion of long-term assets will cause the company's capital turnover to be poor and liquidity difficulties.

During the reporting period, the company further strengthened the management of the company's liquidity indicators, and kept abreast of the company's liquidity indicators through stress testing, daily monitoring and calculation, and according to the company's liquidity situation in the corresponding period, communicate with the Finance and finance department and business department to advise related department to allocate the assets more reasonably and reduce the time limit mismatch, so as to meet the needs of the company's full liquidity. The company adheres to the operating principle of the unity of the safety, liquidity and efficiency of fund operations, emphasizing the centralized and unified management and use of funds, and the centralized management of funds borrowing, repurchase and other operations by the financial capital department, to ensure adequate liquidity; to avoid Excessive Holdings and concentration of investments in a single security by reasonably controlling the size of investments in various types of securities; and to establish a company for quantitative analysis of portfolio indicators to dynamically adjust the allocation of assets, ensure that the liquidity of the investment portfolio is appropriately abundant.

The company monitors and regularly calculates liquidity risk management indicators (liquidity coverage ratio and net fund stability rate) in real time. As of the first half of 2020, the company's liquidity coverage ratio (LCR) is 201.48% and net stable funding ratio (NSFR) is 143.24%. All meet the regulatory requirements.

16.4 Market risk

Market risk refers to the risk of fluctuations in the fair value or future cash flow of financial instruments held due to changes in market prices, including foreign exchange risk, interest rate risk, and other price risks. The company's business departments that bear market risks mainly include self-operated business departments, and self-owned funds participate in asset management plans to carry out securities investment.

When investing in stocks, funds, stock index futures, investment portfolios and other equity products and equity derivatives, in the absence of an effective hedging company, when faced with changes in market prices or volatility, price risks may arise. When investment bonds and other fixed-income securities face changes in interest rates and yield curves, interest rate risks may arise. Changes in foreign exchange rates may generate exchange rate risks.

The company has established a three-level decision-making and authorization system for investment business, which consists of a board of directors, an investment decision-making committee and a self-employed business department, establish an independent risk management department to assess, monitor and report on market risks to ensure that the company's overall market risk level is within the appropriate range. The company adopts risk limit measures to control the market risk borne by each business unit. The risk limit mainly includes scale limit, stop loss limit, risk limit and so on. The board of directors determines the annual size of the self-employed business and the maximum risk tolerance limit; the investment decision-making committee determines the size of the individual items and the Stop Limit; Through portfolio investment, daily mark-to-market, setting up early-warning line, stop-loss line and so on, the self-employed business departments carry out front-end control; risk management departments carry out real-time monitoring and timely risk alert, supervise the risk disposal of the self-employed business department. In addition, the company establishes a stress-testing company to analyze the market risks that the company may face under extreme circumstances. Extreme scenarios include: Macroeconomic Recession, sharp adverse movements in stock market prices and interest rates, special risk events, and so on. Through the stress test to assess the company's self-owned funds investment in extreme cases of the possible loss of the amount to determine whether the company's overall market risk within the acceptable range, and formulate countermeasures.

During the reporting period, the company adjusted the net capital and liquidity risk control index system based on the market and the company's business development to ensure that the overall business market risk is controllable and bearable; Carry out market risk management stress tests on a regular basis as required, and select reasonable and effective risk response companies based on the results of stress tests to prevent and resolve potential risks; Establish a multi-index differentiated investment comparison benchmark, continue to monitor risks such as negative risk information and abnormal transactions, and control and evaluate the front-end control of funds to effectively prevent and control risks; Strengthen bond investment interest rate risk and derivatives business risk management, effectively prevent business development risks; strengthen and standardize the behavior management of investment transaction personnel, and prevent bond investment transaction moral risks.

Interest rate risk refers to the risk that the uncertainty of market interest rate changes affects the value of fixed income investment portfolios. The company's fixed income investments are mainly central bills, government bonds, short-term financing bonds, government bond futures, interest rate swaps, etc. The company measures and monitors fixed-income portfolio duration, convexity, DV01 and other indicators on a daily basis to measure the interest rate risk of fixed-income portfolios. As of the end of Jun 2020, the bond size of the parent company was 25.267 billion yuan. Based on the sensitivity analysis of the fixed-income investment portfolio held by the company, it is assumed that a 100 basis point change in the level of the yield curve will affect the total profit and shareholder equity as follows:

Interest rate changes	Profit	Shareholders' equity
Up 100 basis points	-337,007,828.63	-272,954,913.61
Down 100 basis points	348,939,034.20	281,015,736.01

Equity securities price risk refers to the risk caused by price fluctuations of equity products such as stocks, funds and derivatives. The company manages market risk through risk limit indicators such as position size limit, quantitative risk limit, stop loss limit, and concentration management, and mainly uses value at risk (VaR) as a tool to measure portfolio market risk. Value at risk (VaR) refers to the maximum possible loss of an investment portfolio due to market price changes within a certain period of time. The company uses the 99% confidence interval as the calculation standard, the observation period is 1 trading day, and the VaR value is calculated based on historical data.

The company's value at risk (VaR) classified by risk category is as follows:

Unit: RMB 0,000

Items	30 Jun 2020	Highest	Lowest	Average
Price-sensitive financial instruments	6,272	7,366	3,248	6,465
Interest rate sensitive financial instruments	2,248	4,292	2,248	3,647
Overall combination	8,520	11,658	5,496	10,112

17. Supplementary information

17.1 Non-recurring profit and loss schedule

Items	Period from 1st Jan to 30th Jun 2020	Period from 1st Jan to 30th Jun 2019
Non-current asset disposal gains and losses	303,704.43	189,448.90
Government subsidies included in the current profit and loss (closely related to the business of the enterprise, except for the government subsidies that are enjoyed in a fixed or quantitative basis according to the unified national standard)	11,007,301.36	28,063,308.67
Other non-operating income and expenses other than the above	-12,451,503.19	-3,995,327.57
Other profit and loss items that meet the definition of non-recurring profit and loss	6,761,924.69	47,624.45
Income tax impact	-1,365,775.30	-5,951,134.67
Total	4,255,651.99	18,353,919.78

17.2 Return on net assets and earnings per share

(1) Period from 1st Jan to 30th Jun 2020

Profit	Weighted average return on equity (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to common shareholders of the company	2.16	0.08	0.08
Net profit attributable to common shareholders of the company after deducting non-recurring gains and losses	2.14	0.08	0.08

(2) Period from 1st Jan to 30th Jun 2019

Profit	Weighted average return on equity (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to common shareholders of the company	2.60	0.09	0.09
Net profit attributable to common shareholders of the company after deducting non-recurring gains and losses	2.50	0.08	0.08

Contents

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Auditor's Report

PCCPAAR [2020] No. 8-240

To the Shareholders of Southwest Securities Co., Ltd.:

I. Audit Opinion

We have audited the accompanying financial statements of Southwest Securities Co., Ltd. (the "Company"), which comprise the consolidated and parent company balance sheets as at December 31, 2019, the consolidated and parent company income statements, the consolidated and parent company cash flow statements, and the consolidated and parent company statements of changes in equity for the year then ended, as well as notes to financial statements.

In our opinion, the attached financial statements present fairly, in all material respects the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

II. Basis for Audit Opinion

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Certified Public Accountant's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the China Code of Ethics for Certified Public Accountants, and we have fulfilled other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not express a separate opinion on these matters.

(I) Impairment assessments of goodwill and long-term equity investments

1. Key audit matters

Please refer to section III (XXII), section V (I) 16 and section VI (I) 1 in the notes to the financial statements for details. As of December 31, 2019, the book balance of goodwill in the Company's consolidated financial statements amounted to 313 million yuan, and the balance of provision for impairment amounted to 121 million yuan; the book balance of the long-term equity investments in the parent company's financial statements amounted to 6,650 million yuan, and the balance of provision for impairment amounted to 690 million yuan. The Company's management (the "Management") has engaged external valuation experts to evaluate the recoverable amounts of goodwill and long-term equity investments. When determining whether provision for impairment should be made, the Management should make significant judgments and estimates, especially the key assumptions used in estimating future cash flows, which include forecast revenue, long-term average growth rate, profit rate and appropriate discount rate. These key assumptions are of inherent uncertainty and might be influenced by the Management bias.

Due to the significant amounts of goodwill in the consolidated financial statements and long-term equity investments in the parent company's financial statements, as well as the significant judgments and estimates made by the Management, we have identified the impairment assessments of goodwill and long-term equity investments as key audit matters.

2. Responsive audit procedures

Our main audit procedures for the impairment assessments of goodwill and long-term equity investments are as follows:

(1) We obtained understandings of key internal controls related to goodwill and long-term equity investments, assessed the design of these controls, determined

whether they had been executed, and tested the effectiveness of the operation;

(2) We reviewed the Management's estimations on present value of future cash flows in previous years and actual operating results, and assessed the accuracy of those estimations;

(3) We obtained understandings of and assessed the competency, professional quality and objectivity of external valuation experts engaged by the Management;

(4) We assessed the reasonableness and consistency of the method adopted by the Management in the impairment test;

(5) We assessed the appropriateness of key assumptions adopted by the Management in the impairment test;

(6) We tested the accuracy, integrity and relevance of data used by management in the impairment test, and reviewed the inherent consistency of relevant information in the impairment test;

(7) We tested whether the calculation of estimated present value of future cash flow was accurate; and

(8) We checked whether the information related to impairment of goodwill and long-term equity investments had been presented appropriately in the financial statements.

(II) Impairment assessment on expected credit of loans to clients for buying securities, financial assets under reverse repo and other debt investments

1. Key audit matters

Please refer to section III (X) 5, V (I) 3, 7 and 9 in the notes to the financial statements for details. As of December 31, 2019, the book balance of loans to clients for buying securities amounted to 10,612 million yuan, with balance of loss allowance amounting to 34 million yuan, and the carrying amount of loans to clients for buying securities amounted to 10,578 million yuan; the book balance of financial assets under reverse repo amounted to 1,680 million yuan, with balance of loss allowance amounting to 120 million yuan, and the carrying amount of financial assets under reverse repo amounted to 1,560 million yuan; the carrying amount of other debt investments amounted to 11,384 million yuan, with balance of loss allowance amounting to 4 million yuan. The Management adopts expected credit loss model to measure expected credit loss on these financial assets.

As the above financial assets are signification to the consolidated financial statements, and the parameters and data used in the expected credit loss model and the division of impairment stages involve significant judgments and assumptions of the Management, we have identified the impairment assessment on expected credit of loans to clients for buying securities, financial assets under reverse repo and other debt investments as a key audit matter.

2. Responsive audit procedures

Our main audit procedures for impairment assessment on expected credit of loans to clients for buying securities, financial assets under reverse repo and other debt investments are as follows:

(1) We obtained understandings of and evaluated the selection, approval and application of expected credit loss model in the model methodology, as well as the design of internal controls related to model continuous monitoring and optimization, determined whether they have had been executed, and tested the effectiveness of their operation;

(2) We assessed the reasonableness of the expected credit loss model used by the Management and the criteria for the division of impairment stages;

(3) We evaluated the integrity and accuracy of relevant parameters and assumptions adopted by the Management in the expected credit loss model;

(4) We reviewed the basic data used by the Management in the calculation of expected credit loss by sampling method and checked the accuracy of the calculation;

(5) We assessed the accuracy of the Management's calculation of loss allowance based on the financial information of borrowers and guarantors, the value of collaterals and other relevant factors by sampling method; and

(6) We assessed whether the disclosure related to the loss allowance of financial assets measured at amortized cost conformed to China Accounting Standards for Business Enterprises.

(III) Consolidation scope of structured entities

1. Key audit matters

Please refer to section VIII in the notes to the financial statements for details. As of December 31, 2019, the total assets of structured entities brought into the consolidation scope amounted to 1,412 million yuan. The Company manages and invests many structured entities during business operation. The Management needs to make significant judgment on whether the structured entities are under control and thus brought into the consolidation scope. When determining whether a structured entity should be brought into the consolidation scope, the Management will evaluate the control held by the Company as the manager of the structured entity and comprehensively consider factors such as variable returns enjoyed and risk exposures assumed within the consolidation scope, so as to evaluate the variable returns obtained from the entity and the correlation between controlling rights and variable returns.

2. Responsive audit procedures

Our main audit procedures for structured entities within the consolidation scope are as follows:

(1) We assessed the design of the internal controls that related to the Management's determination about whether structured entities should be brought into the consolidation scope, determined whether they had been executed, and tested the effectiveness of their operation;

(2) We obtained a list of controlled structured entities from the Management and tested related asset management contracts, partnership agreements and investment contracts by sampling method. In consideration of backgrounds of trading parties, nature of transactions and returns generated, we evaluated the scope of control over structured entities, variable returns derived from those entities and the correlation between controlling rights and variable returns;

(3) We evaluated the structure design of entities' risks and rewards, including guarantees for any capital or return, arrangements for liquidity support, payments for commissions and allocation of profits, etc., so as to evaluate determinations made by the Management regarding to influences over structured entities' risk exposure, control and variable returns, which were generated from the Company's involvement in related activities of structured entities;

(4) We obtained information about interest in unconsolidated structured entities from the Management;

(5) For interest in structured entities that initially sponsored by third-party organizations, we performed random checks on financial asset investment contracts and reviewed its initial investment costs and valuation;

(6) For interest in unconsolidated structured entities that initially sponsored by the Company, we reviewed source data collected by the Management, tested the design and execution of internal control relevant to asset management business, and assessed variable returns the Company obtained from these entities and the correlation between controlling rights and variable returns; and

(7) We evaluated whether disclosures related to the structured entities in financial statements conformed to China Accounting Standards for Business Enterprises.

IV. Other Information

The Management is responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The Management is responsible for preparing and presenting fairly the financial statements in accordance with China Accounting Standards for Business Enterprises, as well as designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Company'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 Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

VI. Certified Public Accountants' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We exercise professional judgment and maintain professional skepticism throughout the audit performed in accordance with China Standards on Auditing. We also:

(I) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(II) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(III) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

(IV) Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.

(V) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(VI) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain sole responsibility for our audit opinion.

We communicate with those charged with governance regarding the planned audit scope, time schedule and significant audit findings, including any deficiencies in internal control of concern that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pan-China Certified Public Accountants LLP

Hangzhou, China

Chinese Certified Public Accountant
(Engagement Partner)

Chinese Certified Public Accountant

Date of Report: April 28, 2020

The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

Southwest Securities Co., Ltd.

Consolidated balance sheet as at December 31, 2019

(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	December 31, 2018
Assets:			
Cash and bank balances	1	13,424,712,915.79	10,509,698,812.72
Including: Clients' deposit		9,789,333,913.17	7,047,317,504.84
Settlement reserve fund	2	2,912,119,926.36	3,276,097,164.20
Including: Clients' settlement reserve fund		1,616,211,293.99	2,187,230,146.51
Precious metal			
Loans to other financial institutions			
Loans to clients for buying securities	3	10,578,077,246.80	8,489,617,468.51
Derivative financial assets	4	79,592.31	6,300,485.44
Refundable deposits	5	879,184,971.17	583,244,152.71
Accounts receivable	6	14,746,675.73	52,226,037.05
Receivables financing			
Interest receivable			675,472,048.73
Financial assets under reverse repo	7	1,560,086,843.75	2,140,370,993.16
Assets classified as held for sale			
Financial assets at fair value through profit or loss			27,115,564,078.34
Available-for-sale financial assets			6,364,865,695.37
Held-to-maturity investments			
Financial investments:			
Held-for-trading financial assets	8	17,667,368,833.83	
Debt investments			
Other debt investments	9	11,383,678,879.93	
Other equity instrument investments	10	3,317,992,713.71	
Long-term equity investments	11	2,013,395,349.31	1,846,765,396.05
Investment property	12	32,055,324.93	35,718,006.80
Fixed assets	13	290,114,812.82	313,507,532.74
Construction in progress	14	574,160,498.08	393,096,465.98
Intangible assets	15	166,420,622.22	175,520,246.72
Including: Trading seat fee			
Goodwill	16	192,424,935.58	203,817,916.19
Deferred tax assets	17	359,509,156.49	435,023,792.13
Other assets	18	484,865,302.79	1,078,309,769.23
Total assets		65,850,994,601.60	63,695,216,062.07

Southwest Securities Co., Ltd.
Consolidated balance sheet as at December 31, 2019 (continued)
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	December 31, 2018
Liabilities:			
Short-term borrowings			
Short-term financing payable	20	1,310,320,447.71	2,341,310,000.00
Loans from other financial institutions	21	1,408,302,777.78	500,000,000.00
Held-for-trading financial liabilities	22	779,764,040.12	
Financial liabilities at fair value through profit or loss			1,941,785,823.23
Derivative financial liabilities	4	15,884,343.01	4,158,573.50
Financial liabilities under repo	23	14,515,651,543.18	16,608,204,000.00
Acting trading securities	24	11,242,411,450.99	8,678,011,388.98
Acting underwriting securities			
Employee benefits payable	25	1,146,654,235.49	802,446,061.81
Taxes and rates payable	26	39,378,850.65	81,001,335.61
Accounts payable	27	99,925,740.26	32,100,748.10
Interest payable			323,901,240.46
Liabilities classified as held for sale			
Provisions			
Long-term borrowings			
Bonds payable	28	15,460,003,463.01	13,237,045,789.14
Including: Preferred shares			
Perpetual bonds			
Deferred tax liabilities	17	102,557,630.85	13,490,413.70
Other liabilities	29	172,362,321.53	154,795,529.59
Total liabilities		46,293,216,844.58	44,718,250,904.12
Equity:			
Share capital	30	5,645,109,124.00	5,645,109,124.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	31	7,768,259,719.03	7,768,259,719.03
Less: Treasury shares			
Other comprehensive income	32	183,766,198.05	-328,397,141.19
Surplus reserve	33	1,100,648,039.52	1,023,127,927.72
General risk reserve	34	2,124,316,090.64	1,969,275,867.04
Undistributed profit	35	2,771,469,583.10	2,518,032,956.48
Total equity attributable to owners of the parent company		19,593,568,754.34	18,595,408,453.08
Non-controlling interest		-35,790,997.32	381,556,704.87
Total equity		19,557,777,757.02	18,976,965,157.95
Total liabilities and equity		65,850,994,601.60	63,695,216,062.07

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Southwest Securities Co., Ltd.
Parent company balance sheet as at December 31, 2019
(Expressed in Renminbi Yuan)

Assets	Note No.	Closing balance	December 31, 2018
Assets:			
Cash and bank balances		10,806,817,050.85	7,967,899,950.11
Including: Clients' deposit		9,288,304,292.76	6,503,465,243.90
Settlement reserve fund		2,583,633,193.25	2,947,926,049.66
Including: Clients' settlement reserve fund		1,281,003,240.41	1,864,585,840.09
Precious metal			
Loans to other financial institutions			
Loans to clients for buying securities		10,285,993,360.63	7,734,032,121.62
Derivative financial assets		79,592.31	6,300,485.44
Refundable deposits		319,918,650.00	263,832,089.91
Accounts receivable		17,233,235.12	43,603,630.04
Receivables financing			
Interest receivable			588,545,714.83
Financial assets under reverse repo		1,354,120,859.55	1,910,265,980.61
Assets classified as held for sale			
Financial assets at fair value through profit or loss			23,773,387,638.19
Available-for-sale financial assets			5,590,832,923.82
Held-to-maturity investments			
Financial investments:			
Held-for-trading financial assets		14,630,432,579.93	
Debt investments			
Other debt investments		11,383,678,879.93	
Other equity instrument investments		3,317,992,713.71	
Long-term equity investments	1	5,960,371,706.40	5,869,164,355.94
Investment property		28,712,579.53	31,392,542.59
Fixed assets		284,296,276.32	306,697,098.18
Construction in progress		574,160,498.08	393,096,465.98
Intangible assets		161,289,983.20	169,902,822.76
Including: Trading seat fee			
Goodwill			
Deferred tax assets		296,670,858.54	354,259,206.87
Other assets		131,043,603.63	470,411,675.92
Total assets		62,136,445,620.98	58,421,550,752.47

Southwest Securities Co., Ltd.
Parent company balance sheet as at December 31, 2019 (continued)
(Expressed in Renminbi Yuan)

Liabilities & Equity	Note No.	Closing balance	December 31, 2018
Liabilities:			
Short-term borrowings			
Short-term financing payable		1,310,320,447.71	2,341,310,000.00
Loans from other financial institutions		1,408,302,777.78	500,000,000.00
Held-for-trading financial liabilities			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities			4,158,573.50
Financial liabilities under repo		14,515,651,543.18	16,608,204,000.00
Acting trading securities		10,204,176,151.71	7,986,059,782.80
Acting underwriting securities			
Employee benefits payable	2	1,044,047,641.60	733,334,109.73
Taxes and rates payable		34,311,519.06	61,115,713.25
Accounts payable		55,129,004.45	27,612,718.53
Interest payable			309,998,219.07
Liabilities classified as held for sale			
Provisions			
Long-term borrowings			
Bonds payable		14,052,477,008.69	11,532,420,892.96
Including: Preferred shares			
Perpetual bonds			
Deferred tax liabilities		55,038,543.48	13,390,722.03
Other liabilities		132,805,556.40	128,544,200.64
Total liabilities		42,812,260,194.06	40,246,148,932.51
Equity:			
Share capital		5,645,109,124.00	5,645,109,124.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		7,768,259,719.03	7,768,259,719.03
Less: Treasury shares			
Other comprehensive income		131,768,925.87	-434,316,726.47
Surplus reserve		1,100,648,039.52	1,023,127,927.72
General risk reserve		2,124,316,090.64	1,969,275,867.04
Undistributed profit		2,554,083,527.86	2,203,945,908.64
Total equity		19,324,185,426.92	18,175,401,819.96
Total liabilities and equity		62,136,445,620.98	58,421,550,752.47

Southwest Securities Co., Ltd.

Consolidated income statement for the year ended December 31, 2019

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Total operating revenue		3,488,837,437.18	2,744,154,393.47
Net handling charges and commission income	1	950,089,370.78	1,146,206,464.50
Including: Brokerage		582,755,243.97	496,078,901.07
Investment banking		295,131,513.70	493,816,748.90
Assets management		54,830,770.51	73,954,033.85
Net interest income	2	187,534,369.89	-448,043,668.87
Including: Interest income		1,781,280,053.58	1,246,654,081.55
Interest expenses		1,593,745,683.69	1,694,697,750.42
Investment income (or less: losses)	3	1,295,444,737.05	1,683,119,524.21
Including: Investment income from associates and joint ventures		269,680,797.75	175,284,642.21
Gains from derecognition of financial assets measured at amortized cost			
Gains on net exposure hedging (or less: losses)			
Other income	4	40,487,656.24	85,551,494.36
Gains on changes in fair value (or less: losses)	5	905,791,168.72	-2,682,847.89
Gains on foreign exchange (or less: losses)		8,976,531.34	-59,906,652.07
Other operating revenue	6	99,822,732.16	339,604,831.58
Gains on asset disposal (or less: losses)	7	690,871.00	305,247.65
II. Total operating cost		2,382,718,116.94	2,526,050,252.03
Taxes and surcharges	8	21,941,346.26	27,365,477.46
Business and administrative expenses	9	1,956,004,590.68	1,780,082,659.19
Credit impairment loss	10	300,653,113.39	
Impairment loss of other assets	11	15,422,171.52	
Assets impairment loss	12		376,135,779.21
Other operating cost	13	88,696,895.09	342,466,336.17
III. Operating profit (or less: losses)		1,106,119,320.24	218,104,141.44
Add: Non-operating revenue	14	361,700.65	1,427,601.56
Less: Non-operating expenditures	15	7,294,365.37	5,107,036.31
IV. Profit before tax (or less: total loss)		1,099,186,655.52	214,424,706.69
Less: Income tax	16	134,683,982.34	-800,865.43
V. Net profit (or less: net loss)		964,502,673.18	215,225,572.12
(I) Categorized by the continuity of operations			
1. Net profit from continuing operations (or less: net loss)		964,502,673.18	175,162,090.51
2. Net profit from discontinued operations (or less: net loss)			40,063,481.61
(II) Categorized by the portion of equity ownership			
1. Net profit attributable to owners of parent company (or less: net loss)		1,042,001,454.67	226,842,591.87
2. Net profit attributable to non-controlling shareholders (or less: net loss)		-77,498,781.49	-11,617,019.75
VI. Other comprehensive income after tax	17	142,704,447.24	-692,284,266.77
Items attributable to the owners of the parent company		143,116,194.70	-733,922,929.67
(I) Not to be reclassified subsequently to profit or loss		110,512,020.25	-6,009,416.09
1.Changes in remeasurement on the net defined benefit plan		-4,195,840.82	-6,009,416.09
2. Items under equity method that will not be reclassified to profit or loss			
3.Changes in fair value of other equity instrument investments		114,707,861.07	
4.Changes in fair value of own credit risk			
5.Others			
(II) To be reclassified subsequently to profit or loss		32,604,174.45	-727,913,513.58
1. Items under equity method that may be reclassified to profit or loss		249,144.96	722,510.63
2. Changes in fair value of other debt investments		20,867,743.86	
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			-740,491,339.65
4. Amount of financial assets reclassified into other comprehensive income			
5. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
6. Provision for credit impairment of other debt investments		-722,863.59	
7. Cash flow hedging reserve (profit or loss on cash flow hedging)			
8. Translation reserve		12,210,149.22	12,510,239.94
9. Others			-654,924.50
Items attributable to non-controlling shareholders		-411,747.46	41,638,662.90
VII. Total comprehensive income		1,107,207,120.42	-477,058,694.65
Items attributable to the owners of the parent company		1,185,117,649.37	-507,080,337.80
Items attributable to non-controlling shareholders		-77,910,528.95	30,021,643.15
VIII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)		0.18	0.04
(II) Diluted EPS (yuan per share)		0.18	0.04

Southwest Securities Co., Ltd.

Parent company income statement for the year ended December 31, 2019

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Total operating revenue		3,119,537,417.70	2,373,195,925.82
Net handling charges and commission income	1	886,878,014.77	1,000,486,594.45
Including: Brokerages		557,885,682.71	473,994,209.10
Investment banking		264,816,326.83	432,388,290.86
Assets management		58,754,031.75	90,956,952.33
Net interest income	2	224,940,741.00	-345,158,787.92
Including: interest income		1,616,454,785.30	1,069,506,153.47
Interest expenses		1,391,514,044.30	1,414,664,941.39
Investment income (or less: losses)	3	1,358,433,194.06	1,443,666,640.20
Including: Investment income from associates and joint ventures		269,680,797.75	181,442,272.72
Gains from derecognition of financial assets measured at amortized cost			
Gains on net exposure hedging (or less: losses)			
Other income		37,334,832.72	78,225,488.73
Gains on changes in fair value (or less: losses)	4	601,515,329.06	187,993,129.25
Gains on foreign exchange (or less: losses)		528,109.96	1,442,614.42
Other operating revenue		9,374,923.47	6,225,977.22
Gains on asset disposal (or less: losses)		532,272.66	314,269.47
II. Total operating cost		1,771,942,611.62	2,256,532,500.81
Taxes and surcharges		20,766,835.22	24,863,255.44
Business and administrative expenses	5	1,698,603,944.92	1,494,373,390.55
Credit impairment loss		-25,777,966.81	
Impairment loss of other assets		75,422,602.80	
Assets impairment loss			727,333,911.85
Other operating cost		2,927,195.49	9,961,942.97
III. Operating profit (or less: losses)		1,347,594,806.08	116,663,425.01
Add: Non-operating revenue		52,247.33	1,268,328.60
Less: Non-operating expenditures		7,036,661.60	4,732,354.16
IV. Profit before tax (or less: total loss)		1,340,610,391.81	113,199,399.45
Less: Income tax		73,633,843.12	12,589,901.60
V. Net profit (or less: net loss)		1,266,976,548.69	100,609,497.85
(I) Net profit from continuing operations (or less: net loss)		1,266,976,548.69	100,609,497.85
(II) Net profit from discontinued operations (or less: net loss)			
VI. Other comprehensive income after tax		130,906,045.48	-795,748,464.39
(I) Not to be reclassified subsequently to profit or loss		110,512,020.25	-6,009,416.09
1.Changes in remeasurement on the net defined benefit plan		-4,195,840.82	-6,009,416.09
2. Items under equity method that will not be reclassified to profit or loss			
3.Changes in fair value of other equity instrument investments		114,707,861.07	
4.Changes in fair value of own credit risk			
5.Others			
(II) To be reclassified subsequently to profit or loss		20,394,025.23	-789,739,048.30
1. Items under equity method that may be reclassified to profit or loss		249,144.96	722,510.63
2. Changes in fair value of other debt investments		20,867,743.86	
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			-790,461,558.93
4. Profit or loss from reclassification of financial assets into other comprehensive income			
5. Profit or loss from reclassification of held-to-maturity investments as available-for-sale financial assets			
6. Provision for credit impairment of other debt investment		-722,863.59	
7. Cash flow hedging reserve (profit or loss on cash flow hedging)			
8. Translation reserve			
9. Others			
VII. Total comprehensive income		1,397,882,594.17	-695,138,966.54
VIII. Earnings per share (EPS):			
(I) Basic EPS (yuan per share)			
(II) Diluted EPS (yuan per share)			

Southwest Securities Co., Ltd.

Consolidated cash flow statement for the year ended December 31, 2019

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services			
Net increase of loans from other financial institutions			
Net decrease of held-for-trading financial assets		1,022,377,380.18	
Cash receipts from interests, handling charges and commission		3,644,525,154.71	4,062,052,080.60
Net decrease of loans to clients for buying securities			275,408,513.24
Net increase of loans from others		900,000,000.00	580,000,000.00
Net increase of repos			7,627,316,509.26
Net cash receipt from acting trading securities		2,564,400,062.01	
Other cash receipts related to operating activities	1	254,250,567.14	717,346,469.36
Subtotal of cash inflows from operating activities		8,385,553,164.04	13,182,123,572.46
Net increase of held-for-trading financial assets			5,305,858,933.25
Net increase of loans to clients for buying securities		2,256,059,985.88	
Net increase of loans to other financial institutions			
Net increase of financial assets under reverse repo			
Net increase of financial liabilities under repo		1,488,223,248.12	
Cash payment for interests, handling charges and commission		892,336,493.23	1,235,457,528.93
Cash payments to and on behalf of employees		1,154,013,017.39	1,317,683,595.62
Cash payments for taxes and rates		189,165,277.49	383,523,698.11
Net cash payment for acting trading securities			1,209,661,095.00
Other cash payments related to operating activities	2	941,552,978.62	1,381,096,594.92
Subtotal of cash outflows from operating activities		6,921,351,000.73	10,833,281,445.83
Net cash flows from operating activities		1,464,202,163.31	2,348,842,126.63
II. Cash flows from investing activities:			
Cash receipts from withdrawal of investments		2,926,331,494.39	1,293,968,807.93
Cash receipts from investment income		832,996,481.98	626,951,521.78
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		6,202,594.27	4,600,424.39
Net cash receipts from the disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			
Subtotal of cash inflows from investing activities		3,765,530,570.64	1,925,520,754.10
Cash payments for investments		683,759,158.68	726,709,440.41
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		249,410,085.18	100,454,893.37
Net cash payments for the acquisition of subsidiaries & other business units			
Other cash payments related to investing activities	3		34,763,702.95
Subtotal of cash outflows from investing activities		933,169,243.86	861,928,036.73
Net cash flows from investing activities		2,832,361,326.78	1,063,592,717.37
III. Cash flows from financing activities:			
Cash receipts from absorbing investments		35,389,467.02	
Including: Cash received by subsidiaries from non-controlling shareholders as investments		35,389,467.02	
Cash receipts from borrowings			
Cash receipts from issuing of bonds		13,149,620,463.70	8,368,653,944.32
Other cash inflows related to financing activities			
Subtotal of cash inflows from financing activities		13,185,009,930.72	8,368,653,944.32
Cash payments for the repayment of borrowings		12,373,140,000.00	10,218,320,000.00
Cash payments for distribution of dividends or profits or interest expenses		995,584,829.32	1,079,256,507.44
Including: Cash paid by subsidiaries to non-controlling shareholders as dividends or profit			4,594,202.74
Other cash payments related to financing activities	4	1,579,784,652.95	2,664,839,095.53
Subtotal of cash outflows from financing activities		14,948,509,482.27	13,962,415,602.97
Net cash flows from financing activities		-1,763,499,551.55	-5,593,761,658.45
IV. Effect of foreign exchange rate changes on cash & cash equivalents		17,129,806.38	23,897,710.72
V. Net increase in cash and cash equivalents		2,550,193,744.92	-2,157,429,103.73
Add: Opening balance of cash and cash equivalents		13,785,795,976.92	15,943,225,080.65
VI. Closing balance of cash and cash equivalents		16,335,989,721.84	13,785,795,976.92

Southwest Securities Co., Ltd.

Parent Company cash flow statement for the year ended December 31, 2019

(Expressed in Renminbi Yuan)

Items	Note No.	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash received from sales of goods and services			
Net increase of loans from other financial institutions			
Cash receipts from interests, handling charges and commission		3,170,895,545.14	3,239,306,197.45
Net decrease of loans to clients for buying securities			640,492,471.36
Net increase of loans from others		900,000,000.00	500,000,000.00
Net increase of repurchase			7,014,238,732.67
Net cash receipts from acting trading securities		2,218,116,368.91	
Other cash receipts related to operating activities		183,362,184.32	286,490,642.43
Subtotal of cash inflows from operating activities		6,472,374,098.37	11,680,528,043.91
Net increase of held-for-trading financial assets		690,331,130.78	7,597,833,188.59
Net increase of loans to clients for buying securities		2,438,298,183.43	
Net decrease of loans to other financial institutions			
Net increase of financial assets under reverse repo			
Net decrease of repos		1,425,006,260.67	
Cash payment for interests, handling charges and commission		890,547,719.76	899,205,924.75
Cash paid to and on behalf of employees		1,008,692,519.19	1,085,999,123.85
Cash payments for taxes and rates		167,385,245.36	299,316,389.96
Net cash payment for acting trading securities			841,282,678.66
Other cash payments related to operating activities		538,019,202.69	829,385,356.18
Subtotal of cash outflows from operating activities		7,158,280,261.88	11,553,022,661.99
Net cash flows from operating activities		-685,906,163.51	127,505,381.92
II. Cash flows from investing activities:			
Cash receipts from withdrawal of investments		2,678,464,745.22	684,447,381.46
Cash receipt from investment income		1,114,559,928.78	371,550,399.48
Net cash receipts from the disposal of fixed assets, intangible assets and other long-term assets		1,537,519.83	4,383,142.97
Other cash receipts related to investing activities			
Subtotal of cash inflows from investing activities		3,794,562,193.83	1,060,380,923.91
Cash payments for investments		683,759,158.68	504,507,000.00
Cash payments for the acquisition of fixed assets, intangible assets and other long-term assets		243,722,852.27	96,693,519.60
Other cash payment related to investing activities			
Subtotal of cash outflows from investing activities		927,482,010.95	601,200,519.60
Net cash flows from investing activities		2,867,080,[illegible]	[illegible]
III. Cash flows from financing activities:			
Cash receipt from absorbing investments			
Cash receipts from borrowings			
Cash receipts from issuing of bonds		11,753,480,000.00	6,677,860,000.00
Other cash inflows related to financing activities			
Subtotal of cash inflows from financing activities		11,753,480,000.00	6,677,860,000.00
Cash payments for the repayment of borrowings		10,660,123,000.00	8,718,320,000.00
Cash payments for distribution of dividends or profits or interest expenses		802,071,899.25	956,741,166.03
Other cash payments related to financing activities			
Subtotal of cash outflows from financing activities		11,462,194,899.25	9,675,061,166.03
Net cash flows from financing activities		291,285,100.75	-2,997,201,166.03
IV. Effect of foreign exchange rate changes on cash & cash equivalents		2,165,124.21	5,968,751.93
V. Net increase in cash and cash equivalents		2,474,624,244.33	-2,404,546,627.87
Add: Opening balance of cash and cash equivalents		10,915,825,999.77	13,320,372,627.64
VI. Closing balance of cash and cash equivalents		13,390,450,244.10	10,915,825,999.77

Southwest Securities Co., Ltd.

Consolidated statement of changes in equity for the year ended December 31, 2019

(Expressed in Renminbi Yuan)

Items	Current period cumulative											
	Equity attributable to parent company										Non-controlling interest	Total equity
	Share capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit		
		Preferred shares	Perpetual bonds	Others								
I. Balance at the end of prior year	5,645,109,124.00				7,768,259,719.03		-328,397,141.19	1,023,127,927.72	1,969,275,867.04	2,518,032,956.48	381,556,704.87	18,976,965,157.95
Add: Cumulative changes of accounting policies							345,897,254.91	-49,177,543.07	-98,355,086.14	-215,968,700.09	54,733,228.94	37,129,154.55
Error correction of prior period												
Business combination under common control												
Others												
II. Balance at the beginning of current year	5,645,109,124.00				7,768,259,719.03		17,500,113.72	973,950,384.65	1,870,920,780.90	2,302,064,256.39	436,289,933.81	19,014,094,312.50
III. Current period increase (or less: decrease)							166,266,084.33	126,697,654.87	253,395,309.74	469,405,326.71	-472,080,931.13	543,683,444.52
(I) Total comprehensive income							143,116,194.70			1,042,001,454.67	-77,910,528.95	1,107,207,120.42
(II) Capital contributed or withdrawn by owners											-56,683,080.15	-56,683,080.15
1. Ordinary shares contributed by owners											35,389,467.02	35,389,467.02
2. Capital contributed by holders of other equity instruments												
3. Amount of share-based payment included in equity												
4. Others											-92,072,547.17	-92,072,547.17
(III) Profit distribution								126,697,654.87	253,395,309.74	-549,446,238.33		-169,353,273.72
1. Appropriation of surplus reserve								126,697,654.87		-126,697,654.87		
2. Appropriation of general risk reserve									253,395,309.74	-253,395,309.74		
3. Appropriation of profit to owners										-169,353,273.72		-169,353,273.72
4. Others												
(IV) Internal carry-over within equity							23,149,889.63			-23,149,889.63		
1. Transfer of capital reserve to capital												
2. Transfer of surplus reserve to capital												
3. Surplus reserve to cover losses												
4. Changes in defined benefit plan carried over to retained earnings												
5. Other comprehensive income carried over to retained earnings							23,149,889.63			-23,149,889.63		
6. Others												
(V) Others											-337,487,322.03	-337,487,322.03
IV. Balance at the end of current period	5,645,109,124.00				7,768,259,719.03		183,766,198.05	1,100,648,039.52	2,124,316,090.64	2,771,469,583.10	-35,790,997.32	19,557,777,757.02

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Southwest Securities Co., Ltd.

Consolidated statement of changes in equity for the year ended December 31, 2019 (continued)

(Expressed in Renminbi Yuan)

Items	Preceding period comparative											
	Equity attributable to parent company										Non-controlling interest	Total equity
	Share capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit		
		Preferred shares	Perpetual bonds	Others								
I. Balance at the end of prior year	5,645,109,124.00				7,767,343,370.78		405,525,788.48	1,009,845,259.83	1,942,710,531.26	2,613,293,824.48	664,833,654.69	20,048,661,553.52
Add: Cumulative changes of accounting policies												
Error correction of prior period												
Business combination under common control												
Others					261,423.75			3,221,718.10	6,443,436.20	-9,665,154.30		261,423.75
II. Balance at the beginning of current year	5,645,109,124.00				7,767,604,794.53		405,525,788.48	1,013,066,977.93	1,949,153,967.46	2,603,628,670.18	664,833,654.69	20,048,922,977.27
III. Current period increase (or less: decrease)					654,924.50		-733,922,929.67	10,060,949.79	20,121,899.58	-85,595,713.70	-283,276,949.82	-1,071,957,819.32
(I) Total comprehensive income							-733,922,929.67			226,842,591.87	30,021,643.15	-477,058,694.65
(II) Capital contributed or withdrawn by owners											-121,937,500.00	-121,937,500.00
1. Ordinary shares contributed by owners												
2. Capital contributed by holders of other equity instruments												
3. Amount of share-based payment included in equity												
4. Others											-121,937,500.00	-121,937,500.00
(III) Profit distribution								10,060,949.79	20,121,899.58	-312,438,305.57	-4,594,202.74	-286,849,658.94
1. Appropriation of surplus reserve								10,060,949.79		-10,060,949.79		
2. Appropriation of general risk reserve									20,121,899.58	-20,121,899.58		
3. Appropriation of profit to owners										-282,255,456.20	-4,594,202.74	-286,849,658.94
4. Others												
(IV) Internal carry-over within equity												
1. Transfer of capital reserve to capital												
2. Transfer of surplus reserve to capital												
3. Surplus reserve to cover losses												
4. Changes in defined benefit plan carried over to retained earnings												
5. Other comprehensive income carried over to retained earnings												
6. Others												
(V) Others					654,924.50						-186,766,890.23	-186,111,965.73
IV. Balance at the end of current period	5,645,109,124.00				7,768,259,719.03		-328,397,141.19	1,023,127,927.72	1,969,275,867.04	2,518,032,956.48	381,556,704.87	18,976,965,157.95

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Southwest Securities Co., Ltd.
Parent company statement of changes in equity for the year ended December 31, 2019
(Expressed in Renminbi Yuan)

Item	Current period cumulative										
	Share capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	Total equity
		Preferred shares	Perpetual bonds	Others							
I. Balance at the end of prior year	5,645,109,124.00				7,768,259,719.03		-434,316,726.47	1,023,127,927.72	1,969,275,867.04	2,203,945,908.64	18,175,401,819.96
Add: Cumulative changes of accounting policies							412,029,717.23	-49,177,543.07	-98,355,086.14	-344,242,801.51	-79,745,713.49
Error correction of prior period											
Others											
II. Balance at the beginning of current year	5,645,109,124.00				7,768,259,719.03		-22,287,009.24	973,950,384.65	1,870,920,780.90	1,859,703,107.13	18,095,656,106.47
III. Current period increase (or less: decrease)							154,055,935.11	126,697,654.87	253,395,309.74	694,380,420.73	1,228,529,320.45
(I) Total comprehensive income							130,906,045.48			1,266,976,548.69	1,397,882,594.17
(II) Capital contributed or withdrawn by owners											
1. Ordinary shares contributed by owners											
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution								126,697,654.87	253,395,309.74	-549,446,238.33	-169,353,273.72
1. Appropriation of surplus reserve								126,697,654.87		-126,697,654.87	
2. Appropriation of general risk reserve									253,395,309.74	-253,395,309.74	
3. Appropriation of profit to owners										-169,353,273.72	-169,353,273.72
4. Others											
(IV) Internal carry-over within equity							23,149,889.63			-23,149,889.63	
1.Transfer of capital reserve to capital											
2.Transfer of surplus reserve to capital											
3.Surplus reserve to cover losses											
4. Changes in defined benefit plan carried over to retained earnings											
5. Other comprehensive income carried over to retained earnings							23,149,889.63			-23,149,889.63	
6. Others											
(V) Others											
IV. Balance at the end of current period	5,645,109,124.00				7,768,259,719.03		131,768,925.87	1,100,648,039.52	2,124,316,090.64	2,554,083,527.86	19,324,185,426.92

Southwest Securities Co., Ltd.
Parent company statement of changes in equity for the year ended December 31, 2019 (continued)
(Expressed in Renminbi Yuan)

Items	Preceding period comparative										
	Share capital	Other equity instruments			Capital reserve	Less: treasury shares	Other comprehensive income	Surplus reserve	General risk reserve	Undistributed profit	Total equity
		Preferred shares	Perpetual bonds	Others							
I. Balance at the end of prior year	5,645,109,124.00				7,767,998,295.28		361,431,737.92	1,009,845,259.83	1,942,710,531.26	2,393,222,689.68	19,120,317,637.97
Add: Cumulative changes of accounting policies											
Error correction of prior period											
Others					261,423.75			3,221,718.10	6,443,436.20	22,552,026.68	32,478,604.73
II. Balance at the beginning of current year	5,645,109,124.00				7,768,259,719.03		361,431,737.92	1,013,066,977.93	1,949,153,967.46	2,415,774,716.36	19,152,796,242.70
III. Current period increase (or less: decrease)							-795,748,464.39	10,060,949.79	20,121,899.58	-211,828,807.72	-977,394,422.74
(I) Total comprehensive income							-795,748,464.39			100,609,497.85	-695,138,966.54
(II) Capital contributed or withdrawn by owners											
1. Ordinary shares contributed by owners											
2. Capital contributed by holders of other equity instruments											
3. Amount of share-based payment included in equity											
4. Others											
(III) Profit distribution								10,060,949.79	20,121,899.58	-312,438,305.57	-282,255,456.20
1. Appropriation of surplus reserve								10,060,949.79		-10,060,949.79	
2. Appropriation of general risk reserve									20,121,899.58	-20,121,899.58	
3. Appropriation of profit to owners										-282,255,456.20	-282,255,456.20
4. Others											
(IV) Internal carry-over within equity											
1.Transfer of capital reserve to capital											
2.Transfer of surplus reserve to capital											
3.Surplus reserve to cover losses											
4. Changes in defined benefit plan carried over to retained earnings											
5. Other comprehensive income carried over to retained earnings											
6. Others											
(V) Others											
IV. Balance at the end of current period	5,645,109,124.00				7,768,259,719.03		-434,316,726.47	1,023,127,927.72	1,969,275,867.04	2,203,945,908.64	18,175,401,819.96

[*Name*]
[Legal representative]
(Signature and stamp)

[*Name*]
[Officer in charge of accounting]
(Signature and stamp)

[*Name*]
[Head of accounting department]
(Signature and stamp)

Southwest Securities Co., Ltd.

Notes to Financial Statements

For the year ended December 31, 2019

Monetary unit: RMB Yuan

I. Company profile

Southwest Securities Co., Ltd. (the "Company") is a listed securities company established by way of major assets restructuring of 重庆长江水运股份有限公司 (Chongqing Changjiang River Water Transport Co., Ltd.*) and merger of 西南证券有限责任公司 (Southwest Securities LLC*) under the approval of China Securities Regulatory Commission ("CSRC"). Securities business qualifications of Southwest Securities LLC are legally inherited by the Company.

Southwest Securities LLC is jointly established by other shareholders (contribute in cash) based on the total net assets of the former Securities Department of 重庆国际信托投资有限公司证券部(Chongqing International Trust Investment Co., Ltd.*), former 重庆市证券公司 (Chongqing Securities Company) and former 重庆证券登记有限责任公司 (Chongqing Securities Registration Co., Ltd.*) under the approval documents numbered Zheng Jian Ji Gou Zi [1999] 32, Zheng Jian Ji Gou Zi [1999] 114 and Zheng Jian Ji Gou Zi [1999] 159 by CSRC on December 28, 1999. In February 2009, under the approval document numbered Zheng Jian Xu Ke [2009] 62, Chongqing Changjiang River Water Transport Co., Ltd. restructured its major assets and merged Southwest Securities LLC by issuing RMB ordinary shares of 1,658,997,062 shares, and legally inherited securities business qualifications of Southwest Securities LLC. On February 17, 2009, Southwest Securities LLC registered the above change at Chongqing Administration for Industry and Commerce and was renamed as Southwest Securities Co., Ltd.

Currently the Company holds a business corporation license with unified social credit code of 91500000203291872B. As of December 31, 2019, the Company has registered capital of 5,645,109,124.00 yuan, with total share of 5,645,109,124 shares (each with par value of one yuan), which are all unrestricted outstanding A shares.

The Company's main business activities: securities brokerage, securities investment consulting, financial consulting related to securities trading and securities investment activities, securities underwriting and sponsoring, securities self-operation, securities asset management, margin trading and short selling, securities investment fund consignment, consignment of financial products, intermediary service for futures companies, stock option market making.

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* *The English names are for identification purpose only.*

As of December 31, 2019, the Company owned 4 subsidiaries and 129 securities branches. The Company has 2,357 employees, including 5 senior executives.

The financial statements were approved and authorized for issue by the 32nd meeting of the eighth session of the Board of Directors dated April 28, 2020.

The consolidation scope of the consolidated financial statements is based on control. Please refer to notes to changes in consolidation scope and interest in other entities for details.

II. Preparation basis of the financial statements

(I) Preparation basis

The financial statements have been prepared on the basis of going concern.

(II) Assessment of the ability to continue as a going concern

The Company has no events or conditions that may cast significant doubts upon the Company's ability to continue as a going concern within the 12 months after the balance sheet date.

III. Significant accounting policies and estimates

(I) Statement of compliance

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (CASBEs), and present truly and completely the financial position, results of operations and cash flows of the Company.

(II) Accounting period

The accounting year of the Company runs from January 1 to December 31 under the Gregorian calendar.

(III) Functional currency

The Company's functional currency is Renminbi (RMB) Yuan.

(IV) Accounting treatments of business combination under and not under common control

1. Accounting treatment of business combination under common control

Assets and liabilities arising from business combination are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

2. Accounting treatment of business combination not under common control

When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

(V) Compilation method of consolidated financial statements

The parent company brings all its controlled subsidiaries into the consolidation scope. The consolidated financial statements are compiled by the parent company according to "CASBE 33 - Consolidated Financial Statements", based on relevant information and the financial statements of the parent company and its subsidiaries.

(VI) Classification of joint arrangements and accounting method of joint operations

1. Joint arrangements include joint operations and joint ventures.

2. When the Company is a party to a joint operation, it recognizes the following items relevant to its interest in the joint operation:

(1) its solely owned assets, and its proportionate shares in assets jointly held;

(2) its solely assumed liabilities, and its proportionate shares in liabilities jointly assumed;

(3) revenue from the sale of its proportionate share in the output arising from the joint operation;

(4) proportionate share in revenue from the sale of assets of the joint operation; and

(5) its solely incurred expenses, and its proportionate shares in expenses incurred arising from the joint operation.

(VII) Recognition criteria of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and deposit on demand for payment. Cash equivalents refer to short-term, highly liquid investments that can be readily converted to cash and that are subject to an insignificant risk of changes in value.

(VIII) Foreign currency translation

1. Translation of transactions denominated in foreign currency

Transactions denominated in foreign currency are translated into RMB yuan at the approximate exchange rate similar to the systematically and rationally determined spot exchange rate at the transaction date at initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in profit or loss; non-cash items carried at historical costs are translated at the spot exchange rate at the transaction date, with the RMB amounts unchanged; non-cash items carried at fair value in foreign currency are translated at the spot exchange rate at the date when the fair value was determined, with difference included in profit or loss or other comprehensive income.

2. Translation of financial statements measured in foreign currency

The assets and liabilities in the balance sheet are translated into RMB at the spot rate at the balance sheet date; the equity items, other than undistributed profit, are translated at the spot rate at the transaction date; the revenues and expenses in the income statement are translated into RMB at the approximate exchange rate similar to the systematically and rationally determined spot exchange rate at the transaction date. The difference arising from foreign currency translation is included in other comprehensive income.

(IX) Client transaction settlement fund

Clients' transaction settlement reserve fund received by the Company are deposited in a special account of the depository bank and are managed separately from the Company's own funds. The clearing and settlement fund for securities transactions conducted on behalf of the client are deposited into the liquidation agency designated by the Exchange, and accounted under the settlement reserve fund. Deposit for acting trading securities is recognized as assets and liabilities when received; incurred related expenses including handling fees, securities regulatory fees, securities settlement risk funds, etc., are recognized as handling charges when the Company settles deposit for acting trading securities with the liquidation agency; handling fees charged to clients are recognized as handling charges income when the Company settles deposit for acting trading securities with clients.

(X) Financial instruments

1. Classification of financial assets and financial liabilities

Financial assets are classified into the following three categories when initially recognized: (1) financial assets at amortized cost; (2) financial assets at fair value through other comprehensive income; (3) financial assets at fair value through profit or loss.

Financial liabilities are classified into the following four categories when initially recognized: (1) financial liabilities at fair value through profit or loss; (2) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies; (3) financial guarantee contracts that do not fall within the above categories (1) and (2), and commitments to provide a loan at a below-market interest rate, which do not fall within the above category (1); (4) financial liabilities at amortized cost.

2. Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities

(1) Recognition criteria and measurement method of financial assets and financial liabilities

When the Company becomes a party to a financial instrument, it is recognized as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount. However, at initial recognition, for accounts receivable that do not contain a significant financing component or contracts in which the financing components with associated period less than one year are not considered, the Company measures at their transaction price.

(2) Subsequent measurement of financial assets

1) Financial assets measured at amortized cost

The Company measures its financial assets at the amortized costs using effective interest method. Gains or losses on financial assets that are measured at amortized cost and are not part of hedging relationships shall be included into profit or loss when the financial assets are derecognized, reclassified, amortized using effective interest method or recognized with impairment loss.

2) Debt instrument investments at fair value through other comprehensive income

The Company measures its debt instrument investments at fair value. Interests, impairment gains or losses, and gains or losses on foreign exchange that are calculated using effective interest method shall be included into profit or loss, while other gains or losses are included into other comprehensive income. Accumulated gains or losses initially recognized as other comprehensive income should be transferred out into profit or loss when the financial assets are derecognized.

3) Equity instrument investments at fair value through other comprehensive income

The Company measures its equity instrument investments at fair value. Dividends obtained (other than those as part of investment cost recovery) shall be included into profit or loss, while other gains or losses are included into other comprehensive income. Accumulated gains or losses initially recognized as other comprehensive income should be transferred out into retained earnings when the financial assets are derecognized.

4) Financial assets at fair value through profit or loss

The Company measures its financial assets at fair value. Gains or losses arising from changes in fair value (including interests and dividends) shall be included into profit or loss, except for financial assets that are part of hedging relationships.

(3) Subsequent measurement of financial liabilities

1) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include held-for-trading financial liabilities (including derivatives that are liabilities) and financial liabilities designated as at fair value through profit or loss. The Company measures such kind of liabilities at fair value. The amount of changes in the fair value of the financial liabilities that are attributable to changes in the Company's own credit risk shall be included into other comprehensive income, unless such treatment would create or enlarge accounting mismatches in profit or loss. Other gains or losses on those financial liabilities (including interests, changes in fair value that are attributable to reasons other than changes in the Company's own credit risk) shall be included into profit or loss, except for financial liabilities that are part of hedging relationships. Accumulated gains or losses originally recognized as other comprehensive income should be transferred out into retained earnings when the financial liabilities are derecognized.

2) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
The Company measures its financial liabilities in accordance with "CASBE 23 – Transfer of Financial Assets".

3) Financial guarantee contracts that do not fall within the above categories 1) or 2), and commitments to provide a loan at a below-market interest rate, which do not fall within the above category 1)

The Company measures its financial liabilities at the higher of: a. the amount of loss allowances in accordance with impairment requirements of financial instruments; b. the amount initially recognized less the amount of accumulated amortization recognized in accordance with relevant provisions.

4) Financial liabilities at amortized cost
The Company measures its financial liabilities at amortized cost using effective interest method. Gains or losses on financial liabilities that are measured at amortized cost and are not part of hedging relationships shall be included into profit or loss when the financial liabilities are derecognized and amortized using effective interest method.

(4) Derecognition of financial assets and financial liabilities
1) Financial assets are derecognized when:
a. the contractual rights to the cash flows from the financial assets expire; or

b. the financial assets have been transferred and the transfer qualifies for derecognition in accordance with "CASBE 23 – Transfer of Financial Assets".

2) Only when the underlying present obligations of a financial liability are relieved totally or partly may the financial liability be derecognized accordingly.

3. Recognition criteria and measurement method of financial assets transfer
Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset, it derecognizes the financial asset, and any right or liability arising from such transfer is recognized independently as an asset or a liability. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the Company does not retain its control over the financial asset, it derecognizes the financial asset, and any right or liability arising from such transfer is recognized independently as an asset or a liability; (2) if the Company retains

its control over the financial asset, according to the extent of its continuing involvement in the transferred financial asset, it recognizes the related financial asset and recognizes the relevant liability accordingly.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following two items are included in profit or loss: (1) the carrying amount of the transferred financial asset as of the date of derecognition; (2) the sum of consideration received from the transfer of the financial asset, and the accumulative amount of the changes of the fair value originally included in other comprehensive income proportionate to the transferred financial asset (financial assets transferred refer to debt instrument investments at fair value through other comprehensive income). If the transfer of financial asset partially satisfies the conditions to derecognition, the entire carrying amount of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the amounts of the following two items are included into profit or loss: (1) the carrying amount of the portion which is derecognized; (2) the sum of consideration of the portion which is derecognized, and the portion of the accumulative amount of the changes in the fair value originally included in other comprehensive income which is corresponding to the portion which is derecognized (financial assets transferred refer to debt instrument investments at fair value through other comprehensive income).

4. Fair value determination method of financial assets and liabilities

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The inputs to valuation techniques used to measure fair value are arranged in the following hierarchy and used accordingly:

(1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

(2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, for example, interest rates and yield curves observable at commonly quoted intervals; market-corroborated inputs;

(3) Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company’s own data, etc.

5. Impairment of financial instruments

(1) Measurement and accounting treatment

The Company, on the basis of expected credit loss, recognizes loss allowances of financial assets at amortized cost, debt instrument investments at fair value through other comprehensive income, lease receivable, loan commitments other than financial liabilities at fair value through profit or loss, financial guarantee contracts not belong to financial liabilities at fair value through profit or loss or financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

Expected credit losses refer to the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss refers to the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. Among which, purchased or originated credit-impaired financial assets are discounted at the credit-adjusted effective interest rate.

At the balance sheet date, the Company shall only recognize the cumulative changes in the lifetime expected credit losses since initial recognition as a loss allowance for purchased or originated credit-impaired financial assets.

For accounts receivable that do not contain a significant financing component or financing components in contracts with associated period less than one year that are not considered by the Company, the Company chooses simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

For lease receivables and accounts receivable that contain a significant financing component, the Company chooses simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses.

For financial assets other than the above, on each balance sheet date, the Company shall assess whether the credit risk on the financial instrument has increased significantly since initial recognition. The Company shall measure the loss allowance for the financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition; otherwise, the Company shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit loss.

Considering reasonable and supportable forward-looking information, the Company compares the risk of a default occurring on the financial instrument as at the balance sheet date with the risk of a default occurring on the financial instrument as at the date of initial recognition, so as to assess whether the credit risk on the financial instrument has increased significantly since initial recognition.

The Company may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have relatively low credit risk at the balance sheet date.

Basis for determining whether a financial instrument has defaulted shall be consistent with the internal credit risk management objectives for relevant financial instrument, in combination with quantitative and qualitative indicators.

Basis for determining whether a financial instrument is credit-impaired shall be consistent with the internal credit risk management objectives for relevant financial instrument, in combination with quantitative and qualitative indicators. A financial asset is credit-impaired when one or more following events have occurred:

1) the debtor is in breach of contract, such as defaulting or overdue payment of interest or principal;

2) the debtor has major financial difficulties;

3) the creditor makes concessions due to the financial difficulties of the debtor;

4) the debtor is likely to go bankrupt or other financial reorganization;

5) a financial asset is purchased or generated at a substantial discount, which reflects the credit impairment loss;

6) the active market of relevant financial assets disappears due to the debtor's financial difficulties;

7) the issuer of the bond or the latest external rating of the bond has default status.

The Company shall estimate expected credit risk and measure expected credit losses on an individual or a collective basis. When the Company adopts the collective basis, financial instruments are grouped with similar credit risk features.

Please refer to section IX (II) in the notes to the financial statements for details on criterial for division of three stages, measurement method and parameters.

The Company shall remeasure expected credit loss on each balance sheet date, and increased or reversed amounts of loss allowance arising therefrom shall be included into profit or loss as impairment losses or gains. For a financial asset measured at amortized cost, the loss allowance reduces the carrying amount of such financial asset presented in the balance sheet; for a debt investment measured at fair value through other comprehensive income, the loss allowance shall be recognized in other comprehensive income and shall not reduce the carrying amount of such financial asset.

(2) Financial instruments with expected credit risk assessed and expected credit losses measured on a collective basis

Items	Basis for determination of portfolio	Method for measuring expected credit loss
Loans to clients for buying securities	Nature of business and risk characteristics	Based on whether a financial instrument has a significant increase in credit risk since initial recognition and whether it is credit-impaired, the Company measures loss allowance based on the amount of 12-month or lifetime expected credit loss. In the measurement of expected credit loss, the forward-looking information is fully considered. The expected credit loss is the result of discounting the product of probability of default, loss given default and exposure at default after taking the forward-looking information into account.
Securities lending to clients	Nature of business and risk characteristics	
Financial assets under reverse repo	Nature of business and risk characteristics	
Other debt investments	Nature of business and risk characteristics	
Other receivables – Portfolio with no credit risk	Nature of business and risk characteristics	Based on historical credit loss experience, the current situation and the forecast of future economic conditions, the Company calculates expected credit loss through exposure at default and 12-month or lifetime expected credit loss rate, which is 0%.
Other receivables - portfolio grouped with ages	Ages	Based on historical credit loss experience, the current situation and the forecast of future economic conditions, the Company calculates expected credit loss through exposure at default and 12-month or lifetime expected credit loss rate.

(3) Financial instruments with expected credit losses measured on a collective basis

Items	Basis for determination of portfolio	Method for measuring expected credit loss
Other receivables – Portfolio with no credit risk	Nature of business and risk characteristics	For accounts receivable arising from securities liquidation, management fees and custody fees, performance rewards and commission receivable of securities companies as managers or custodians, no provision is made as the credit risk is not significant

6. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, the Company offsets a financial asset and a financial liability and presents the net amount in the balance sheet when, and only when, the Company: (a) currently has a legally enforceable right to set off the recognized amounts; and (b) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

For a transfer of a financial asset that does not qualify for derecognition, the Company does not offset the transferred asset and the associated liability.

(XI) Securities underwriting business

The Company's securities underwriting patterns include stand-by underwriting and best-efforts underwriting. Under the stand-by underwriting, the undigested securities are accounted for as held-for-trading financial assets at an agreed issue price.

Expenses on startup phase of a project are recognized to profit or loss when it is incurred. After the project is approved and initiated, the individually identifiable expense is accounted for as pending changeover underwriting fee which is carried forward to profit or loss upon completion of the offering. Expenses related to projects failed in offering are recognized to profit or loss.

(XII) Accounting method for reverse repos and repos

Transaction under reverse repo refers to purchasing related assets (including bonds and notes) from counterparties at a fixed price under a contract or agreement, and reselling the same financial products at agreed prices on the expiration date of the contract or agreement. Reverse repo is recorded with amounts actually paid for buying back of relevant assets and is listed under the item “financial asset under reverse repo”.

Transaction under repo refers to selling related assets (including bonds and notes) to counterparties at a fixed price under a contract or agreement, and repurchasing the same financial products at agreed prices on the expiration date of the contract or agreement. Repo is recorded with amounts actually received from selling and repurchasing of relevant assets and is listed under the item “financial liabilities under repo”. The financial products sold are still listed in the Company’s balance sheet according to the original classification and are accounted for in accordance with the relevant accounting policies.

The interest income and payment of reverse repo and repo is recognized in the period of resale or repurchase using the effective interest rate. If there is little difference between the effective interest rate and the contract interest rate, the contract interest rate will be implemented.

(XIII) Client asset management business

Client asset management business includes directional asset management business, collective asset management business and special asset management business.

Each different asset management plan on the basis of product managed by the Company is regarded as an accounting entity which sets up account books, performs bookkeeping and prepares financial statements independently. Different asset management plans are independent in registration, setting up of accounts, capital allocation and bookkeeping. Collective asset management plans are calculated in accordance with the accounting methods of the asset management association and are evaluated at fair value at each valuation date.

Assets and liabilities formed by the asset management business are not reflected in the Company’s balance sheet, but listed in the notes to the financial statements. Please refer to section V (IV) 4 in the notes to the financial statements for details.

(XIV) Margin trading and short selling business

Margin trading and short selling business refers to business activities in which the Company lends funds to clients for buying securities or lends securities to them for sale, on the condition that the corresponding collaterals are provided by clients. The Company's margin trading and short selling activity includes financing activity and securities lending activity.

Financing activity shall be accounted for in accordance with the relevant provisions of "CASBE 22 - Recognition and Measurement of Financial Instruments". As for the funds lent, creditor's right receivable and corresponding interest income should be recognized.

As for securities lending activity, securities lent shouldn't be derecognized in accordance with "CASBE 23 - Transfer of Financial Assets", and corresponding interest income should be recognized.

When the Company carries out margin trading and short selling and buys and sells securities on behalf of clients, such activity is accounted for as securities brokerage activity.

The Company reasonably estimates the possible losses in the future based on the lending capital and probability of default, and fully reflects the performance risk of the lent funds and securities funds.

(XV) Accounting method for refinancing business

When funds or securities are financed via refinancing business of 中国证券金融股份有限公司 (China Securities Finance Co., Ltd.*), the financed funds are recognized as an asset, and a liability to the lender is recognized. The interest expense arising from refinancing business is included into profit or loss; however, the financed securities are not included into the balance sheet, as the Company is not the primary beneficiary or undertaker of gains or risks in respect to the securities.

(XVI) Non-current assets or disposal groups classified as held for sale

1. Classification of non-current assets or disposal groups as held for sale

Non-current assets or disposal groups are accounted for as held for sale when the following conditions are all met: a. the asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets or disposal groups; b. its sales must be highly probable, i.e., the Company has made a decision on the sale plan and has obtained a firm purchase commitment, and the sale is expected to be completed within one year.

When the Company acquires a non-current asset or disposal group with a view to resale, it shall classify the non-current asset or disposal group as held for sale at the acquisition date only if the requirement of "expected to be completed within one year" is met at that date and it is highly probable that other criteria for held for sale will be met within a short period (usually within three months).

An asset or a disposal group is still accounted for as held for sale when the Company remains committed to its plan to sell the asset or disposal group in the circumstance that non-related party

* *The English name is for identification purpose only.*

transactions fail to be completed within one year due to one of the following reasons: a. a buyer or others unexpectedly set conditions that will extend the sale period, while the Company has taken timely actions to respond to the conditions and expects a favorable resolution of the delaying factors within one year since the setting; (2) a non-current asset or disposal group classified as held for sale fails to be sold within one year due to rare cases, and the Company has taken action necessary to respond to the circumstances during the initial one-year period and the criteria for held for sale are met.

2. Measurement of non-current assets or disposal groups as held for sale

(1) Initial measurement and remeasurement

For initial measurement and remeasurement as at the balance sheet date of a non-current asset or disposal group as held for sale, where the carrying amount is higher than the fair value less costs to sell, the carrying amount is written down to the fair value less costs to sell, and the write-down is recognized in profit or loss as assets impairment loss, meanwhile, provision for impairment of assets as held for sale shall be made.

For a non-current asset or disposal group classified as held for sale at the acquisition date, the asset or disposal group is measured on initial recognition at the lower of its initial measurement amount had it not been so classified and fair value less costs to sell. Apart from the non-current asset or disposal group acquired through business combination, the difference arising from the initial recognition of a non-current asset or disposal group at the fair value less costs to sell shall be included into profit or loss.

The assets impairment loss recognized for a disposal group as held for sale shall reduce the carrying amount of goodwill in the disposal group first, and then reduce its carrying amount based on the proportion of each non-current asset's carrying amount in the disposal group.

No provision for depreciation or amortization shall be made on non-current assets as held for sale or non-current assets in disposal groups as held for sale, while interest and other expenses attributable to the liabilities of a disposal group as held for sale shall continue to be recognized.

(2) Reversal of assets impairment loss

When there is a subsequent increase in fair value less costs to sell of a non-current asset as held for sale at the balance sheet date, the write-down shall be recovered, and shall be reversed not in excess of the impairment loss that has been recognized after the non-current asset was classified as held for sale. The reversal shall be included into profit or loss. Assets impairment loss that has been recognized before the classification is not reversed.

When there is a subsequent increase in fair value less costs to sell of a disposal group as held for sale at the balance sheet date, the write-down shall be recovered, and shall be reversed not in excess of the non-current assets impairment loss that has been recognized after the disposal group was classified as held for sale. The reversal shall be included into profit or loss. The reduced carrying amount of goodwill and non-current assets impairment loss that has been recognized before the classification is not reversed.

The subsequent reversal of the impairment loss that has been recognized in a disposal group as held for sale, the carrying amount is increased based on the proportion of carrying amount of each non-current assets (excluding goodwill) in the disposal group.

(3) Non-current asset or disposal group that is no longer classified as held for sale and derecognized
A non-current asset or disposal group that does not met criteria for held for sale and no longer classified as held for sale, or a non-current asset that removed from a disposal group as held for sale shall be measured at the lower of: a. its carrying amount before it was classified as held for sale, adjusted for any depreciation. Amortization or impairment that would have been recognized had it not been classified as held for sale; and b. its recoverable amount.

When a non-current asset or disposal group classified as held for sale is derecognized, unrecognized gains or losses shall be included into profit or loss.

(XVII) Long-term equity investments
1. Judgment of joint control and significant influence
Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

2. Determination of investment cost
(1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investment and the carrying amount of the combination consideration paid or the par value of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “bundled transaction”.

If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, investment cost is initially recognized at the share of the carrying amount of net assets of the combined party included the consolidated financial statements of the ultimate controlling party. The difference between the acquisition-date investment cost of long-term equity investments and the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

(2) For business combination not under common control, investment cost is initially recognized at the acquisition-date fair value of considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages, the Company determined whether they are stand-alone financial statements or consolidated financial statements in accounting treatment:
1) In the case of stand-alone financial statements, investment cost is initially recognized at the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity.

2) In the case of consolidated financial statements, the Company determines whether it is a "bundled transaction".

If it is a "bundled transaction", stages as a whole are considered as one transaction in accounting treatment. If it is not a "bundled transaction", the carrying amount of the acquirer's previously held equity interest in the acquire is remeasured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognized in investment income; when the acquirer's previously held equity interest in the acquire involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from remeasurement of defined benefit plan of the acquiree.

(3) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to "CASBE 12 - Debt Restructuring"; and that obtained through non-cash assets exchange is determined according to "CASBE 7 - Non-cash Assets Exchange".

3. Subsequent measurement and recognition method of gain or loss
For long-term equity investment with control relationship, it is accounted for with cost method; for long-term equity investment with joint control or significant influence relationship, it is accounted for with equity method.

4. Disposal of a subsidiary in stages resulting in the Company's loss of control
(1) Stand-alone financial statements
The difference between the carrying amount of the disposed equity and the consideration obtained

thereof is recognized in profit or loss. If the disposal does not result in the Company's loss of significant influence or joint control, the remained equity is accounted for with equity method; however, if the disposal results in the Company's loss of control, joint control, or significant influence, the remained equity is accounted for according to "CASBE 22 – Financial Instruments: Recognition and Measurement."

(2) Consolidated financial statements

1) Disposal of a subsidiary in stages not qualified as "bundled transaction" resulting in the Company's loss of control

Before the Company's loss of control, the difference between the disposal consideration and the proportionate share of net assets in the disposed subsidiary from acquisition date or combination date to the disposal date is adjusted to capital reserve (capital premium), if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When the Company loses control, the remained equity is remeasured at the loss-of-control-date fair value. The aggregated value of disposal consideration and the fair value of the remained equity, less the share of net assets in the disposed subsidiary held before the disposal from the acquisition date or combination date to the disposal date is recognized in investment income in the period when the Company loses control over such subsidiary, and meanwhile goodwill is offset correspondingly. Other comprehensive income related to equity investments in former subsidiary is reclassified as investment income upon the Company's loss of control.

2) Disposal of a subsidiary in stages qualified as "bundled transaction" resulting in the Company's loss of control

In case of "bundled transaction", stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. Before the Company loses control, the difference between the disposal consideration at each stage and the proportionate share of net assets in the disposed subsidiary is recognized as other comprehensive income at the consolidated financial statements and reclassified as profit or loss in the period when the Company loses control over such subsidiary.

(XVIII) Investment property

1. Investment property includes land use right of rented-out property and of property held for capital appreciation and buildings that have been leased out.

2. The initial measurement of investment property is based on its cost, and subsequent measurement is made using the cost model, the depreciation or amortization method is the same as those of fixed assets and intangible assets.

(XIX) Fixed assets

1. Recognition principles of fixed assets

Fixed assets are tangible assets held for use in the production of goods or rendering of services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year. Fixed assets are recognized if, and only if, it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the assets can be measured reliably.

2. Depreciation method of different categories of fixed assets

Categories	Depreciation method	Useful life (years)	Estimated residual value proportion (%)	Annual depreciation rate (%)
Buildings and structures	Straight-line method	30-35	3	3.23-2.77
Electronic equipment	Straight-line method	3-5	3	32.33-19.40
Machinery	Straight-line method	5-10	3	19.40-9.70
Transport facilities	Straight-line method	4-6	3	24.25-16.17
Office equipment	Straight-line method	3-6	3	32.33-16.17

(XX) Construction in progress

1. Construction in progress is recognized if, and only if, it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designed usable conditions.

2. Construction in progress is transferred into fixed assets at its actual cost when it reaches its designed usable conditions. When the construction completion cost reaches final estimating and auditing of the construction in progress was not finished while reaching the designed usable conditions, it is transferred to fixed assets using estimated value first, and then adjusted accordingly when the actual cost is settled, but the accumulated depreciation is not to be adjusted retrospectively.

(XXI) Intangible assets

1. Intangible asset includes land use right, non-patent technology, etc. The initial measurement of intangible asset is based on its cost.

2. For intangible assets with finite useful lives, its amortization amount is amortized within its useful lives systematically and reasonably, if it is unable to determine the expected realization pattern reliably, intangible assets are amortized by the straight-line method with details as follows:

Items	Amortization period (years)
Trading seat fee	10
Software	3
Land use right	39.5

Intangible assets with indefinite useful life are not amortized, but their useful life is reviewed annually.

(XXII) Impairment of part of long-term assets

For long-term assets such as long-term equity investments, investment property at cost model, fixed assets, construction in progress, and intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of groups of assets.

When the recoverable amount of such non-current assets is lower than their carrying amount, the difference is recognized as assets impairment loss through profit or loss.

(XXIII) Long-term prepayments

Long-term prepayments are expenses that have been recognized but with amortization period over one year (excluding one year). They are recorded with actual cost, and evenly amortized within its beneficiary period or stipulated period. If items of long-term prepayments fail to be beneficial to the following accounting periods, residual values of such items are included in profit or loss.

(XXIV) Employee benefits

1. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

2. Short-term employee benefits

The Company recognizes, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

3. Post-employment benefits

The Company classifies post-employment benefit plans as either defined benefit plans or defined benefit plans.

(1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined benefit plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.

(2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:

1) In accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. The Company discounts obligations under the defined benefit plan using the

discount rate to determine the present value of the defined benefit plan obligations and the current service cost;

2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;

3) At the end of reporting period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. changes as a result of remeasurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

4. Termination benefits

Termination benefits provided to employees are recognized as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates: a. when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or b. when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

5. Other long-term employee benefits

When other long-term employee benefits provided by the Company to the employees satisfied the conditions for classifying as a defined benefit plan, those benefits are accounted for in accordance with the requirements relating to defined benefit plan. The Company recognizes and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to defined benefit plan. At the end of the reporting period, the Company recognizes the components of cost of employee benefits arising from other long-term employee benefits as the followings: a. service cost; b. net interest on the net liability or net assets of other long-term employee benefits; and c. changes as a result of remeasurement of the net liability or net assets of other long-term employee benefits. As a practical expedient, the net total of the aforesaid amounts is recognized in profit or loss or included in the cost of a relevant asset.

(XXV) Provisions

1. Provisions are recognized when fulfilling the present obligations arising from contingencies such as providing guarantee for other parties, litigation, onerous contract, etc., may cause the outflow of the economic benefit and such obligations can be reliably measured.

2. The initial measurement of provisions is based on the best estimated expenditures required in

fulfilling the present obligations, and its carrying amount is reviewed at the balance sheet date.

(XXVI) Revenue

1. Handling charges and commission income

Handling charges and commission income is recognized when it is probable that the economic benefits will flow to the Company, relate revenue can be measured reliably, and specific revenue recognition standards for the following business activities are met:

(1) Brokerage business

Handing charges from acting trading securities business and futures brokerage business shall be recognized on the transaction date.

(2) Investment banking business

Revenue from underwriting services is recognized according to its underwriting patterns: 1) for firm-commitment underwriting, revenue is recognized at the excess of the issue price over the underwriting price at the time of reselling securities to the investors; 2) for stand-by underwriting or best-efforts underwriting, commission income from securities underwriting is recognized at the time of settling accounts with issuers when the offering period is over.

Revenue from sponsorship business and financial consulting are recognized when the outcome of the transaction can be estimated reliably based on the revenue recognition principle for rendering of services.

(3) Asset management and fund management business

When the asset management contract or fund expires or when the Company regularly settles gains or losses with the clients, revenue from asset management and fund management services is recognized as profit or loss pursuant to the entitled gains or obligated losses calculated by the ways and the proportion of revenue distribution as agreed in the contract.

(4) Investment consulting business

Revenue from investment consulting business shall be recognized when the outcome of the transaction can be estimated reliably based on the revenue recognition principle for rendering of services.

(5) Revenue from proxy cashing bonds

When engaged by clients to cash the matured bonds they issued, the Company recognizes the revenue when the cashing agency services are completed.

2. Interest income

Interest income is measured using the effective interest rate for all financial instruments measured at amortized cost and the interest-bearing financial instruments in the financial assets at fair value through other comprehensive income. The effective interest rate refers to the interest rate at which the expected future cash inflows or outflows of a financial instrument is discounted to the book balance of the financial asset or the amortized cost of the financial liability based on the expected duration of the financial instrument. The calculation of the effective interest rate takes into account the contractual terms of the financial instrument (such as prepayment privilege) and includes all costs attributable to the component of the effective interest rate and all transaction costs, but does not include expected credit losses.

Interest income is calculated based on the book balance of financial assets multiplied by the effective interest rate, and is presented under “interest income” in the income statement, except: (1) for a purchased or originated credit-impaired financial asset, the interest income is determined based on its amortized cost and credit-adjusted effective interest rate since the initial recognition; and (2) for a financial asset that does not impaired when purchased or originated but impaired in consequent period, the interest income is determined based on its amortized cost (i.e. net amount of book balance less provision for credit loss impairment) and effective interest rate. If the impairment of such financial asset no longer exist due to improvement of credit risks in consequent period and this improvement can be objectively related to a certain event after application of the above rules, interest income is determined based on the book balance of such financial asset and the effective interest rate.

3. Revenue arising from use by others of assets

Revenue arising from use by others of assets is recognized if, and only if, it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably.

(XXVII) Government grants

1. Government grants shall be recognized if, and only if, the following conditions are all met: (1) the Company will comply with the conditions attaching to the grants; (2) the grants will be received. Monetary government grants are measured at the amount received or receivable. Non-monetary government grants are measured at fair value, and can be measured at nominal amount in the circumstance that fair value can’t be assessed.

2. Government grants related to assets

Government grants related to assets are government grants with which the Company construct or otherwise acquire long-term assets under requirements of government. In the circumstances that there is no specific government requirement, the Company shall determine based on the primary condition to acquire the grants and government grants related to assets are government grants whose primary condition is to construct or otherwise acquire long-term assets. They offset carrying amount of relevant assets or recognized as deferred income. If recognized as deferred income, they are included in profit or loss on a systematic basis over the useful lives of the relevant assets. Those measured at notional amount is directly included into profit or loss. For assets sold, transferred, disposed or damaged within the useful lives, balance of unamortized deferred income is transferred into profit or loss of the year in which the disposal occurred.

3. Government grants related to income

Government grants related to income are government grants other than those related to assets. For government grants that contain both parts related to assets and parts related to income, in which those two parts are blurred and thus collectively classified as government grants related to income. For government grants related to income used for compensating the related future cost, expenses or losses of the Company are recognized as deferred income and are included in profit or loss or offset relevant cost during the period in which the relevant cost, expenses or losses are recognized; for government grants related to income used for compensating the related cost, expenses or losses incurred to the Company, they are directly included in profit or loss or directly offset relevant cost.

4. Government grants related to the ordinary course of business shall be included into other income or offset relevant cost based on business nature, while those not related to the ordinary course of business shall be included into non-operating revenue or expenditures.

(XXVIII) Deferred tax assets/Deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.

2. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference. At the balance sheet date, if there is any exact evidence that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized.

3. At the balance sheet date, the carrying amount of deferred tax assets is reviewed. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable income will be available.

4. The income tax and deferred tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (1) business combination; and (2) the transactions or items directly recognized in equity.

(XXIX) Leases

1. Operating lease

When the Company is the lessee, lease payments are recognized as cost or profit or loss with straight-line method over the lease term. Initial expenses are recognized directly into profit or loss.

Contingent rents are charged as profit or loss in the periods in which they are incurred.

When the Company is the lessor, lease income is recognized as profit or loss with straight-line method over the lease term. Initial expenses, other than those with material amount and eligible for capitalization which are recognized as profit or loss by installments, are recognized directly as profit or loss. Contingent rents are charged as profit or loss in the periods in which they are incurred.

2. Finance leases

When the Company is the lessee, at the commencement of the lease term, lessees recognize finance leases as assets and liabilities in their balance sheets at amounts equal to the lower of fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease, and recognize the minimum lease payments as the entering value of long-term payable, and treat the difference of the two as unrecognized finance expense. Any initial direct costs of the lessee are added to the amount recognized as an asset. The effective interest method is used to recognize finance expense of the period during the lease term.

When the Company is the lessor, at the commencement of the lease, lessor recognizes the aggregate of minimum lease receipts and initial direct costs, each determined at the inception of the lease, as the entering value of finance lease receivables, and recognize the unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values is recognized as unrealized finance income. The effective interest method is used to recognize finance income of the period during the lease term.

(XXX) General risk reserve and trading risk reserve

The Company accrues general risk reserve and trading risk reserve at 10% of the net profit generated in the current period respectively.

(XXXI) Segment reporting

Operating segments are determined based on the structure of the Company’s internal organization, management requirements and internal reporting system. An operating segment is a component of the Company that:

1. engages in business activities from which it may earn revenues and incur expenses;

2. whose financial performance are regularly reviewed by Management to make decisions about resource to be allocated to the segment and assess its performance; and

3. for which financial information regarding financial position, financial performance and cash flows is available.

(XXXII) Other significant accounting policies and estimates

1. Recognition criteria and accounting treatment of discontinued operations

A component of the Company that has been disposed of, or is classified as held for sale, or can be clearly distinguished is recognized as a discontinued operation when it fulfills any of the following conditions:

(1) it represents a separate major line of business or a separate geographical area of operations;

(2) it is part of a related plan to dispose of a separate major line of business or a separate geographical area of operations; or

(3) it is a subsidiary acquired exclusively with a review to resale.

2. Basis of the adoption of hedge accounting and its accounting treatment

(1) Hedge refers to fair value hedge.

(2) A hedging relationship qualifies for hedge accounting if all of the following conditions are met: 1) the hedging relationship consists only of eligible hedging instruments and eligible hedged instruments; 2) at the inception of the hedge there is formal designation of hedging instruments and hedged item, and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge; 3) the hedging relationship meets the hedging effectiveness requirements.

The Company recognizes that the hedging relationship meets effectiveness requirements if the all of the followings are simultaneously satisfied: a. there is an economic relationship between the hedged item and the hedging instruments; b. the effect of credit risk does not dominate the value changes that result from that economic relationship between the hedged item and the hedging instruments; and c. the hedge ratio of the hedging relationship is the same as the ratio of the quantity of the hedged item that the Company actually hedges and the number of hedging instruments that the Company actually uses to hedge that quantity of hedged item, but does not reflect an imbalance between the weightings of the hedged item and the hedging instrument.

The Company shall assess whether a hedging relationship meets the hedge effectiveness requirements at inception and on an ongoing basis. If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the hedging relationship shall be rebalanced.

(3) Hedge accounting

1) Gain or loss on the hedging instrument shall be recognized in profit or loss (or other comprehensive income, if the hedging instrument hedges a non-trading equity instrument (or a component thereof) at fair value through other comprehensive income).

2) The gain or loss on hedged item arising from risk exposure should be recognized in profit or loss, and meanwhile, the carrying amount of the hedged item which is not measured at fair value should be adjusted. If the hedged item is a financial asset (or a component thereof) that is

measured at fair value through other comprehensive income in accordance with article XVIII in "CASBE 22 - Financial Instruments: Recognition and Measurement", the gain or loss arising from the risk exposure on the hedged item shall be recognized in profit or loss, with carrying amount unadjusted for it has already been measured at fair value; if the hedged item is a non-trading equity instrument (or a component thereof) for which the Company has elected to present changes at fair value through other comprehensive income, the gain or loss arising from the risk exposure on the hedged item shall be recognized in profit or loss, with carrying amount unadjusted for it has already been measured at fair value.

When a hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gain or loss recognized in profit or loss. When a firm commitment is performed to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability is adjusted to include the cumulative change in fair value of the hedged item that was previously recognized.

For a hedged item that is a financial instrument (or a component thereof) measured at amortized cost, any adjustment on the carrying amount of the hedged item shall be amortized to profit or loss based on a recalculated effective interest rate at the date that amortization begins. In the case of a financial asset (or a component thereof) that is a hedged item and that is measured at fair value through other comprehensive income in accordance with article XVIII in "CASBE 22 - Financial Instruments: Recognition and Measurement", amortization applies in the same manner but to the amount that represents the cumulative gain or loss previously recognized, which shall be subsequently recognized in profit or loss, instead of by adjusting the carrying amount.

(XXXIII) Changes in accounting policies arising from changes in CASBEs

Changes in accounting policies arising from changes in CASBEs

1. The Company prepared the financial statements for the year ended December 31, 2019 in accordance with "Notice of the Ministry of Finance on Revising and Issuing 2018 Financial Statement Templates for Financial Enterprises" (numbered Cai Kuai [2018] 36), and CASBEs.

2. The Company has adopted "CASBE 22 – Recognition and Measurement of Financial Instrument", "CASBE 23 – Transfer of Financial Assets", "CASBE 24 - Hedging" and "CASBE 37 - Presentation of Financial Instruments" (collectively, the "revised financial instrument standards") revised by Ministry of Finance of PRC since January 1, 2019. Pursuant to regulations on convergence between original and revised standards, no adjustment shall be made on comparable information, and the difference arising from adoption on the adopting date shall be retrospectively adjusted into retained earnings or other comprehensive income at the beginning of the reporting period.

The revised financial instrument standard changes classification and measurement method of financial assets, and determines three categories of measurement: amortized cost; fair value through other comprehensive income; fair value through profit or loss. The Company makes the above classification based on its own business model and the contractual cash flow characteristics of the financial assets. The Company measures equity investments at fair value through profit or loss, but may make an irrevocable election at initial recognition to measure non-trading equity investments at fair value through other comprehensive income (gains or losses on disposal can't be reversed into profit or loss, but dividend income can be included into profit or loss).

The revised financial instrument standards require for an "expected credit loss model" instead of "incurred loss model", which is applicable to financial assets at amortized cost, financial assets at fair value through other comprehensive income, and leases receivable.

(1) Main effects on the financial statements as at January 1, 2019 due to adoption of revised financial instrument standards are as follows:

Items	Balance sheet		
	Dec. 31, 2018	Effect due to revised financial instrument standards	Jan. 1, 2019
Loans to clients for buying securities	8,489,617,468.51	69,591,824.72	8,559,209,293.23
Interest receivable	675,472,048.73	-675,472,048.73	
Financial assets under reverse repo	2,140,370,993.16	-53,507,531.46	2,086,863,461.70
Financial assets at fair value through profit or loss	27,115,564,078.34	-27,115,564,078.34	
Held-for-trading financial assets		17,757,776,032.47	17,757,776,032.47
Available-for-sale financial assets	6,364,865,695.37	-6,364,865,695.37	
Other debt investments		14,029,225,758.72	14,029,225,758.72
Other equity instrument investments		2,450,423,220.74	2,450,423,220.74
Deferred tax assets	435,023,792.13	1,187,187.09	436,210,979.22
Other assets	1,078,309,769.23	-74,011,879.00	1,004,297,890.23
Short-term financing payable	2,341,310,000.00	40,992,920.54	2,382,302,920.54
Loans from other financial institutions	500,000,000.00	522,222.16	500,522,222.16
Held-for-trading financial liabilities		1,941,785,823.23	1,941,785,823.23
Financial liabilities at fair value through profit or loss	1,941,785,823.23	-1,941,785,823.23	
Financial liabilities under repo	16,608,204,000.00	34,828,729.05	16,643,032,729.05
Interest payable	323,901,240.46	-323,901,240.46	
Bonds payable	13,237,045,789.14	247,557,368.71	13,484,603,157.85

Items	Balance sheet		
	Dec. 31, 2018	Effect due to revised financial instrument standards	Jan. 1, 2019
Deferred tax liabilities	13,490,413.70	-12,346,363.71	1,144,049.99
Other comprehensive income	-328,397,141.19	345,897,254.91	17,500,113.72
Surplus reserve	1,023,127,927.72	-49,177,543.07	973,950,384.65
General risk reserve	1,969,275,867.04	-98,355,086.14	1,870,920,780.90
Undistributed profit	2,518,032,956.48	-215,968,700.09	2,302,064,256.39
Total equity attributable to owners of the parent company (shareholders)	18,595,408,453.08	-17,604,074.39	18,577,804,378.69
Non-controlling interest	381,556,704.87	54,733,228.94	436,289,933.81

(2) On January 1, 2019, the comparison table of categories and measuring result of the Company's financial assets and financial liabilities under revised and original financial instrument standards is as follows:

Original standards			Revised standards		
Items	Category	Carrying amount	Items	Category	Carrying amount
Cash and bank balances	Amortized cost	10,509,698,812.72	Cash and bank balances	Amortized cost	10,509,698,812.72
Settlement reserve fund	Amortized cost	3,276,097,164.20	Settlement reserve fund	Amortized cost	3,276,097,164.20
Loans to clients for buying securities	Amortized cost	8,489,617,468.51	Loans to clients for buying securities	Amortized cost	8,559,209,293.23
Derivative financial assets	Fair value through profit or loss	6,300,485.44	Derivative financial assets	Fair value through profit or loss	6,300,485.44
Financial assets under reverse repo	Amortized cost	2,140,370,993.16	Financial assets under reverse repo	Amortized cost	2,086,863,461.70
Accounts receivable	Amortized cost	52,226,037.05	Accounts receivable	Amortized cost	52,226,037.05
Interest receivable	Amortized cost	675,472,048.73			
Refundable deposits	Amortized cost	583,244,152.71	Refundable deposits	Amortized cost	583,244,152.71
Financial assets at fair value through profit or loss	Fair value through profit or loss	27,115,564,078.34	Held-for-trading financial assets	Fair value through profit or loss	17,757,776,032.47
Available-for-sale financial assets (debt instrument)	Fair value through other comprehensive income	281,311,260.00	Other debt investments	Fair value through other comprehensive income	14,029,225,758.72
Available-for-sale financial assets (equity instrument)	Fair value through other comprehensive income	5,535,819,945.46	Other equity instrument investments	Fair value through other comprehensive income (designated)	2,450,423,220.74
Available-for-sale financial assets (equity instrument)	Cost	547,734,489.91			

Original standards			Revised standards		
Items	Category	Carrying amount	Items	Category	Carrying amount
Other financial assets	Amortized cost	814,389,817.01	Other financial assets	Amortized cost	740,377,938.01
Short-term financing payable	Amortized cost	2,341,310,000.00	Short-term financing payable	Amortized cost	2,382,302,920.54
Loans from other financial institutions	Amortized cost	500,000,000.00	Loans from other financial institutions	Amortized cost	500,522,222.16
Financial liabilities at fair value through profit or loss	Fair value through profit or loss	1,941,785,823.23	Held-for-trading financial liabilities	Fair value through profit or loss	1,941,785,823.23
Derivative financial liabilities	Fair value through profit or loss	4,158,573.50	Derivative financial liabilities	Fair value through profit or loss	4,158,573.50
Financial liabilities under repo	Amortized cost	16,608,204,000.00	Financial liabilities under repo	Amortized cost	16,643,032,729.05
Acting trading securities	Amortized cost	8,678,011,388.98	Acting trading securities	Amortized cost	8,678,011,388.98
Accounts payable	Amortized cost	32,100,748.10	Accounts payable	Amortized cost	32,100,748.10
Interest payable	Amortized cost	323,901,240.46			
Bonds payable	Amortized cost	13,237,045,789.14	Bonds payable	Amortized cost	13,484,603,157.85
Other financial liabilities	Amortized cost	142,168,138.61	Other financial liabilities	Amortized cost	142,168,138.61

(3) On January 1, 2019, the reconciliation statement on the carrying amount of the financial assets and financial liabilities under revised financial instrument standards is as follows:

1) Financial assets

① Measured at amortized cost

Items	Carrying amount under original standards (Dec. 31, 2018)	Reclassification	Remeasurement	Carrying amount under revised standards (Jan. 1, 2019)
Cash and bank balances				
Balances under original and revised standards	10,509,698,812.72			10,509,698,812.72
Settlement reserve fund				
Balances under original and revised standards	3,276,097,164.20			3,276,097,164.20
Loans to clients for buying securities				
Balance under original standards	8,489,617,468.51			
Add: Transferred in from interest receivable (under original standards)		121,291,088.38		
Remeasurement: expected credit loss			-51,699,263.66	
Balance under revised standards				8,559,209,293.23
Financial assets under reverse repo				
Balance under original standards	2,140,370,993.16			
Add: Transferred in		4,816,458.02		

from interest receivable (under original standards)				
Remeasurement: expected credit loss			-58,323,989.48	
Balance under revised standards				2,086,863,461.70
Accounts receivable				
Balances under original and revised standards	52,226,037.05			52,226,037.05
Interest receivable				
Balance under original standards	675,472,048.73			
Less: Transferred out to loans to clients for buying securities		-121,291,088.38		
Less: Transferred out to loans to financial assets under reverse repo		-4,816,458.02		
Less: Transferred out to held-for-trading financial assets		-297,647,023.38		
Less: Transferred out to other debt investments		-248,029,791.40		
Less: Transferred out to other financial assets		-3,687,687.55		
Balance under revised standards				
Refundable deposits				
Balances under original and revised standards	583,244,152.71			583,244,152.71
Other financial assets				
Balance under original standards	814,389,817.01			
Add: Transferred in from interest receivable (under original standards)		3,687,687.55		
Remeasurement: expected credit loss			-77,699,566.55	
Balance under revised standards				740,377,938.01
Total financial assets measured at amortized cost	26,541,116,494.09	-545,676,814.78	-187,722,819.69	25,807,716,859.62

② Measured at fair value through profit or loss

Items	Carrying amount under original standards (Dec. 31, 2018)	Reclassification	Remeasurement	Carrying amount under revised standards (Jan. 1, 2019)
Held-for-trading financial assets				
Balance under original standards				
Add: Transferred in from financial assets at fair value through profit or loss (under original standards)		13,479,064,292.59		
Add: Transferred in from available-for-sale financial assets (under original standards)		3,769,829,741.35		

Add: Transferred in from interest receivable (under original standards)		297,647,023.38		
Remeasurement: from cost method to fair value method			211,234,975.15	
Balance under revised standards				17,757,776,032.47
Derivative financial assets				
Balances under original and revised standards	6,300,485.44			6,300,485.44
Financial assets at fair value through profit or loss				
Balance under original standards	27,115,564,078.34			
Less: Transferred out to held-for-trading financial assets (under revised standards)		-13,479,064,292.59		
Less: Transferred out to other debt investments (under revised standards)		-13,499,884,707.32		
Less: Transferred out to other equity instrument investments (under revised standards)		-136,615,078.43		
Balance under revised standards				
Total financial assets at fair value through profit or loss	27,121,864,563.78	-9,569,023,021.02	211,234,975.15	17,764,076,517.91

③ Measured at fair value through other comprehensive income

Items	Carrying amount under original standards (Dec. 31, 2018)	Reclassification	Remeasurement	Carrying amount under revised standards (Jan. 1, 2019)
Other debt investments				
Balance under original standards				
Add: Transferred in from available-for-sale financial assets (under original standards)		281,311,260.00		
Add: Transferred in from financial assets at fair value through profit or loss (under original standards)		13,499,884,707.32		
Add: Transferred in from interest receivable (under original standards)		248,029,791.40		
Balance under revised standards				14,029,225,758.72
Other equity instrument investments				
Balance under original standards				
Add: Transferred in from available-for-sale financial assets (under original standards)		2,313,724,694.02		
Add: Transferred in		136,615,078.43		

from financial assets at fair value through profit or loss (under original standards)				
Remeasurement of fair value			83,448.29	
Balance under revised standards				2,450,423,220.74
Available-for-sale financial assets				
Balance under original standards	6,364,865,695.37			
Less: Transferred out to held-for-trading financial assets (under revised standards)		-3,769,829,741.35		
Less: Transferred out to other debt investments (under revised standards)		-281,311,260.00		
Less: Transferred out to other equity instrument investments (under revised standards)		-2,313,724,694.02		
Balance under revised standards				
Total financial assets at fair value through other comprehensive income	6,364,865,695.37	10,114,699,835.80	83,448.29	16,479,648,979.46

2) Financial liabilities

① Measured at amortized cost

Items	Carrying amount under original standards (Dec. 31, 2018)	Reclassification	Remeasurement	Carrying amount under revised standards (Jan. 1, 2019)
Short-term financing payable				
Balance under original standards	2,341,310,000.00			
Add: Transferred in from interest payable (under revised standards)		40,992,920.54		
Balance under revised standards				2,382,302,920.54
Loans from other financial institutions				
Balance under original standards	500,000,000.00			
Add: Transferred in from interest payable (under revised standards)		522,222.16		
Balance under revised standards				500,522,222.16
Financial liabilities under repo				
Balance under original standards	16,608,204,000.00			
Add: Transferred in from interest payable (under revised standards)		34,828,729.05		
Balance under revised standards				16,643,032,729.05

Acting trading securities				
Balances under original and revised standards	8,678,011,388.98			8,678,011,388.98
Accounts payable				
Balances under original and revised standards	32,100,748.10			32,100,748.10
Interest payable				
Balance under original standards	323,901,240.46			
Less: Transferred out to short-term financing payable		-40,992,920.54		
Less: Transferred out to loans from other financial institutions		-522,222.16		
Less: Transferred out to financial liabilities under repo		-34,828,729.05		
Less: Transferred out to bonds payable		-247,557,368.71		
Balance under revised standards				
Bonds payable				
Balance under original standards	13,237,045,789.14			
Add: Transferred in from interest payable (under revised standards)		247,557,368.71		
Balance under revised standards				13,484,603,157.85
Other liabilities				
Balances under original and revised standards	142,168,138.61			142,168,138.61
Total financial liabilities measured at amortized cost	41,862,741,305.29			41,862,741,305.29

② Measured at fair value through profit or loss

Items	Carrying amount under original standards (Dec. 31, 2018)	Reclassification	Remeasurement	Carrying amount under revised standards (Jan. 1, 2019)
Held-for-trading financial liabilities				
Balance under original standards				
Add: Transferred in from financial liabilities at fair value through profit or loss (under revised standards)		1,941,785,823.23		
Balance under revised standards				1,941,785,823.23
Derivative financial liabilities				
Balances under original and revised standards	4,158,573.50			4,158,573.50
Financial liabilities at fair value through profit or loss				
Balance under original standards	1,941,785,823.23			
Less: Transferred out to held-for-trading		-1,941,785,823.23		

financial liabilities (under revised standards)				
Balance under revised standards				
Total Financial liabilities at fair value through profit or loss	1,945,944,396.73			1,945,944,396.73

(4) On January 1, 2019, the reconciliation statement on the provision for impairment of the financial assets under revised financial instrument standards is as follows:

Items	Provision for impairment made under original financial instrument standards/ provisions recognized under the contingencies standard (Dec. 31, 2018)	Reclassification	Remeasurement	Provision for impairment under revised standards (Jan. 1, 2019)
Loans and receivables (under original standards)/Financial assets at amortized cost (under revised standards)				
Loans to clients for buying securities	15,499,062.37		51,699,263.66	67,198,326.03
Financial assets under reverse repo	7,351,768.72		58,323,989.48	65,675,758.20
Other financial assets	210,408,392.90		77,699,566.55	288,107,959.45
Available-for-sale financial assets (under original standards)/Financial assets at fair value through other comprehensive income (under revised standards)				
Financial investments	258,640,325.32	-258,640,325.32	4,576,199.95	4,576,199.95

3. The Company has adopted the revised "CASBE 7 – Non-cash Assets Exchange" since June 10, 2019, and "CASBE 12 – Debt Restructuring" since June 17, 2019, and changes in accounting policies are applicable to prospective application method.

IV. Taxes

(I) Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax (VAT)	The taxable revenue from sales of goods or rendering of services	13%, 6% or 3%
Housing property tax	For housing property levied on the basis of price, housing property tax is levied at the rate of 1.2% of the balance after deducting 30% of the cost; for housing property levied on the basis of rent, housing property tax is levied at the rate of 12% of rent revenue.	1.2% or 12%
Urban maintenance and construction tax	Turnover tax payable	7%
Education surcharge	Turnover tax payable	3%
Local education surcharge	Turnover tax payable	2%
Enterprise income tax	Taxable income	25%, 15% or 16.5%

Different enterprise income tax rates applicable to different taxpayers:

Taxpayers	Income tax rate
西南期货有限公司 (Southwest Futures Co., Ltd.*)	15%
西证股权投资有限公司 (Southwest Securities Equity Investment Co., Ltd.*)	15%
西证国际证券股份有限公司 (Southwest Securities International Securities Limited*)	16.5%
西证国际投资有限公司 (Southwest Securities International Investment Co., Ltd.*)	16.5%
Taxpayers other than the above-mentioned	25%

(II) Tax preferential policies

Pursuant to the "Notice on Implementing Preferential Tax Policies Related to Western Development Strategy" (numbered Cai Shui [2011] 58) by the Ministry of Finance, General Administration of Customs, and State Taxation Administration, P.R.C from January 1, 2011 to December 31, 2020, enterprises incorporated in western region belonging to supported industries are subject to 15% for enterprise income tax. Southwest Futures Co., Ltd. and Southwest Securities Equity Investment Co., Ltd. were temporarily subjected to 15% for enterprise income tax in 2019.

V. Notes to items of consolidated financial statements

Remarks: "Opening balance" in this report refers to balances as at January 1, 2019 after the adjustment on balances as at December 31, 2018 under the revised financial instrument standards.

(I) Notes to items of the consolidated balance sheet

1. Cash and bank balances

(1) Categories

Items	Closing balance	Opening balance
Cash on hand	44,838.97	35,623.72
Cash in bank	13,422,774,972.20	10,500,569,236.25
Including: Clients' deposit	9,789,333,913.17	7,047,317,504.84
Self-owned funds	3,633,441,059.03	3,453,251,731.41
Other cash and bank balances	1,893,104.62	9,093,952.75
Total	13,424,712,915.79	10,509,698,812.72
Including: Deposited overseas	717,085,631.43	1,011,126,637.49

(2) Details on currencies

Items	Closing balance		
	Amount in original currency	Exchange rate	RMB equivalent

* *The English names are for identification purpose only.*

Items	Closing balance		
	Amount in original currency	Exchange rate	RMB equivalent
Cash on hand:			
RMB			23,223.95
HKD	5,074.00	0.8958	4,545.29
SGD	3,299.20	5.1739	17,069.73
Subtotal			44,838.97
Cash in bank:			
Including: Clients' deposit			
RMB			9,726,633,014.79
USD	5,429,467.41	6.9762	37,877,050.55
HKD	27,711,372.88	0.8958	24,823,847.83
Subtotal			9,789,333,913.17
Self-owned funds			
RMB			2,914,017,986.79
USD	6,982,612.23	6.9762	48,712,099.44
HKD	748,413,564.87	0.8958	670,428,871.41
SGD	5,292.62	5.1739	27,383.49
AUD	29,881.30	4.8843	145,949.23
EUR	623.07	7.8155	4,869.60
GBP	3,845.45	9.1501	35,186.25
CAD	16.65	5.3421	88.95
JPY	1,070,809.00	0.064086	68,623.87
Subtotal			3,633,441,059.03
Total cash in bank			13,422,774,972.20
Other cash and bank balances:			
RMB			1,893,104.62
Subtotal			1,893,104.62
Total			13,424,712,915.79

(Continued)

Items	Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent
Cash on hand:			
RMB			2,171.94
HKD	13,487.10	0.8762	11,817.40

Items	Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent
SGD	3,388.15	5.0062	16,961.76
TWD	21,010.00	0.2224	4,672.62
Subtotal			35,623.72
Cash in bank:			
Including: Clients' deposit			
RMB			6,960,634,394.39
USD	7,680,014.59	6.8632	52,709,476.13
HKD	38,773,835.11	0.8762	33,973,634.32
Subtotal			7,047,317,504.84
Self-owned funds			
RMB			2,436,059,787.89
USD	2,838,229.23	6.8632	19,479,334.85
HKD	1,138,488,207.98	0.8762	997,543,367.83
SGD	5,004.84	5.0062	25,055.23
AUD	6,094.02	4.8250	29,403.65
EUR	628.77	7.8473	4,934.15
GBP	4,190.37	8.6762	36,356.49
CAD	33.12	5.0381	166.86
JPY	1,184,812.00	0.061887	73,324.46
Subtotal			3,453,251,731.41
Total cash in bank			10,500,569,236.25
Other cash and bank balances:			
RMB			8,779,373.17
HKD	359,027.14	0.8762	314,579.58
Subtotal			9,093,952.75
Total			10,509,698,812.72

(3) Details on credit funds of margin trading & short selling

Items	Closing balance	Opening balance
	RMB equivalent	RMB equivalent
Client credit funds:		
RMB	1,394,086,221.41	966,449,871.94
Subtotal	1,394,086,221.41	966,449,871.94
Self-owned credit funds:		

Items	Closing balance	Opening balance
	RMB equivalent	RMB equivalent
RMB	93,214,724.91	39,566,220.05
Subtotal	93,214,724.91	39,566,220.05
Total	1,487,300,946.32	1,006,016,091.99

2. Settlement reserve fund

Items	Closing balance		
	Amount in original currency	Exchange rate	RMB equivalent
Self-owned settlement reserve fund			
RMB			1,295,908,632.37
Subtotal			1,295,908,632.37
Clients' general settlement reserve fund			
RMB			1,425,159,623.01
USD	4,093,234.82	6.9762	28,555,224.75
HKD	26,725,038.26	0.8958	23,940,289.27
Subtotal			1,477,655,137.03
Clients' credit settlement reserve fund			
RMB			138,556,156.96
Subtotal			138,556,156.96
Total clients' settlement reserve fund			1,616,211,293.99
Total			2,912,119,926.36

(Continued)

Items	Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent
Self-owned settlement reserve fund			
RMB			1,088,867,017.69
Subtotal			1,088,867,017.69
Clients' general settlement reserve fund			
RMB			1,802,612,442.55
USD	3,509,109.36	6.8632	24,083,719.36
HKD	16,904,264.43	0.8762	14,811,516.49
Subtotal			1,841,507,678.40
Clients' credit settlement reserve fund			
RMB			345,722,468.11

Items	Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent
Subtotal			345,722,468.11
Total clients' settlement reserve fund			2,187,230,146.51
Total			3,276,097,164.20

3. Loans to clients for buying securities

(1) Details - Classified by categories

Items	Closing balance	Opening balance [Note]
In mainland China		
Including: Individual clients	7,690,436,148.20	6,450,497,227.54
Institutional clients	2,628,498,868.71	1,420,325,044.83
Less: Provision for impairment	32,941,656.28	66,989,639.15
Subtotal of carrying amount	10,285,993,360.63	7,803,832,633.22
Outside mainland China		
Including: Individual clients	55,611,800.19	183,841,264.93
Institutional clients	237,747,800.78	571,744,081.96
Less: Provision for impairment	1,275,714.80	208,686.88
Subtotal of carrying amount	292,083,886.17	755,376,660.01
Total	10,578,077,246.80	8,559,209,293.23

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(2) Age analysis

Ages	Closing balance			
	Book balance		Provision for bad debts	
	Amount	% to total	Amount	Provision proportion (%)
1 to 3 months	3,248,640,579.60	30.61	11,653,688.53	0.36
3 to 6 months	7,256,226,331.04	68.38	22,188,549.89	0.31
Over 6 months	107,427,707.24	1.01	375,132.66	0.35
Total	10,612,294,617.88	100.00	34,217,371.08	0.32

(Continued)

Ages	Opening balance			
	Book balance		Provision for bad-debts	
	Amount	% to total	Amount	Provision proportion (%)
1 to 3 months	2,894,597,937.09	33.56	29,385,025.24	1.02
3 to 6 months	5,066,636,722.17	58.73	37,143,067.07	0.73
Over 6 months	665,172,960.00	7.71	670,233.72	0.10
Total	8,626,407,619.26	100.00	67,198,326.03	0.78

(3) Please refer to section V (IV) 5 for details on the collateral provided by the clients to the Company for margin trading and short selling business.

4. Derivative financial assets and liabilities

(1) Details

Items	Closing balance					
	Hedging instruments			Non-hedging instruments		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivative instruments						
Interest rate swap				300,000,000.00	73,452.31	
Subtotal				300,000,000.00	73,452.31	
Equity derivative instruments						
Options				20,540.00	6,140.00	
Futures				416,714,852.07		15,884,343.01
Subtotal				416,735,392.07	6,140.00	15,884,343.01
Other derivative instruments						
Total				716,735,392.07	79,592.31	15,884,343.01

(Continued)

Items	Opening balance					
	Hedging instruments			Non-hedging instruments		
	Nominal amount	Fair value		Nominal amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivative instruments						
Interest rate swap				1,380,000,000.00		4,158,573.50
Subtotal				1,380,000,000.00		4,158,573.50
Equity derivative instruments						
Options				451,986,277.00	6,300,485.44	
Subtotal				451,986,277.00	6,300,485.44	
Other derivative instruments						
Total				1,831,986,277.00	6,300,485.44	4,158,573.50

5. Refundable deposits

Items	Closing balance			Opening balance		
	Amount in original currency	Exchange rate	RMB equivalent	Amount in original currency	Exchange rate	RMB equivalent
Trading deposit						
RMB			765,227,541.20			505,472,586.74
USD	270,000.00	6.9762	1,883,574.00	270,000.00	6.8632	1,853,064.00
HKD	4,436,272.00	0.8958	3,974,012.46	4,132,853.00	0.8762	3,621,205.80
Subtotal			771,085,127.66			510,946,856.54
Credit deposit						
RMB			12,108,638.74			11,497,585.52
Subtotal			12,108,638.74			11,497,585.52
Futures deposit						
RMB			90,393,448.00			42,833,009.35
Subtotal			90,393,448.00			42,833,009.35
Stock options deposit						
RMB			5,597,756.77			17,966,701.30
Subtotal			5,597,756.77			17,966,701.30
Total			879,184,971.17			583,244,152.71

6. Accounts receivable

(1) Details

Items	Closing balance	Opening balance
Clearing fund receivables	9,512,000.00	31,332,228.76
Asset management fees receivable	4,854,827.08	20,893,808.29
Trustee fees receivable	379,848.65	
Less: Provision for bad debts (accrued using simplified model)		
Total	14,746,675.73	52,226,037.05

(2) Details on categories

Categories	Closing balance			
	Book balance		Provision for bad debts	
	Amount	% to total	Amount	Provision proportion (%)
Receivables with provision made on a collective basis:				
Risk-free portfolio	14,746,675.73	100.00		
Total	14,746,675.73	100.00		

(Continued)

Categories	Opening balance			
	Book balance		Provision for bad debts	
	Amount	% to total	Amount	Provision proportion (%)
Receivables with provision made on a collective basis:				
Risk-free portfolio	52,226,037.05	100.00		
Total	52,226,037.05	100.00		

7. Financial assets under reverse repo

(1) Details - Classified by types of business

Items	Closing balance	Opening balance [Note 1]
Agreed repurchase transactions	35,982,014.40	367,475,112.43
Stock pledged repurchase transactions	1,479,189,174.95	1,252,225,104.29
Bond pledged repurchase transactions	164,619,945.24	532,839,003.18
Less: Provision for impairment	119,704,290.84	65,675,758.20
Total	1,560,086,843.75	2,086,863,461.70

Note 1: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(2) Details - Classified by types of financial assets

Items	Closing balance	Opening balance
Stocks	1,515,171,189.35	1,619,700,216.72
Bonds	164,619,945.24	532,839,003.18
Less: Provision for impairment	119,704,290.84	65,675,758.20
Total	1,560,086,843.75	2,086,863,461.70

(3) Loans to clients under agreed repurchase transactions

Remaining period	Closing balance	Opening balance
Within 1 month	340,819.73	30,504,549.29
1-3 months	2,991,873.07	2,007,870.65
3 months to 1 year	32,649,321.60	334,962,692.49
Subtotal	35,982,014.40	367,475,112.43

(4) Loans to clients under pledged repurchase transactions

1) Remaining period

Remaining period	Closing balance	Opening balance
Within 1 month	411,031,610.74	66,788,863.31

Remaining period	Closing balance	Opening balance
1 to 3 months	33,080,483.33	18,950,873.70
3 months to 1 year	784,522,497.55	1,023,226,026.68
Over 1 year	250,554,583.33	143,259,340.60
Subtotal	1,479,189,174.95	1,252,225,104.29

2) Credit risk exposure

Closing balance	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses (credit not impaired)	Stage 3 Lifetime expected credit losses (credit impaired)	Total
Book balance	1,204,986,571.15		274,202,603.80	1,479,189,174.95
Provision for impairment	6,975,773.97		112,603,274.50	119,579,048.47
Amount of collaterals	4,351,872,796.90		248,760,736.00	4,600,633,532.90

(Continued)

Opening balance	Stage 1 12-month expected credit losses	Stage 2 Lifetime expected credit losses (credit not impaired)	Stage 3 Lifetime expected credit losses (credit impaired)	Total
Book balance	1,021,753,761.77		230,471,342.52	1,252,225,104.29
Provision for impairment	6,707,684.48		57,500,000.00	64,207,684.48
Amount of collaterals	2,591,001,647.33		253,411,700.00	2,844,413,347.33

(5) Details of collaterals

Items	Fair value at the end of the period [Note 2]	Fair value at the beginning of the period
Collaterals	4,814,412,536.90	4,218,220,847.33
Including: Collaterals that can be sold or mortgaged again		
Including: Collaterals that have been sold or mortgaged again		

Note 2: As for the treasury bonds under reverse repo operated by the exchange, the information of the counterparty's collateral database cannot be obtained by the Company since the calculation and guarantee for full value of the collateral were conducted by the exchange, therefore, the fair value at the end of the period does not include the fair value of the collateral assets obtained by the exchange through reverse repurchase of treasury bonds. As of December 31, 2019, the balance of the above financial assets under reverse repo totaled 64,472,000.00 yuan.

8. Held-for-trading financial assets

Items	Closing balance					
	Fair value			Cost		
	Financial assets classified as at fair value through profit or loss	Financial assets designated as at fair value through profit or loss	Subtotal	Financial assets classified as at fair value through profit or loss	Financial assets designated as at fair value through profit or loss	Subtotal
Bond	11,538,683,481.06		11,538,683,481.06	11,351,398,539.36		11,351,398,539.36
Fund	2,149,658,212.45		2,149,658,212.45	2,143,110,649.46		2,143,110,649.46
Stock	2,652,027,651.38		2,652,027,651.38	2,549,738,554.59		2,549,738,554.59
Bank financial products	201,753,888.89		201,753,888.89	200,000,000.00		200,000,000.00
Asset management products of securities companies	273,927,862.18		273,927,862.18	282,869,273.60		282,869,273.60
Others	851,317,737.87		851,317,737.87	510,980,658.45		510,980,658.45
Total	17,667,368,833.83		17,667,368,833.83	17,038,097,675.46		17,038,097,675.46

(Continued)

Items	Opening balance [Note]					
	Fair value			Cost		
	Financial assets classified as at fair value through profit or loss	Financial assets designated as at fair value through profit or loss	Subtotal	Financial assets classified as at fair value through profit or loss	Financial assets designated as at fair value through profit or loss	Subtotal
Bond	11,389,851,951.92		11,389,851,951.92	11,227,548,530.74		11,227,548,530.74
Fund	1,655,124,064.47		1,655,124,064.47	1,721,268,095.30		1,721,268,095.30
Stock	2,691,847,554.70		2,691,847,554.70	3,205,419,260.85		3,205,419,260.85
Bank financial products	83,400,000.00		83,400,000.00	83,400,000.00		83,400,000.00
Asset management products of securities companies	594,646,590.77		594,646,590.77	663,294,226.15		663,294,226.15
Others	1,342,905,870.61		1,342,905,870.61	1,164,534,461.94		1,164,534,461.94
Total	17,757,776,032.47		17,757,776,032.47	18,065,464,574.98		18,065,464,574.98

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

9. Other debt investments

Items	Closing balance				
	Cost	Interest	Change of fair value	Carrying amount	Accumulated provision for impairment
Treasury bond	514,869,219.71	6,659,497.75	6,138,845.68	527,667,563.14	
Local government bond	9,440,378,918.49	156,296,930.82	200,241,578.51	9,796,917,427.82	926,084.55

Items	Closing balance				
	Cost	Interest	Change of fair value	Carrying amount	Accumulated provision for impairment
Financial bond	19,704,778.33	327,594.52	411,181.67	20,443,554.52	14,960.53
Enterprise bond	72,065,763.40	2,148,629.37	2,056,239.60	76,270,632.37	106,626.88
Corporate bond	727,926,175.69	17,296,605.50	4,794,674.31	750,017,455.50	2,200,565.55
Others	200,000,000.00	9,534,246.58	2,828,000.00	212,362,246.58	364,144.32
Total	10,974,944,855.62	192,263,504.54	216,470,519.77	11,383,678,879.93	3,612,381.83

(Continued)

Items	Opening balance [Note]				
	Cost	Interest	Change of fair value	Carrying amount	Accumulated provision for impairment
Treasury bond	459,833,800.22	6,718,626.35	5,205,089.70	471,757,516.27	
Local government bond	10,500,814,625.36	181,468,714.35	158,155,537.64	10,840,438,877.35	841,660.33
Financial bond	138,627,722.80	1,233,194.53	1,844,847.20	141,705,764.53	94,444.57
Enterprise bond	213,680,523.99	4,122,335.07	3,872,884.01	221,675,743.07	366,468.63
Corporate bond	1,919,539,933.62	49,252,504.67	19,242,972.78	1,988,035,411.07	2,748,982.31
Others	360,052,500.00	5,234,416.43	325,530.00	365,612,446.43	524,644.11
Total	13,592,549,105.99	248,029,791.40	188,646,861.33	14,029,225,758.72	4,576,199.95

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

10. Other equity instrument investments

(1) Details

Items	Closing balance		
	Cost	Fair value	Dividend income recognized in the current period
Non-trading equity instruments	3,347,226,742.03	3,317,992,713.71	154,056,330.06

(Continued)

Items	Opening balance		
	Cost	Fair value	Dividend income recognized in the current period
Non-trading equity instruments	2,663,467,583.35	2,450,423,220.74	179,401,597.75

(2) Reasons for designation of equity instrument investments as non-trading equity instrument investments at fair value through other comprehensive income

The Company designates a portion of equity instrument investments as non-trading equity instrument investments at fair value through other comprehensive income, mainly including securities investment held for strategic investments, and the specific account investment of China

Securities Finance Co., Ltd., etc.

The above-mentioned special account investment are operated and managed by China Securities Finance Co., Ltd. on a unified basis, and the Company shares investment risk and investment income based on investment proportions. As of December 31, 2019, the investment cost in such special account totaled 2,100,000,000.00 yuan, and the fair value totaled 2,153,481,293.09 yuan.

As of December 31, 2019, the cost of securities investments held for strategic investments as mentioned above was 1,247,226,742.03 yuan, with fair value of 1,164,511,420.62 yuan.

(3) Other equity instrument investments derecognized in the current period

1) Details

Items	Fair value when derecognized	Dividend income	Accumulated gains or losses transferred from other comprehensive income to retained earnings
Non-trading equity instruments	166,047,688.39	3,429,071.79	-23,149,889.63
Subtotal	166,047,688.39	3,429,071.79	-23,149,889.63

2) Reasons for derecognition of equity instrument investments

According to the changes of market environment, the Company makes relevant adjustments to the bottom position assets in order to avoid market risks.

11. Long-term equity investments

(1) Details on categories

Items	Closing balance		
	Book balance	Provision for impairment	Carrying amount
Investments in associates	2,221,648,225.35	208,252,876.04	2,013,395,349.31
Total	2,221,648,225.35	208,252,876.04	2,013,395,349.31

(Continued)

Items	Opening balance		
	Book balance	Provision for impairment	Carrying amount
Investments in associates	2,055,018,272.09	208,252,876.04	1,846,765,396.05
Total	2,055,018,272.09	208,252,876.04	1,846,765,396.05

(2) Details

Investees	Opening balance	Increase/Decrease			
		Investments increased	Investments decreased	Investment income recognized under equity method	Adjustment in other comprehensive income

Investees	Opening balance	Increase/Decrease			
		Investments increased	Investments decreased	Investment income recognized under equity method	Adjustment in other comprehensive income
Associates					
银华基金管理有限公司 (Yinhua Fund Management Co., Ltd.*)	1,735,925,396.05			253,349,054.38	249,144.96
重庆股份转让中心有限责任公司 (Chongqing Share Transfer Centre Co., Ltd.*)	110,840,000.00			16,331,743.37	
Total	1,846,765,396.05			269,680,797.75	249,144.96

(Continued)

Investees	Increase/Decrease				Closing balance	Closing balance of provision for impairment
	Changes in other equity	Cash dividend/ profit declared for distribution	Provision for impairment	Others		
Associates						
Yinhua Fund Management Co., Ltd. [Note]		100,217,010.15			1,889,306,585.24	208,252,876.04
Chongqing Share Transfer Centre Co., Ltd.		3,082,979.30			124,088,764.07	
Total		103,299,989.45			2,013,395,349.31	208,252,876.04

Note: At the balance sheet date, the Company performed an impairment test on the equity value of Yinhua Fund Management Co., Ltd. (hereinafter referred to as "Yinhua Fund") and engaged 开元资产评估有限公司 (Carea Assets Appraisal Co., Ltd.*) to evaluate. The appraisal institution issued a valuation report numbered Kai Yuan Ping Bao Zi [2020] 144 for the equity value of Yinhua Fund, using the fair value minus disposal expense method. As of December 31, 2019, as the equity value of Yinhua Fund that held by the Company is higher than its carrying amount, no provision for impairment is made in the current period.

(3) Other remarks

Remarks on significant differences between joint ventures and associates and the Company on accounting policies and estimates

Yinhua Fund and Chongqing Share Transfer Centre Co., Ltd. (hereinafter referred to as "OTC Company") temporarily have not implemented the revised financial instrument standards in the current period. The Company has not adjusted the accounting policies of the two companies while preparing the consolidated financial statements, for the following reasons:

The financial assets of Yinhua Fund mainly include cash and bank balances and financial assets measured at fair value through profit or loss, with profits mainly generated from management fees

* *The English names are for identification purpose only.*

and gains on changes in fair value. Cash and bank balances have relatively low credit risk; financial assets measured at fair value through profit or loss mainly consist of financial assets including stocks unable to pass the SPPI test, etc., of which the measurement approach is identical under the revised and original financial instrument standards. No adjustment is made in accordance with the revised financial instrument standards of Yinhua Fund, which has no significant influence on the recognition of long-term equity investments in the current period.

OTC Company is an insignificant associate, and its financial data has relatively small influence on the financial data of the Company.

12. Investment property

(1) Details

Items	Buildings and structures	Total
Cost		
Opening balance	99,456,721.04	99,456,721.04
Increase		
1) Acquisition		
Decrease	355,621.35	355,621.35
1) Disposal	355,621.35	355,621.35
Closing balance	99,101,099.69	99,101,099.69
Accumulated depreciation and amortization		
Opening balance	56,247,391.81	56,247,391.81
Increase	3,471,452.05	3,471,452.05
1) Accrual/Amortization	3,471,452.05	3,471,452.05
Decrease	164,391.53	164,391.53
1) Disposal	164,391.53	164,391.53
Closing balance	59,554,452.33	59,554,452.33
Provision for impairment		
Opening balance	7,491,322.43	7,491,322.43
Increase		
1) Accrual		
Decrease		
1) Disposal		
Closing balance	7,491,322.43	7,491,322.43
Carrying amount		
Closing balance	32,055,324.93	32,055,324.93
Opening balance	35,718,006.80	35,718,006.80

(2) Investment property with certificate of titles being unsettled

Items	Carrying amount	Reasons for unsettlement
Buildings and structures	3,110,117.32	In processing
Subtotal	3,110,117.32	

13. Fixed assets

(1) Carrying amount

Items	Closing balance	Opening balance
Cost	777,926,871.98	769,030,656.59
Less: Accumulated depreciation	480,686,892.54	448,397,957.23
Provision for impairment	7,125,166.62	7,125,166.62
Total	290,114,812.82	313,507,532.74

(2) Details of increase or decrease

Items	Buildings and structures	Electronic equipment	Machinery	Transport facilities	Office equipment	Total
Cost						
Opening balance	441,855,431.92	252,930,623.06	8,864,331.35	36,827,494.80	28,552,775.46	769,030,656.59
Increase	221,134.13	15,690,308.67	93,732.70		882,794.23	16,887,969.73
1) Acquisition	221,134.13	15,690,308.67	93,732.70		882,794.23	16,887,969.73
Decrease		4,283,602.58	135,985.00	2,891,790.70	680,376.06	7,991,754.34
1) Disposal/Scrapping		4,283,602.58	135,985.00	2,891,790.70	680,376.06	7,991,754.34
Closing balance	442,076,566.05	264,337,329.15	8,822,079.05	33,935,704.10	28,755,193.63	777,926,871.98
Accumulated depreciation						
Opening balance	169,673,285.14	226,126,273.29	7,877,037.50	27,137,383.77	17,583,977.53	448,397,957.23
Increase	13,777,347.45	17,691,160.06	206,269.51	4,219,426.95	3,284,111.42	39,178,315.39
1) Accrual	13,777,347.45	17,691,160.06	206,269.51	4,219,426.95	3,284,111.42	39,178,315.39
Decrease		3,369,380.46	131,905.45	2,823,930.05	564,164.12	6,889,380.08
1) Disposal/Scrapping		3,369,380.46	131,905.45	2,823,930.05	564,164.12	6,889,380.08
Closing balance	183,450,632.59	240,448,052.89	7,951,401.56	28,532,880.67	20,303,924.83	480,686,892.54
Provision for impairment						
Opening balance	7,125,166.62					7,125,166.62
Increase						
1) Accrual						
Decrease						
1) Disposal/Scrapping						
Closing balance	7,125,166.62					7,125,166.62
Carrying amount						
Closing balance	251,500,766.84	23,889,276.26	870,677.49	5,402,823.43	8,451,268.80	290,114,812.82
Opening balance	265,056,980.16	26,804,349.77	987,293.85	9,690,111.03	10,968,797.93	313,507,532.74

14. Construction in progress

(1) Details

Projects	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Jiangbeizui Building	574,160,498.08		574,160,498.08	393,096,465.98		393,096,465.98
Total	574,160,498.08		574,160,498.08	393,096,465.98		393,096,465.98

(2) Changes in significant projects

Projects	Budgets	Opening balance	Increase	Transferred to fixed assets	Other decrease	Closing balance
Jiangbeizui Building	1,130,000,000.00	393,096,465.98	181,064,032.10			574,160,498.08
Total	1,130,000,000.00	393,096,465.98	181,064,032.10			574,160,498.08

(Continued)

Projects	Accumulated investment to budget (%)	Completion percentage (%)	Accumulated amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Annual capitalization rate (%)	Fund source
Jiangbeizui Building	64.84	64.84				Self-owned funds
Total	64.84	64.84				

15. Intangible assets

Items	Land use right	Computer software	Trading seat fee	Others	Total
Cost					
Opening balance	158,578,919.84	203,442,687.50	8,455,624.87	1,400,000.00	371,877,232.21
Increase		26,237,403.85			26,237,403.85
1) Acquisition		26,237,403.85			26,237,403.85
Decrease					
1) Transfer-out					
Closing balance	158,578,919.84	229,680,091.35	8,455,624.87	1,400,000.00	398,114,636.06
Accumulated amortization					
Opening balance	34,386,587.05	153,514,773.57	8,455,624.87		196,356,985.49
Increase	4,006,204.32	31,330,824.03			35,337,028.35
1) Accrual	4,006,204.32	31,330,824.03			35,337,028.35
Decrease					
1) Transfer-out					
Closing balance	38,392,791.37	184,845,597.60	8,455,624.87		231,694,013.84
Provision for impairment					
Opening balance					
Increase					
1) Accrual					
Decrease					
1) Transfer-out					

Items	Land use right	Computer software	Trading seat fee	Others	Total
Closing balance					
Carrying amount					
Closing balance	120,186,128.47	44,834,493.75		1,400,000.00	166,420,622.22
Opening balance	124,192,332.79	49,927,913.93		1,400,000.00	175,520,246.72

16. Goodwill

(1) Cost

Investee or events resulting in goodwill	Opening balance	Increase		Decrease		Closing balance
		Due to business combination in current period	Others [Note]	Disposal	Others	
Southwest Securities International Securities Limited	263,899,113.54		8,533,861.46			272,432,975.00
Southwest Futures Co., Ltd.	40,620,597.75					40,620,597.75
Total	304,519,711.29		8,533,861.46			313,053,572.75

Note: It is due to changes in exchange rate.

(2) Provision for impairment

Investee or events resulting in goodwill	Opening balance	Increase		Decrease	Closing balance
		Accrual	Others [Note]	Disposal	
Southwest Securities International Securities Limited	71,103,895.10	15,423,404.52	4,503,437.55		91,030,737.17
Southwest Futures Co., Ltd.	29,597,900.00				29,597,900.00
Subtotal	100,701,795.10	15,423,404.52	4,503,437.55		120,628,637.17

Note: It is due to changes in exchange rate.

(3) Impairment test process

1) Southwest Futures Co., Ltd.

The Company engaged Carea Assets Appraisal Co., Ltd. to evaluate the recoverable amount of goodwill. The appraisal institution calculated the recoverable amount of asset group using the discount model of future cash flows, and such calculation was based on the Management's business plan and the adjusted discount rate. The appraisal institution issued a valuation report numbered Kai Yuan Ping Bao Zi [2020] 146. As of December 31, 2019, the aforementioned estimation of recoverable amount suggested that no provision for impairment shall be made in the current period.

2) Southwest Securities International Securities Limited

Southwest Securities International Securities Limited is a public company listed in the Hong Kong main board, whose recoverable amount is calculated at fair value less disposal fee, while the fair value is calculated on the basis of the average closing price of the last five trading days prior to the end of the period. In the semi-annual report of 2019, provision for impairment loss of goodwill was measured and accrued using the afore-mentioned approach. As of December 31, 2019, no further provision for impairment loss of goodwill was required due to measurement results.

17. Deferred tax assets and deferred tax liabilities

(1) Deferred tax assets before offset

Items	Closing balance		Opening balance [Note]	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for impairment of assets	208,775,713.16	40,193,928.31	317,117,996.41	67,279,499.10
Changes in fair value of held-for-trading financial instruments and derivative financial instruments			583,085,828.45	153,878,323.21
Changes in fair value of other equity instrument investments and other debt investments	29,234,028.32	7,308,507.08	24,400,126.23	6,100,031.56
Employee benefits payable	516,777,464.49	129,194,366.12	479,052,320.77	119,763,080.19
Deductible losses	486,598,464.85	114,855,018.30	36,260,545.78	6,326,573.72
Losses of structured entities covered by the parent company	226,698,113.44	67,326,408.30	297,537,889.25	82,232,543.06
Others	4,206,189.20	630,928.38	4,206,189.20	630,928.38
Total	1,472,289,973.46	359,509,156.49	1,741,660,896.09	436,210,979.22

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(2) Deferred tax liabilities before offset

Items	Closing balance		Opening balance [Note]	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Changes in fair value of held-for-trading financial instruments and derivative financial instruments	277,559,670.39	47,536,905.45		
Changes in fair value of other debt investments	220,082,901.60	55,020,725.40	4,576,199.95	1,144,049.99
Total	497,642,571.99	102,557,630.85	4,576,199.95	1,144,049.99

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

18. Other assets

(1) Details

Items	Closing balance	Opening balance [Note]
Interest receivable	31,051,030.39	
Dividends receivable	2,037,420.45	3,250,832.65
Other receivables	303,395,056.13	623,062,337.66
Long-term prepayments	48,980,195.64	61,992,456.50
Advances paid	23,343,915.13	36,763,937.92
Loans and advances paid		110,760,785.54
Prepaid tax	71,002,639.13	151,370,110.89
Others	5,055,045.92	17,097,429.07
Total	484,865,302.79	1,004,297,890.23

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(2) Interest receivable

Items	Closing balance	Opening balance [Note]
Bonds	35,946,259.80	
Financial liabilities under reverse repo	5,083,945.20	
Less: Provision for impairment	9,979,174.61	
Total	31,051,030.39	

(3) Dividend receivable

Items	Closing balance	Opening balance
Age within 1 year	2,037,420.45	3,250,832.65
Including: Funds and stock dividends	2,037,420.45	3,250,832.65
Total	2,037,420.45	3,250,832.65

(4) Other receivables

1) Details

a. Details on categories

Categories	Closing balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on an individual basis	683,944,355.77	86.63	482,303,940.25	70.52	201,640,415.52
Receivables with provision made on a collective basis	105,547,960.98	13.37	3,793,320.37	3.59	101,754,640.61
Total	789,492,316.75	100.00	486,097,260.62	61.57	303,395,056.13

(Continued)

Categories	Opening balance				
	Book balance		Provision for bad debts		Carrying amount
	Amount	% to total	Amount	Provision proportion (%)	
Receivables with provision made on an individual basis	718,416,483.23	80.32	257,897,112.21	35.90	460,519,371.02
Receivables with provision made on a collective basis	176,079,147.10	19.68	13,536,180.46	7.69	162,542,966.64
Total	894,495,630.33	100.00	271,433,292.67	30.34	623,062,337.66

b. Presented by ages

Ages	Closing balance			
	Book balance		Provision for bad debts	
	Amount	% to total	Amount	Provision proportion (%)
Within 1 year	416,176,608.67	52.71	147,275,830.94	35.39
1 to 2 years	164,823,429.85	20.88	162,916,822.41	98.84
2 to 3 years	2,110,609.17	0.27	435,486.72	20.63
3 to 4 years	68,646,700.63	8.70	51,407,705.33	74.89
4 to 5 years	2,458,703.36	0.31	1,324,655.70	53.88
Over 5 years	135,276,265.07	17.13	122,736,759.52	90.73
Subtotal	789,492,316.75	100.00	486,097,260.62	61.57

(Continued)

Ages	Opening balance			
	Book balance		Provision for bad debts	
	Amount	% to total	Amount	Provision proportion (%)
Within 1 year	554,228,877.75	61.96	45,307,130.27	8.17
1 to 2 years	4,766,521.58	0.53	245,049.19	5.14
2 to 3 years	68,702,299.97	7.68	50,311,488.51	73.23
3 to 4 years	131,517,247.67	14.70	52,615,796.92	40.01
4 to 5 years	13,151,455.80	1.47	824,600.23	6.27
Over 5 years	122,129,227.56	13.66	122,129,227.55	100.00
Subtotal	894,495,630.33	100.00	271,433,292.67	30.34

c. Other receivables with provision made on an individual basis at the balance sheet date

Items	Book balance	Provision for bad debts	Provision proportion (%)	Reasons for provision made
Call loans	554,079,926.94	359,188,078.50	64.83	The recovery period is expected to be long
Investment funds	120,000,000.00	120,000,000.00	100.00	Expected to be irrecoverable
Temporary payment receivable	1,865,055.60	1,194,173.06	64.03	The recovery period is expected to be long
Others	7,999,373.23	1,921,688.69	24.02	The recovery period is expected to be long
Subtotal	683,944,355.77	482,303,940.25		

d. Other receivables with provision made on a collective basis

Portfolios	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Portfolio with no credit risk	96,046,918.61		
Portfolio grouped with ages	9,501,042.37	3,793,320.37	39.93
Subtotal	105,547,960.98	3,793,320.37	3.59

2) Other receivables categorized by nature

Nature	Closing balance	Opening balance
Security deposit	38,337,539.47	35,451,385.54
Call loans	554,079,926.94	210,646,572.16
Temporary advance payment receivable	65,192,662.45	262,162,425.09
Investment funds	120,000,000.00	120,000,000.00
Stock pledged repos [Note]		217,322,500.00
Receivables from equity transfer		30,970,000.00
Others	11,882,187.89	17,942,747.54
Subtotal	789,492,316.75	894,495,630.33
Less: Provision for impairment	486,097,260.62	271,433,292.67
Total	303,395,056.13	623,062,337.66

Note: There were two stock pledged repos reclassified to other receivables at the beginning of the period, and the debtors were 蔡开坚 (Cai Kaijian) and 罗伟广 (Luo Weiguang), respectively. These two stock pledged repos have been settled in the current period, with no balance at the balance sheet date.

3) Details of the top 5 debtors with largest balances

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Short-term financing client #80819069	Call loans	256,047,663.19	Within 1 year	32.43	126,840,560.85

Debtors	Nature of receivables	Book balance	Ages	Proportion to the total balance of other receivables (%)	Provision for bad debts
Short-term financing client #80818983	Call loans	150,085,773.98	1-2 years	19.01	150,085,773.98
河南富田畜牧发展有限公司 (Henan Futian Animal Husbandry Development Co., Ltd.*)	Investment funds	120,000,000.00	Over 5 years	15.20	120,000,000.00
辉立期货私人有限公司 (Huili futures Pte Ltd.*)	Temporary advance payment receivable	19,258,584.75	Within 1 year	2.44	
香港交易及結算所有限公司 (Hong Kong Exchanges and Clearing Ltd.*)	Temporary advance payment receivable	17,808,024.75	Within 1 year	2.26	
Subtotal		563,200,046.67		71.34	396,926,334.83

(5) Long-term prepayments

Items	Opening balance	Increase	Amortization	Closing balance
Improvement of fixed assets	48,416,673.29	13,381,337.90	27,433,499.74	34,364,511.45
Network engineering	4,877,707.89	1,681,434.14	2,790,326.59	3,768,815.44
Others	8,698,075.32	23,577,930.25	21,429,136.82	10,846,868.75
Total	61,992,456.50	38,640,702.29	51,652,963.15	48,980,195.64

(6) Advances paid

1) Ages analysis

Ages	Closing balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
Within 1 year	13,039,090.87	55.85		13,039,090.87
1-2 years	8,058,575.88	34.52		8,058,575.88
2-3 years	858,808.23	3.68		858,808.23
3-4 years	1,042,976.26	4.47		1,042,976.26
4-5 years	286,623.89	1.23		286,623.89
Over 5 years	57,840.00	0.25		57,840.00
Total	23,343,915.13	100.00		23,343,915.13

(Continued)

Ages	Opening balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
Within 1 year	30,514,046.13	83.00		30,514,046.13
1-2 years	2,687,289.76	7.31		2,687,289.76

* *The English names are for identification purpose only.*

Ages	Opening balance			
	Book balance	% to total	Provision for bad debts	Carrying amount
2-3 years	3,011,622.62	8.19		3,011,622.62
3-4 years	444,084.45	1.21		444,084.45
4-5 years	106,894.96	0.29		106,894.96
Total	36,763,937.92	100.00		36,763,937.92

2) Details of the top 5 creditors with largest balances

Creditors	Nature	Book balance	Proportion to the total balance of advances paid (%)
杭州恒生电子股份有限公司 (Hundsun Technologies Inc.*)	Payment for business platform	4,751,310.92	20.35
北京信诚华远投资顾问有限公司 (Beijing Xincheng Huayuan Investment Consulting Co., Ltd.*)	Prepaid rents	2,013,862.00	8.63
深圳市金证科技股份有限公司 (Shenzhen Jinzheng Polytron Technologies Inc*)	Payment for software	892,035.40	3.82
深圳市财富趋势科技股份有限公司 (Shenzhen Fortune Trend Polytron Technologies Inc*)	Payment for software	662,393.16	2.84
华福证券有限责任公司 (Huafu Securities Co., Ltd.*)	Consulting fees	471,698.11	2.02
Subtotal		8,791,299.59	37.66

19. Provision for impairment of assets

(1) Details

Items	Opening balance	Accrual	Decrease		Other changes	Closing balance
			Reversal	Write-off		
Loans to clients for buying securities	67,198,326.03	-33,004,716.66			23,761.71	34,217,371.08
Financial assets under reverse repo	65,675,758.20	54,028,532.64				119,704,290.84
Other debt investments	4,576,199.95	-963,818.12				3,612,381.83
Other receivables	271,433,292.67	276,180,515.60		67,144,547.91	5,628,000.26	486,097,260.62
Loans and entrusted loans	16,674,666.78	-5,566,574.68		11,108,092.10		
Interest receivable		9,979,174.61				9,979,174.61
Subtotal of financial instruments and other items	425,558,243.63	300,653,113.39		78,252,640.01	5,651,761.97	653,610,478.98
Long-term equity investments	208,252,876.04					208,252,876.04
Investment property	7,491,322.43					7,491,322.43

* *The English names are for identification purpose only.*

Items	Opening balance	Accrual	Decrease		Other changes	Closing balance
			Reversal	Write-off		
Fixed assets	7,125,166.62					7,125,166.62
Goodwill	100,701,795.10	15,423,404.52			4,503,437.55	120,628,637.17
Provision for commodity write-down	46,677.33	-1,233.00		45,444.33		
Subtotal of Other assets	323,617,837.52	15,422,171.52		45,444.33	4,503,437.55	343,498,002.26
Total	749,176,081.15	316,075,284.91		78,298,084.34	10,155,199.52	997,108,481.24

(2) Loss allowance for expected credit losses of financial instruments and other items

Items	Closing balance			
	12-month expected credit losses	Lifetime expected credit losses (credit not impaired)	Lifetime expected credit losses (credit impaired)	Subtotal
Loans to clients for buying securities	29,763,192.06	4,173,939.32	280,239.70	34,217,371.08
Financial assets under reverse repo	7,101,016.34		112,603,274.50	119,704,290.84
Other debt investments	3,612,381.83			3,612,381.83
Other receivables	236,481.08	21,015.41	485,839,764.13	486,097,260.62
Interest receivable			9,979,174.61	9,979,174.61
Total	40,713,071.31	4,194,954.73	608,702,452.94	653,610,478.98

20. Short-term financing payables

Items	Par value	Issuing date	Maturity	Amount outstanding	Coupon rate (%)
Income certificate	1,260,000.00 to 800,000,000.00	5/15/2018 to 12/26/2019	20 days to 365 days	6,454,790,000.00	Floating rate /2.52-6.66
Total	6,454,790,000.00			6,454,790,000.00	

(Continued)

Items	Opening balance [Note]	Increase	Decrease	Closing balance
Income certificate	2,382,302,920.54	4,219,378,152.16	5,291,360,624.99	1,310,320,447.71
Total	2,382,302,920.54	4,219,378,152.16	5,291,360,624.99	1,310,320,447.71

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

21. Loans from other financial institutions

(1) Details

Items	Closing balance	Opening balance [Note]
Loans from banks	400,233,333.34	500,522,222.16

Loans from refinancing business	1,008,069,444.44	
Total	1,408,302,777.78	500,522,222.16

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(2) Loans from refinancing business

Remaining period	Closing balance		Opening balance	
	Amount	Interest rate range (%)	Amount	Interest rate range (%)
3 to 12 months	1,008,069,444.44	3.50		
Total	1,008,069,444.44			

22. Held-for-trading financial liabilities

Items	Closing balance		
	Financial liabilities classified as at fair value through profit or loss	Financial liabilities designated as at fair value through profit or loss	Total
Equity enjoyed by third parties in structured entity		779,275,790.12	779,275,790.12
Others	488,250.00		488,250.00
Total	488,250.00	779,275,790.12	779,764,040.12

(Continued)

Items	Opening balance		
	Financial liabilities classified as at fair value through profit or loss	Financial liabilities designated as at fair value through profit or loss	Total
Equity enjoyed by third parties in structured entity		1,941,785,823.23	1,941,785,823.23
Total		1,941,785,823.23	1,941,785,823.23

23. Financial liabilities under repo

(1) Details - Classified by business types

Items	Closing balance	Opening balance [Note]
Pledged quotation-based repos	89,970,195.91	62,034,154.77
Pledged sell-repo	12,500,361,456.18	12,903,410,557.62
Others	1,925,319,891.09	3,677,588,016.66
Total	14,515,651,543.18	16,643,032,729.05

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(2) Details - Classified by types of financial assets

Items	Closing balance	Opening balance
Bonds	12,590,331,652.09	12,965,444,712.39
Others	1,925,319,891.09	3,677,588,016.66
Total	14,515,651,543.18	16,643,032,729.05

(3) Funds from quotation-based repos

Remaining period	Closing balance		Opening balance	
	Amount	Interest rate range (%)	Amount	Interest rate range (%)
Within 1 month	89,655,195.91	2.00-3.00	61,782,427.52	2.00-3.00
1 to 3 months	315,000.00		251,727.25	
Subtotal	89,970,195.91		62,034,154.77	

(4) Details of collaterals

Items	Fair value at the end of the period	Fair value at the beginning of the period
Bonds	14,262,636,657.08	13,934,367,790.75
Others	2,072,885,342.01	4,227,644,017.11
Total	16,335,521,999.09	18,162,011,807.86

24. Acting trading securities

Items	Closing balance	Opening balance
General brokerage business		
Including: Individual	8,021,118,650.05	5,870,210,501.96
Institution	1,970,182,015.17	1,840,421,436.82
Subtotal	9,991,300,665.22	7,710,631,938.78
Credit business		
Including: Individual	893,233,621.62	820,253,161.29
Institution	357,877,164.15	147,126,288.91
Subtotal	1,251,110,785.77	967,379,450.20
Total	11,242,411,450.99	8,678,011,388.98

25. Employee benefits payable

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	774,388,666.42	1,400,571,857.34	1,059,807,995.23	1,115,152,528.53
Post-employment benefits - defined contribution plan	2,220,899.85	79,812,603.93	80,545,482.02	1,488,021.76

Items	Opening balance	Increase	Decrease	Closing balance
Termination benefits	209,046.08	2,909.62	63,001.91	148,953.79
Post-employment benefits - defined benefit plan	25,627,449.46	5,115,174.31	877,892.36	29,864,731.41
Total	802,446,061.81	1,485,502,545.20	1,141,294,371.52	1,146,654,235.49

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wage, bonus, allowance and subsidy	744,930,945.58	1,282,186,771.18	944,686,529.04	1,082,431,187.72
Employee welfare fund		14,979,755.41	14,979,755.41	
Social insurance premium	1,584,394.62	42,770,996.92	42,923,930.55	1,431,460.99
Including: Medicare premium	363,178.67	40,203,762.74	40,358,156.88	208,784.53
Occupational injuries premium	32,648.33	939,314.68	937,509.76	34,453.25
Maternity premium	1,188,567.62	1,627,919.50	1,628,263.91	1,188,223.21
Housing provident fund	68,969.80	47,662,084.51	47,650,075.31	80,979.00
Trade union fund and employee education fund	27,804,356.42	12,972,249.32	9,567,704.92	31,208,900.82
Subtotal	774,388,666.42	1,400,571,857.34	1,059,807,995.23	1,115,152,528.53

(3) Details of defined contribution plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment insurance premium	1,721,632.75	65,240,916.43	65,908,736.37	1,053,812.81
Unemployment insurance premium	463,056.37	2,176,887.50	2,222,447.98	417,495.89
Company annuity payment	36,210.73	12,394,800.00	12,414,297.67	16,713.06
Subtotal	2,220,899.85	79,812,603.93	80,545,482.02	1,488,021.76

(4) Changes in defined benefit plan

1) Present value of defined benefit plan obligations

Items	Current period cumulative
Opening balance	25,627,449.46
Cost of defined benefit plan through current comprehensive income	5,115,174.31
a. Net interest	919,333.49
b. Changes due to remeasurement	4,195,840.82
Other changes	-877,892.36
a. Benefits paid	-877,892.36
Closing balance	29,864,731.41

2) Net liabilities of defined benefit plan

Items	Current period cumulative
Opening balance	25,627,449.46
Cost of defined benefit plan through profit or loss	919,333.49
Cost of defined benefit plan through other comprehensive income	4,195,840.82

Items	Current period cumulative
Other changes	-877,892.36
Closing balance	29,864,731.41

3) Content of defined benefit plan

The Company provides the following supplement retirement benefit for employees retired before January 1, 2013: for employees with pensions lower than social averages wages, the Company makes up the gap and provides additional subsidy of 500 yuan per person per month; for employees with pensions higher than social averages wages, the Group provides additional subsidy of 800 yuan per person per month.

Under the actuarial assumption, the discount rate is 3.56%, the social average wage growth rate is between 10.00% - 4.00% based on situations in Chongqing and Shenzhen areas, i.e., the male and female life expectancies in Chongqing are 75.09-year old and 80.30-year old respectively, and that in Shenzhen are 78.38-year old and 83.38-year old respectively.

26. Taxes and rates payable

Items	Closing balance	Opening balance
VAT	12,289,983.90	7,790,610.38
Enterprise income tax	2,914,299.67	14,298,465.45
Individual income tax withheld for tax authorities	12,650,056.35	42,390,428.92
Urban maintenance and construction tax	106,219.74	489,582.23
Education surcharge	58,894.64	223,362.45
Local education surcharge	89,706.20	174,639.93
Investor protection fund	10,403,943.25	15,089,743.64
Others	865,746.90	544,502.61
Total	39,378,850.65	81,001,335.61

27. Accounts payable

Items	Closing balance	Opening balance
Clearing funds payable	79,455,337.90	17,391,937.26
Handling charges and commission payable	19,920,944.40	14,136,004.49
Custody fees payable	549,457.96	572,806.35
Total	99,925,740.26	32,100,748.10

28. Bonds payable

(1) Details

Items	Par value	Issuing date	Maturity	Amount outstanding	Coupon rate (%)
14 Southwest 02 Bond	1,949,530,000.00	7/23/2015	5 years	1,949,530,000.00	5.37
16 Southwest C2	3,000,000,000.00	9/20/2016	3 years	3,000,000,000.00	3.49
17 Southwest C1	1,000,000,000.00	12/21/2017	3 years	1,000,000,000.00	6.27
Southwest Securities income certificate Jujin [2017007]	250,000,000.00	6/28/2017	2 years	250,000,000.00	5.40
Southwest Securities income certificate Jujin [2017008]	750,000,000.00	7/11/2017	2 years	750,000,000.00	5.27
Southwest Securities income certificate Jujin [2017011]	400,000,000.00	9/21/2017	2 years	400,000,000.00	5.50
Southwest Securities income certificate Jujin [2017013]	370,000,000.00	10/20/2017	2 years	370,000,000.00	5.45
Southwest Securities income certificate Jujin [2017014]	700,000,000.00	10/30/2017	2 years	700,000,000.00	5.50
Southwest Securities income certificate Jujin [2018003]	1,000,000,000.00	4/27/2018	2 years	1,000,000,000.00	6.20
Southwest Securities income certificate Jujin [2018005]	100,000,000.00	5/22/2018	2 years	100,000,000.00	6.00
Southwest Securities income certificate Jujin [2018006]	70,000,000.00	5/29/2018	2 years	70,000,000.00	6.00
18 Southwest C1	1,900,000,000.00	5/8/2018	3 years	1,900,000,000.00	6.10
1-year offshore USD bonds	1,029,480,000.00	5/15/2018	1 years	1,022,532,258.08	6.75
1-year offshore HKD bonds	683,436,000.00	5/18/2018	1 years	668,261,686.44	6.00
19 Southwest 01	2,500,000,000.00	4/2/2019	3 years	2,500,000,000.00	3.85
19 Southwest 02	2,500,000,000.00	7/18/2019	3 years	2,500,000,000.00	3.77
19 Southwest C1	2,640,000,000.00	9/12/2019	3 years	2,640,000,000.00	4.50
2-year offshore USD bonds	1,395,240,000.00	4/17/2019	2 years	1,396,140,463.70	6.90
Total	22,237,686,000.00			22,216,464,408.22	

(Continued)

Items	Opening balance [Note]	Increase	Decrease	Closing balance
14 Southwest 02 Bond	2,038,800,211.53	104,689,759.90	131,621,217.34	2,011,868,754.09
16 Southwest C2	3,029,545,179.48	75,154,820.52	3,104,700,000.00	
17 Southwest C1	1,001,889,589.05	62,700,000.01	62,700,000.00	1,001,889,589.06
Southwest Securities	256,916,438.32	6,583,561.68	263,500,000.00	

Items	Opening balance [Note]	Increase	Decrease	Closing balance
income certificate Jujin [2017007]				
Southwest Securities income certificate Jujin [2017008]	768,842,054.83	20,682,945.17	789,525,000.00	
Southwest Securities income certificate Jujin [2017011]	400,602,739.72	15,791,780.82	416,394,520.54	
Southwest Securities income certificate Jujin [2017013]	374,033,000.03	16,021,506.83	390,054,506.86	
Southwest Securities income certificate Jujin [2017014]	706,539,725.99	31,749,315.11	738,289,041.10	
Southwest Securities income certificate Jujin [2018003]	1,042,295,890.38	61,999,999.96		1,104,295,890.34
Southwest Securities income certificate Jujin [2018005]	100,657,534.23	5,999,999.97	6,000,000.00	100,657,534.20
Southwest Securities income certificate Jujin [2018006]	70,379,726.04	4,200,000.01	4,200,000.00	70,379,726.05
18 Southwest C1	1,975,573,150.68	115,899,999.98	115,900,000.00	1,975,573,150.66
1-year offshore USD bonds	1,035,915,714.48	27,507,345.08	1,063,423,059.56	
1-year offshore HKD bonds	682,612,203.09	19,824,917.00	702,437,120.09	
19 Southwest 01		2,572,253,424.62	1,676,677.19	2,570,576,747.43
19 Southwest 02		2,543,122,603.06	2,015,205.37	2,541,107,397.69
19 Southwest C1		2,676,128,219.17		2,676,128,219.17
2-year offshore USD bonds		1,464,380,057.71	56,853,603.39	1,407,526,454.32
Total	13,484,603,157.85	9,824,690,256.60	7,849,289,951.44	15,460,003,463.01

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

29. Other liabilities

(1) Details

Items	Closing balance	Opening balance
Dividends payable	38,020,702.61	38,020,702.61
Other payables	120,255,542.32	104,147,436.00
Agency redemption bonds	511,638.50	511,638.50
Advances received	343,695.65	368,642.64
Futures risk reserves	13,230,742.45	11,747,109.84
Total	172,362,321.53	154,795,529.59

(2) Dividends payable

Name of entities	Closing balance	Opening balance	Reasons for balance over 1 year
Ordinary dividends payable	38,020,702.61	38,020,702.61	Relevant procedures are in processing
Subtotal	38,020,702.61	38,020,702.61	

(3) Other payables

Items	Closing balance	Opening balance
Deposits	52,610,080.49	40,171,927.43
Temporary receipts payable	32,347,048.48	38,624,232.43
Final payment of information system and equipment	3,080,519.13	3,039,392.40
Others	32,217,894.22	22,311,883.74
Total	120,255,542.32	104,147,436.00

(4) Agency redemption bonds

Items	Closing balance	Opening balance
Corporate bonds	511,638.50	511,638.50
Total	511,638.50	511,638.50

(5) Advances received

Items	Closing balance	Opening balance
Financial consulting fees		49,528.29
Others	343,695.65	319,114.35
Total	343,695.65	368,642.64

30. Share capital

Items	Opening balance	Changes in current period					Closing balance
		Issue of new shares	Bonus shares	Reserve transferred to shares	Others	Subtotal	
Total shares	5,645,109,124.00						5,645,109,124.00

31. Capital reserve

Items	Opening balance	Increase	Decrease	Closing balance
Capital premium (share premium)	7,455,313,014.10			7,455,313,014.10
Other capital reserve	312,946,704.93			312,946,704.93
Total	7,768,259,719.03			7,768,259,719.03

32. Other comprehensive income (OCI)

Items	Opening balance [Note]	Current period cumulative		
		Current period cumulative before income tax	Less: Income tax	Less: OCI previously recognized but transferred to profit or loss in current period
Items not to be reclassified subsequently to profit or loss	-168,385,801.63	148,747,973.94	38,235,953.69	
Including: Remeasurement of changes in defined benefit plans	-8,602,529.69	-4,195,840.82		
Changes in fair value of other equity instrument investments	-159,783,271.94	152,943,814.76	38,235,953.69	
Items to be reclassified subsequently into profit and loss	185,885,915.35	73,741,821.43	15,423,568.68	26,125,825.76
Including: Items to be reclassified subsequently into profit or loss under equity method	1,181,496.46	249,144.96		
Changes in fair value of other debt investments	141,485,145.97	60,409,599.48	15,102,399.87	24,439,455.75
Provision for credit impairment loss of other debt investments	3,432,149.96	1,284,675.23	321,168.81	1,686,370.01
Translation reserve	46,325,112.09	11,798,401.76		
Others	-6,537,989.13			
Total	17,500,113.72	222,489,795.37	53,659,522.37	26,125,825.76

(Continued)

Items	Current period cumulative				Closing balance
	Less: OCI previously recognized but transferred to retained earnings in current period	Total	Attributable to the parent company (after tax)	Attributable to non-controlling shareholders (after tax)	
Items not to be reclassified subsequently to profit or loss	-23,149,889.63	133,661,909.88	133,661,909.88		-34,723,891.75
Including: Remeasurement of changes in defined benefit plans		-4,195,840.82	-4,195,840.82		-12,798,370.51
Changes in fair value of other equity instrument investments	-23,149,889.63	137,857,750.70	137,857,750.70		-21,925,521.24
Items to be reclassified subsequently into profit and loss		32,192,426.99	32,604,174.45	-411,747.46	218,490,089.80
Including: Items to be reclassified subsequently into profit or loss under equity method		249,144.96	249,144.96		1,430,641.42
Changes in fair value of other debt investments		20,867,743.86	20,867,743.86		162,352,889.83
Provision for credit impairment loss of other debt investments		-722,863.59	-722,863.59		2,709,286.37
Translation reserve		11,798,401.76	12,210,149.22	-411,747.46	58,535,261.31
Others					-6,537,989.13
Total	-23,149,889.63	165,854,336.87	166,266,084.33	-411,747.46	183,766,198.05

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

33. Surplus reserve

Items	Opening balance [Note]	Increase	Decrease	Closing balance
Statutory surplus reserve	973,950,384.65	126,697,654.87		1,100,648,039.52
Total	973,950,384.65	126,697,654.87		1,100,648,039.52

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

34. General risk reserve

Items	Opening balance [Note]	Increase	Decrease	Closing balance
General risk reserve	935,460,390.45	126,697,654.87		1,062,158,045.32
Trading risk reserve	935,460,390.45	126,697,654.87		1,062,158,045.32
Total	1,870,920,780.90	253,395,309.74		2,124,316,090.64

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

35. Undistributed profit

(1) Details

Items	Current period cumulative	Preceding period comparative
Balance before adjustment at the end of preceding period	2,518,032,956.48	2,613,293,824.48
Add: Increase due to adjustment (or less: decrease)	-215,968,700.09	-9,665,154.30
Opening balance after adjustment	2,302,064,256.39	2,603,628,670.18
Add: Net profit attributable to owners of the parent company	1,042,001,454.67	226,842,591.87
Less: Appropriation of statutory surplus reserve	126,697,654.87	10,060,949.79
Appropriation of general risk reserve	126,697,654.87	10,060,949.79
Appropriation of trading risk reserve	126,697,654.87	10,060,949.79
Dividend payable on ordinary shares	169,353,273.72	282,255,456.20

Items	Current period cumulative	Preceding period comparative
Other comprehensive income carried forward to retained earnings	23,149,889.63	
Closing balance	2,771,469,583.10	2,518,032,956.48

(2) Details of adjustments on opening balance

Adjustments of -215,968,700.09 yuan are made on the opening balance of undistributed profit due to the changes in accounting policies arising from the revised financial instruments standards.

(II) Notes to items of the consolidated income statement

1. Net handling charges and commission income

(1) Details

Items	Current period cumulative	Preceding period comparative
Net income from securities brokerage business	560,587,151.86	468,329,505.66
Income from securities brokerage business	764,624,242.24	644,537,723.36
Including: Acting trading securities business	645,363,305.80	518,086,703.06
Leasing of trading unit seats	95,933,691.90	112,077,765.56
Proxy sale of financial products	23,327,244.54	14,373,254.74
Expenses of securities brokerage business	204,037,090.38	176,208,217.70
Including: Acting trading securities business	204,037,090.38	176,208,217.70
Net income from futures brokerage business	22,168,092.11	27,749,395.41
Income from futures brokerage business	35,413,420.05	38,733,449.91
Expenses for futures brokerage business	13,245,327.94	10,984,054.50
Net income from investment banking business	295,131,513.70	493,816,748.90
Income from investment banking business	298,068,460.07	543,205,129.08
Including: Securities underwriting business	109,302,285.38	175,025,245.13
Securities sponsorship business	19,715,459.05	15,824,971.77
Financial advisory business	169,050,715.64	352,354,912.18
Expenses for investment banking business	2,936,946.37	49,388,380.18
Including: Securities underwriting business	2,912,314.77	26,176,636.41
Securities sponsorship business	24,631.60	1,541,315.17
Financial advisory business		21,670,428.60
Net income from asset management business	54,830,770.51	73,954,033.85
Income from asset management business	90,138,519.28	101,010,891.13

Items	Current period cumulative	Preceding period comparative
Expenses for asset management business	35,307,748.77	27,056,857.28
Net income from fund management business	9,483,815.32	17,990,812.40
Income from fund management business	9,625,939.95	17,990,812.40
Expenses for fund management business	142,124.63	
Net income from investment advisory business	7,968,494.25	11,842,248.91
Income from investment advisory business	10,264,795.02	14,615,628.31
Expenses for investment advisory business	2,296,300.77	2,773,379.40
Others	-80,466.97	52,523,719.37
Income from other handling charges and commission	13,457.07	52,612,176.57
Expenses for handling charges and commission	93,924.04	88,457.20
Total	950,089,370.78	1,146,206,464.50
Including: Total income from handling charges and commission	1,208,148,833.68	1,412,705,810.76
Total expenses for handling charges and commission	258,059,462.90	266,499,346.26

(2) Net income from financial advisory business

Items	Current period cumulative	Preceding period comparative
Net income from merger and reorganization financial advisory business - domestic listed company		1,407,498.34
Net income from merger and reorganization financial advisory business - others	47,508,424.51	65,626,808.56
Other net income from financial advisory business	121,542,291.13	263,650,176.68
Subtotal	169,050,715.64	330,684,483.58

2. Net interest income

Items	Current period cumulative	Preceding period comparative
Interest income	1,781,280,053.58	1,246,654,081.55
Interest income from cash and bank balances or settlement reserve fund	394,448,805.00	431,561,723.79
Interest income from loans to clients for buying securities	738,264,189.09	652,857,380.29
Interest income from financial assets under reverse repo	152,820,227.53	149,617,109.93
Including: Interest income from agreed repurchase business	24,215,974.87	11,570,748.22
Interest income from stock pledged repo transactions	109,830,882.51	91,669,060.26
Others	18,773,370.15	46,377,301.45

Items	Current period cumulative	Preceding period comparative
Interest income from other debt investment	491,968,741.55	
Interest income from other financial assets measured using the effective interest method	3,778,090.41	12,617,867.54
Interest expense	1,593,745,683.69	1,694,697,750.42
Interest expense for short-term financing payable	105,898,152.12	61,846,112.69
Interest expense for loans from other financial institutions	26,053,308.68	23,086,058.59
Including: Interest expense for securities refinancing	8,069,444.44	
Interest expense for financial liabilities under repo	555,689,526.21	584,744,430.16
Including: Interest expense for quotation-based repos	2,045,326.33	1,606,013.54
Interest expense for acting trading securities	41,991,162.76	39,915,767.22
Interest expense for bonds payable	766,661,897.99	812,669,087.95
Including: Interest expense for subordinated bonds	290,594,951.76	288,179,947.73
Others	97,451,635.93	172,436,293.81
Net interest income	187,534,369.89	-448,043,668.87

3. Investment income

(1) Details

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under equity method	269,680,797.75	175,284,642.21
Investment income from disposal of long-term equity investments		36,419,946.48
Investment income from financial instruments	1,025,763,939.30	——
Including: Investment income during holding period	1,119,263,362.32	——
- Held-for-trading financial instruments	961,777,960.47	——
- Other equity instrument investments	157,485,401.85	——
Gains from disposal of financial instruments	-93,499,423.02	——
- Held-for-trading financial instruments	44,153,053.84	——
- Other debt investments	60,860,494.85	——
- Derivative financial instruments	-198,512,971.71	——
Investment income from financial assets at fair value through profit or loss	——	1,212,987,672.33
Gains from disposal of financial assets at fair	——	-544,018,577.47

Items	Current period cumulative	Preceding period comparative
value through profit or loss		
Investment income from available-for-sale financial assets	——	487,587,235.80
Gains from disposal of available-for-sale financial assets	——	116,939,168.66
Gains from disposal of derivative financial instruments	——	197,919,436.20
Total	1,295,444,737.05	1,683,119,524.21

(2) Investment income from long-term equity investments under equity method

Investees	Current period cumulative	Preceding period comparative	Reasons for movement
Yinhua Fund	253,349,054.38	175,284,642.21	Increase of profit in the current period
OTC Company	16,331,743.37		The cost method was changed to equity method at the end of the preceding period
Subtotal	269,680,797.75	175,284,642.21	

(3) Investment income from held-for-trading financial instruments

Held-for-trading financial instruments		Current period cumulative
Financial assets classified as at fair value through profit or loss	Investment income earned in holding period	961,777,960.47
	Gains from disposal	42,456,055.72
Financial liabilities classified at fair value through profit or loss	Investment income earned in holding period	
	Gains from disposal	1,696,998.12
Subtotal		1,005,931,014.31

4. Other income

(1) Details

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit and loss
Deferred income - government grants		710,312.76	
Special talent award	21,848,663.46	67,291,425.00	21,848,663.46
Income from handling charges and commission for withholding and collecting tax	6,061,395.76	9,701,422.79	6,061,395.76
Fiscal incentives	10,961,897.02	4,358,333.81	10,961,897.02
Industrial supporting fund	1,615,700.00	3,490,000.00	1,615,700.00
Total	40,487,656.24	85,551,494.36	40,487,656.24

Note: Please refer to section V (IV) 2 in the notes to the financial statements for details on government grants included in other income.

5. Gains on changes in fair value

Items	Current period cumulative	Preceding period comparative
Held-for-trading financial assets (financial assets at fair value through profit or loss)	891,365,857.46	-2,855,575.21
Including: Financial assets designated as at fair value through profit or loss		325,666.67
Held-for-trading financial liabilities (financial liabilities at fair value through profit or loss)	11,796,999.36	-7,452,155.34
Including: Financial liabilities designated as at fair value through profit or loss	11,796,999.36	-7,452,155.34
Derivative financial instruments	2,628,311.90	7,624,882.66
Total	905,791,168.72	-2,682,847.89

6. Other operating revenue

Items	Current period cumulative	Preceding period comparative
Leasing income	9,542,434.62	6,637,462.12
Income from bulk commodities and others	86,062,178.36	332,967,369.46
Disposal of investment property	4,218,119.18	
Total	99,822,732.16	339,604,831.58

7. Gains on disposal of assets

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Disposal of non-current assets	690,871.00	305,247.65	690,871.00
Total	690,871.00	305,247.65	690,871.00

8. Taxes and surcharges

Items	Current period cumulative	Preceding period comparative
Urban maintenance and construction tax	7,638,970.03	10,974,154.96
Education surcharge	3,184,052.15	4,652,628.01
Local education surcharge	2,157,557.05	3,111,874.42
Housing property tax	5,013,976.65	4,158,742.18
Others	3,946,790.38	4,468,077.89
Total	21,941,346.26	27,365,477.46

9. Business and administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee expenses	1,481,306,704.38	1,261,646,409.05
Leasing expenses	87,441,543.42	108,219,371.97
Consulting expenses	18,387,823.27	21,031,645.64
Depreciation	39,178,315.39	52,144,122.69
Amortization of intangible assets	35,337,028.35	39,672,700.11
Amortization of long-term prepayments	51,652,963.15	48,471,034.44
Business entertainment	24,342,482.59	29,599,144.96
Electronic equipment operating expenses	54,332,284.22	54,602,790.61
Business travelling expenses	24,004,909.35	25,774,288.68
Postages telephone & telegram expenses	25,070,383.95	29,845,421.68
Miscellaneous expenses	7,644,800.66	7,740,056.09
Investor protection funds	22,715,881.97	35,644,759.74
Others	84,589,469.98	65,690,913.53
Total	1,956,004,590.68	1,780,082,659.19

10. Credit impairment loss

Items	Current period cumulative	Preceding period comparative
Loans to clients for buying securities	-33,004,716.66	——
Financial assets under reverse repo	54,028,532.64	——
Other debt investments	-963,818.12	——
Other receivables	276,180,515.60	——
Others	4,412,599.93	——
Total	300,653,113.39	

11. Impairment loss of other assets

Items	Current period cumulative	Preceding period comparative
Impairment loss of goodwill	15,423,404.52	——
Impairment loss of bulk commodities	-1,233.00	——
Total	15,422,171.52	

12. Assets impairment losses

Items	Current period cumulative	Preceding period comparative
Bad debts	——	39,844,344.32
Impairment loss of available-for-sale	——	270,355,142.75

Items	Current period cumulative	Preceding period comparative
financial assets		
Impairment loss of margin trading & short selling	——	-1,280,984.94
Provision for impairment of goodwill	——	71,103,895.10
Others	——	-3,886,618.02
Total		376,135,779.21

13. Other operating costs

Items	Current period cumulative	Preceding period comparative
Amortization of investment property	3,471,452.05	3,487,348.42
Handling charges and commission for withholding and collecting tax	427,232.43	7,271,473.43
Cost of commodity sales and others	84,798,210.61	331,707,514.32
Total	88,696,895.09	342,466,336.17

14. Non-operating revenue

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Fines and penalty income		1,200,000.00	
Others	361,700.65	227,601.56	361,700.65
Total	361,700.65	1,427,601.56	361,700.65

15. Non-operating expenditures

Items	Current period cumulative	Preceding period comparative	Amount included in non-recurring profit or loss
Donations	5,413,096.01	3,901,386.30	5,413,096.01
Penalty	441,000.00	200,400.00	441,000.00
Indemnity	1,414,379.39	949,755.87	1,414,379.39
Others	25,889.97	55,494.14	25,889.97
Total	7,294,365.37	5,107,036.31	7,294,365.37

16. Income tax expenses

(1) Details

Items	Current period cumulative	Preceding period comparative
Current period income tax expenses	9,236,778.64	28,145,557.96
Deferred income tax expenses	125,447,203.70	-28,946,423.39
Total	134,683,982.34	-800,865.43

(2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative	Preceding period comparative
Profit before tax	1,099,186,655.52	214,424,706.69
Income tax expenses based on tax rate adopted by the parent company	274,796,663.88	53,606,176.67
Effect of different tax rate applicable to subsidiaries	-13,962,493.59	-2,615,364.73
Effect of prior income tax reconciliation	-499,305.05	453,435.73
Effect of non-taxable income	-213,264,414.87	-119,756,154.46
Effect of non-deductible costs, expenses and losses	6,209,924.85	3,906,368.29
Effect of deducible temporary differences or deductible losses not recognized as deferred income tax assets	81,403,607.12	63,604,673.07
Income tax expenses	134,683,982.34	-800,865.43

17. Other comprehensive income, net of income tax

Please refer to section V (I) 37 in the notes to the financial statements for details.

(III) Notes to items of the consolidated cash flow statement

1. Other cash receipts related to operating activities

Items	Current period cumulative	Preceding period comparative
Gains from derivative financial instruments		197,919,436.20
Cash receipts from other income	40,487,656.24	84,841,181.60
Receipts of deposits	12,438,153.06	6,198,262.94
Cash receipts from tax paid on behalf of asset management products	89,033,262.93	92,843,105.66
Bulk commodity sales	86,062,178.36	332,026,638.96
Others	26,229,316.55	3,517,844.00
Total	254,250,567.14	717,346,469.36

2. Other cash payments related to operating activities

Items	Current period cumulative	Preceding period comparative
Increase of refundable deposits	295,940,818.46	275,969,461.94
Expenses pay in cash	360,936,977.60	357,807,558.63
Losses on derivative financial instruments	198,512,971.71	
Payment for bulk commodity	84,798,210.61	331,707,514.32
Raised fund of bond underwriting		400,000,000.00
Others	1,364,000.24	15,612,060.03
Total	941,552,978.62	1,381,096,594.92

3. Other cash payments related to investing activities

Items	Current period cumulative	Preceding period comparative
Net cash paid for disposal of subsidiaries and other business units		34,763,702.95
Total		34,763,702.95

4. Other cash payments related to financing activities

Items	Current period cumulative	Preceding period comparative
Cash paid to third parties of structured entities	1,579,784,652.95	2,542,901,595.53
Capital decrease of subsidiaries within the consolidation scope		121,937,500.00
Total	1,579,784,652.95	2,664,839,095.53

5. Supplement information to the cash flow statement

(1) Supplement information to the cash flow statement

Supplement information	Current period cumulative	Preceding period comparative
1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	964,502,673.18	215,225,572.12
Add: Provision for assets impairment loss	316,075,284.91	376,135,779.21
Depreciation of fixed assets	42,649,767.44	55,631,471.11
Amortization of intangible assets	35,337,028.35	39,672,700.11
Amortization of long-term prepayments	51,652,963.15	48,471,034.44
Loss on disposal of fixed assets, intangible assets and other long-term assets (Less: gains)	-4,908,990.18	-305,247.65
Losses on scrapping of fixed assets (Less: gains)		
Losses on changes in fair value (Less: gains)	-905,791,168.72	2,682,847.89
Interest expenses	953,168,924.23	874,515,200.64
Interest income	-491,968,741.55	
Losses on foreign exchange (Less: gains)	-8,976,531.34	59,906,652.07
Investments losses (Less: gains)	-537,169,267.63	-816,230,993.15
Decrease of deferred tax assets (Less: increase)	77,910,298.25	-42,436,837.09
Increase of deferred tax liabilities (Less: decrease)	47,536,905.45	13,490,413.70
Decrease in financial assets at fair value through profit or loss (Less: increase)	1,027,366,899.52	-4,761,840,355.79
Decrease in operating receivables (Less: increase)	-1,821,551,740.25	770,872,041.14
Increase of operating payables (Less: decrease)	1,718,367,858.50	5,513,051,847.88
Others		
Net cash flows from operating activities	1,464,202,163.31	2,348,842,126.63

Supplement information	Current period cumulative	Preceding period comparative
2) Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into share capital		
Convertible corporate bonds due within one year		
Fixed assets rented in under finance leases		
3) Net changes in cash and cash equivalents:		
Cash at the end of the period	13,424,085,562.06	10,509,698,812.72
Less: Cash at the beginning of the period	10,509,698,812.72	13,408,192,597.14
Add: Cash equivalents at the end of the period	2,911,904,159.78	3,276,097,164.20
Less: Cash equivalents at the beginning of the period	3,276,097,164.20	2,535,032,483.51
Net increase of cash and cash equivalents	2,550,193,744.92	-2,157,429,103.73

(2) Cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	13,424,085,562.06	10,509,698,812.72
Including: Cash on hand	44,838.97	35,623.72
Cash in bank on demand for payment	13,422,147,618.47	10,500,569,236.25
Other cash and bank balances on demand for payment	1,893,104.62	9,093,952.75
2) Cash equivalents	2,911,904,159.78	3,276,097,164.20
Including: Settlement reserve fund	2,911,904,159.78	3,276,097,164.20
3) Cash and cash equivalents at the end of the period	16,335,989,721.84	13,785,795,976.92

(IV) Others

1. Assets with title or use right restrictions

Items	Closing carrying amount	Reasons for restrictions
Held-for-trading financial assets	3,943,571,151.08	Used as collateral for financial liabilities under repo
Held-for-trading financial assets	445,616,233.08	Stock suspension
Held-for-trading financial assets	41,912,068.00	Securities lending to clients
Held-for-trading financial assets	1,694.35	Refinancing guarantee
Other equity instrument investments	37,449,909.87	Stock suspension
Other equity instrument investments	179,174.00	Securities lending to clients
Other equity instrument investments	324,249,119.60	Refinancing guarantee
Other debt investments	9,201,098,767.00	Used as collateral for financial liabilities under repo
Loans to clients for buying securities	2,072,885,342.01	Used as collateral for financial liabilities under repo

Items	Closing carrying amount	Reasons for restrictions
Total	16,066,963,458.99	

2. Government grants

(1) Details

Government grants related to income and used to compensate incurred relevant costs, expenses or losses

Items	Amount	Presented under	Remarks
Special talent award	21,848,663.46	Other income	Related to income
Fiscal award	10,961,897.02	Other income	Related to income
Industry supporting fund	1,615,700.00	Other income	Related to income
Subtotal	34,426,260.48		

(2) Government grants included into profit or loss amounted to 34,426,260.48 yuan in the current period.

3. Basis for measurement of financial instruments

(1) Classification schedule of financial assets

Items	Closing balance					
		Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss		
	Financial assets measured at amortized cost	Financial assets classified as at fair value through other comprehensive income	Non-trading equity instrument investments designated as at fair value through other comprehensive income	Financial assets classified as at fair value through profit or loss	Non-trading equity instrument investments designated as at fair value through profit or loss according to "Financial Instrument: Recognition and Measurement"	Financial assets as at fair value through profit or loss according to "Hedging"
Cash and bank balances	13,424,712,915.79					
Settlement reserve fund	2,912,119,926.36					
Loans to clients for buying securities	10,578,077,246.80					
Held-for-trading financial assets				17,667,368,833.83		
Other debt investments		11,383,678,879.93				
Other equity instrument investments			3,317,992,713.71			
Derivative financial assets				79,592.31		
Financial assets under reverse repo	1,560,086,843.75					
Receivables	14,746,675.73					
Refundable deposits	879,184,971.17					
Other financial assets	336,483,506.97					
Subtotal	29,705,412,086.57	11,383,678,879.93	3,317,992,713.71	17,667,448,426.14		

(2) Classification schedule of financial liabilities

Items	Closing balance			
	Financial liabilities measured at amortized cost	Financial liabilities at fair value through profit or loss		
		Financial liabilities classified as at fair value through profit or loss	Financial liabilities designated as at fair value through profit or loss according to "Financial Instrument: Recognition and Measurement"	Financial liabilities as at fair value through profit or loss according to "Hedging"
Short-term financing payable	1,310,320,447.71			
Loans from other financial institutions	1,408,302,777.78			
Held-for-trading financial liabilities		488,250.00	779,275,790.12	
Derivative financial liabilities		15,884,343.01		
Financial liabilities under repo	14,515,651,543.18			
Acting trading securities	11,242,411,450.99			
Accounts payable	99,925,740.26			
Bonds payable	15,460,003,463.01			
Other financial liabilities	158,276,244.93			
Subtotal	44,194,891,667.86	16,372,593.01	779,275,790.12	

4. Entrusted client asset management business

(1) Details

Items	Closing balance	Opening balance	Items	Closing balance	Opening balance
Entrusted management fund deposit	609,653,474.63	898,584,621.05	Entrusted management fund	46,228,632,721.08	63,762,749,791.35
Clients' settlement reserve fund	51,154,315.50	176,131,898.23	Accounts payable	385,285,905.69	401,063,120.06
Refundable and custody client fund	2,059,041.33	12,761,162.35	Repos	1,903,448,412.00	4,574,025,747.79
Accounts receivable	2,635,886,357.99	2,749,581,468.90			
Entrusted investment	45,218,613,849.32	64,900,779,508.67			
Including: Investment cost	47,782,850,694.53	67,028,311,450.84			
Realized outstanding profit and loss	-2,564,236,845.21	-2,127,531,942.17			
Total	48,517,367,038.77	68,737,838,659.20	Total	48,517,367,038.77	68,737,838,659.20

(2) Business types

Items	Collective asset management	Directional asset management	Special asset management
Number of products at the end of the period	49	65	5
Number of clients at the end of the period	6,155	65	34
Including: Individual clients	6,104	8	
Institutional clients	51	57	34

Items	Collective asset management	Directional asset management	Special asset management
Opening balance of entrusted funds	14,230,664,845.70	46,407,440,808.03	4,295,224,000.00
Including: Self-owned funds	1,118,431,733.90		8,000,000.00
Individual clients	6,802,608,315.59	676,491,200.00	
Institutional clients	6,309,624,796.21	45,730,949,608.03	4,287,224,000.00
Closing balance of entrusted funds	10,466,319,119.86	31,570,034,367.90	4,922,150,460.00
Including: Self-owned funds	919,437,591.84		126,000,000.00
Individual clients	6,261,270,176.72	676,491,200.00	
Institutional clients	3,285,611,351.30	30,893,543,167.90	4,796,150,460.00
Initial cost of major entrusted funds	10,974,777,406.92	33,416,245,767.75	3,391,827,519.86
Including: Stocks	109,419,062.87	5,487,677,342.71	
Other bonds	10,123,019,132.20	9,022,307,949.73	
Funds	275,807,497.58	1,418,999,000.00	
Others	466,531,714.27	17,487,261,475.31	3,391,827,519.86
Net income from asset management	21,545,386.87	32,292,091.97	993,291.67

5. Margin trading & short selling

(1) Details of margin trading

Items	Closing balance	Opening balance
Individual clients	7,746,047,948.39	6,634,338,492.47
Institutional clients	2,866,246,669.49	1,992,069,126.79
Total	10,612,294,617.88	8,626,407,619.26

(2) Details of short selling

Items	Fair value at the end of the period	Fair value at the beginning of the period
Securities lending to clients	42,091,242.00	42,904,728.31
Including: Held-for-trading financial assets	41,912,068.00	42,904,728.31
Other equity instrument investments	179,174.00	

(3) Fair value of collateral provided by clients for margin trading & short selling

Types of collaterals	Fair value at the end of the period	Fair value at the beginning of the period
Capital	1,251,368,067.62	968,980,790.85
Stock	34,756,759,569.41	23,820,005,143.44
Subtotal	36,008,127,637.03	24,788,985,934.29

VI. Notes to items of parent company financial statements

(I) Notes to items of parent company balance sheet

1. Long-term equity investments

(1) Details

Items	Closing balance		
	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	4,447,108,500.00	481,401,925.54	3,965,706,574.46
Investments in associates	2,202,918,007.98	208,252,876.04	1,994,665,131.94
Total	6,650,026,507.98	689,654,801.58	5,960,371,706.40

(Continued)

Items	Opening balance		
	Book balance	Provision for impairment	Carrying amount
Investments in subsidiaries	4,447,108,500.00	405,979,322.74	4,041,129,177.26
Investments in associates	2,036,288,054.72	208,252,876.04	1,828,035,178.68
Total	6,483,396,554.72	614,232,198.78	5,869,164,355.94

(2) Investments in subsidiaries

Investees	Opening balance	Increase	Decrease
Southwest Securities Equity Investment Co., Ltd.	800,000,000.00		
西证创新投资有限公司 (Southwest Securities Innovation Investment Co., Ltd.*)	1,800,000,000.00		
Southwest Futures Co., Ltd.	509,207,000.00		
Southwest Securities International Investment Co., Ltd.	931,922,177.26		
Subtotal	4,041,129,177.26		

(Continued)

Investees	Provision of impairment	Closing balance	Closing balance of provision
Southwest Securities Equity Investment Co., Ltd.		800,000,000.00	
Southwest Securities Innovation Investment Co., Ltd.		1,800,000,000.00	
Southwest Futures Co., Ltd.		509,207,000.00	29,597,900.00
Southwest Securities International Investment Co., Ltd.	75,422,602.80	856,499,574.46	451,804,025.54
Subtotal	75,422,602.80	3,965,706,574.46	481,401,925.54

* *The English name is for identification purpose only.*

(3) Investments in associates and joint ventures

Investees	Opening balance	Increase/Decrease			
		Investments increased	Investments decreased	Investment profit and loss recognized under equity method	Adjustment in other comprehensive income
Associates					
Yinhua Fund	1,735,925,396.05			253,349,054.38	249,144.96
OTC Company	92,109,782.63			16,331,743.37	
Total	1,828,035,178.68			269,680,797.75	249,144.96

(Continued)

Investees	Increase/Decrease				Closing balance	Closing balance of provision for impairment
	Changes in other equity	Cash dividend/profit declared for distribution	Provision for impairment	Others		
Associates						
Yinhua Fund		100,217,010.15			1,889,306,585.24	208,252,876.04
OTC Company		3,082,979.30			105,358,546.70	
Total		103,299,989.45			1,994,665,131.94	208,252,876.04

2. Employee benefits payable

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	705,318,994.05	1,226,304,516.96	919,057,165.81	1,012,566,345.20
Post-employment benefits - defined contribution plan	2,178,620.14	75,053,451.33	75,764,460.27	1,467,611.20
Termination benefits	209,046.08	2,909.62	63,001.91	148,953.79
Post-employment benefits - defined benefit plan	25,627,449.46	5,115,174.31	877,892.36	29,864,731.41
Total	733,334,109.73	1,306,476,052.22	995,762,520.35	1,044,047,641.60

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease	Closing balance
Wages, bonus, allowance and subsidy	677,426,124.06	1,114,699,238.15	810,392,102.86	981,733,259.35
Employee welfare fund		14,642,122.99	14,642,122.99	
Social insurance premium	1,581,303.74	40,130,688.99	40,283,566.24	1,428,426.49
Including: Medicare premium	360,387.79	37,686,071.39	37,840,352.15	206,107.03
Occupational injuries premium	32,588.33	877,728.88	875,914.96	34,402.25
Maternity premium	1,188,327.62	1,566,888.72	1,567,299.13	1,187,917.21
Housing provident fund		44,972,335.77	44,972,335.77	
Trade union fund and employee education fund	26,311,566.25	11,860,131.06	8,767,037.95	29,404,659.36
Subtotal	705,318,994.05	1,226,304,516.96	919,057,165.81	1,012,566,345.20

(3) Post-employment benefits - defined contribution plan

Items	Opening balance	Increase	Decrease	Closing balance
Basic endowment	1,716,229.21	60,914,040.73	61,580,027.13	1,050,242.81

Items	Opening balance	Increase	Decrease	Closing balance
insurance premium				
Unemployment insurance premium	462,390.93	2,062,589.88	2,107,612.42	417,368.39
Company annuity payment		12,076,820.72	12,076,820.72	
Subtotal	2,178,620.14	75,053,451.33	75,764,460.27	1,467,611.20

(4) Changes in defined benefit plan

1) Present value of defined benefit plan obligations

Items	Current period cumulative
Opening balance	25,627,449.46
Cost of defined benefit plan through current comprehensive income	5,115,174.31
a. Net interest	919,333.49
b. Changes due to remeasurement	4,195,840.82
Other changes	-877,892.36
a. Benefits paid	-877,892.36
Closing balance	29,864,731.41

2) Net liabilities of defined benefit plan

Items	Current period cumulative
Opening balance	25,627,449.46
Cost of defined benefit plan through profit or loss	919,333.49
Cost of defined benefit plan through other comprehensive income	4,195,840.82
Other changes	-877,892.36
Closing balance	29,864,731.41

3) Content of defined benefit plan

The Company provides the following supplement retirement benefit for employees retired before January 1, 2013: for employees with pensions lower than social averages wages, the Company makes up the gap and provides additional subsidy of 500 yuan per person per month; for employees with pensions higher than social averages wages, the Group provides additional subsidy of 800 yuan per person per month.

Under the actuarial assumption, the discount rate is 3.56%, the social average wage growth rate is between 10.00% - 4.00% based on situations in Chongqing and Shenzhen areas, i.e., the male and female life expectancies in Chongqing are 75.09-year old and 80.30-year old respectively, and that in Shenzhen are 78.38-year old and 83.38-year old respectively.

(II) Notes to items of parent company income statement

1. Net handling charges and commission income

(1) Details

Items	Current period cumulative	Preceding period comparative
Net income from securities brokerage business	557,885,682.71	473,994,209.10
Income from securities brokerage business	755,064,789.20	637,182,219.26
Including: Acting trading securities business	635,803,852.76	510,731,198.96
Leasing of trading unit seats	95,933,691.90	112,077,765.56
Proxy sale of financial products	23,327,244.54	14,373,254.74
Expenses for securities brokerage business	197,179,106.49	163,188,010.16
Including: Acting trading securities business	197,179,106.49	163,188,010.16
Net income from investment banking business	264,816,326.83	432,388,290.86
Income from investment banking business	265,867,876.19	474,979,325.27
Including: Securities underwriting business	101,863,207.72	138,541,780.40
Financial advisory business	164,004,668.47	336,437,544.87
Expenses for investment banking business	1,051,549.36	42,591,034.41
Including: Securities underwriting business	1,051,549.36	20,271,398.64
Securities sponsorship business		649,207.17
Financial advisory business		21,670,428.60
Net income from asset management business	58,754,031.75	90,956,952.33
Income from asset management business	94,061,780.52	115,265,590.24
Expenses for asset management business	35,307,748.77	24,308,637.91
Net income from fund management business	669,026.54	946,790.90
Income from fund management business	669,026.54	946,790.90
Net income from investment advisory business	4,752,946.94	2,200,351.26
Income from investment advisory business	4,752,946.94	2,200,351.26
Total	886,878,014.77	1,000,486,594.45
Including: Total income from handling charges and commission	1,120,416,419.39	1,230,574,276.93
Total expenses for handling charges and commission	233,538,404.62	230,087,682.48

(2) Net income from financial advisory business

Items	Current period cumulative	Preceding period comparative
Net income from merger and reorganization financial advisory business - domestic listed companies		1,407,498.34
Net income from merger and reorganization financial advisory business - others	47,508,424.51	65,626,808.56
Other net income from financial advisory business	116,496,243.96	247,732,809.37
Subtotal	164,004,668.47	314,767,116.27

2. Net interest income

Items	Current period cumulative	Preceding period comparative
Interest income	1,616,454,785.30	1,069,506,153.47
Interest income from cash and bank balances or settlement reserve fund	328,736,557.56	375,718,135.55
Interest income from loans to clients for buying securities	658,230,306.49	583,736,281.25
Interest income from financial assets under reverse repo	137,519,179.70	110,051,736.67
Including: Interest income from agreed repurchase business	24,215,974.87	11,570,748.22
Interest income from stock pledged repo transaction	109,716,226.83	90,424,002.28
Others	3,586,978.00	8,056,986.17
Interest income from other debt investments	491,968,741.55	
Interest expense	1,391,514,044.30	1,414,664,941.39
Interest expense for short-term financing bonds payable	105,898,152.12	61,846,112.69
Interest expense for loans from other financial institutions	25,966,161.16	22,781,345.67
Including: Interest expense for securities refinancing	8,069,444.44	
Interest expense for financial liabilities under repo	555,689,526.21	584,640,055.21
Including: Interest expense for quotation-based repos	2,045,326.33	1,606,013.54
Interest expenses for acting trading securities	40,083,324.35	39,915,767.22
Interest expense for bonds payable	647,882,768.99	691,254,146.59
Including: Interest expense for subordinated bonds	290,594,951.76	288,179,947.73
Interest expense arising from other financial liabilities measured using the effective interest method	15,994,111.47	14,227,514.01
Net interest income	224,940,741.00	-345,158,787.92

3. Investment income

(1) Details

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under cost method	285,001,177.49	1,558,448.91
Investment income from long-term equity investments under equity method	269,680,797.75	181,442,272.72
Investment income from disposal of long-term equity investment		30,334,484.13
Investment income from financial instruments	803,751,218.82	——

Including: Investment income during holding period	966,333,178.98	——
- Held-for-trading financial assets	808,847,777.13	——
- Other equity instrument investments	157,485,401.85	——
Gains from disposal of financial instruments	-162,581,960.16	——
- Held-for-trading financial instruments	-43,536,365.58	——
- Other debt investments	60,860,494.85	——
- Derivative financial instruments	-179,906,089.43	——
Investment income from financial assets at fair value through profit or loss	——	1,007,219,508.59
Gains from disposal of financial assets at fair value through profit or loss	——	-362,904,893.94
Investment income from available-for-sale financial assets	——	249,857,619.83
Gains from disposal of available-for-sale financial assets	——	228,193,192.30
Gains from disposal of derivative financial instruments	——	107,966,007.66
Total	1,358,433,194.06	1,443,666,640.20

(2) Investment income from long-term equity investments under equity method

Investee	Current period cumulative	Preceding period comparative	Reason for movement
Yinhua Fund	253,349,054.38	175,284,642.21	Increase of profit in current period
OTC Company	16,331,743.37	6,157,630.51	The cost method was changed to equity method due to the decrease of shareholding proportion
Subtotal	269,680,797.75	181,442,272.72	

(3) Investment income from held-for-trading financial instruments

Held-for-trading financial instruments		Current period cumulative
Financial assets classified as at fair value through profit or loss	Investment income earned in holding period	808,847,777.13
	Gains from disposal	-45,450,005.58
Financial assets designated as at fair value through profit or loss	Investment income earned in holding period	
	Gains from disposal	
Financial liabilities classified as at fair value through profit or loss	Investment income earned in holding period	
	Gains from disposal	1,913,640.00
Financial liabilities designated as at fair value through profit or loss	Investment income earned in holding period	
	Gains from disposal	
Subtotal		765,311,411.55

4. Gains on changes in fair value

Items	Current period cumulative	Preceding period comparative
Held-for-trading financial assets (financial assets at fair value through profit or loss)	583,280,883.08	181,316,616.59
Including: Financial assets designated as at fair value through profit or loss		
Derivative financial instruments	18,234,445.98	6,676,512.66
Total	601,515,329.06	187,993,129.25

5. Business and administrative expenses

Items	Current period cumulative	Preceding period comparative
Employee expenses	1,302,280,211.40	1,065,590,807.75
Leasing expenses	68,823,989.47	84,643,666.17
Consulting expenses	9,011,121.33	15,959,847.73
Depreciation	34,050,418.32	46,795,750.43
Amortization of intangible assets	32,168,282.04	36,455,895.55
Amortization of long-term prepayments	48,804,393.88	44,177,725.33
Business entertainment	22,759,903.03	25,439,816.32
Electronic equipment operating expenses	43,370,060.12	42,574,022.35
Business travelling expenses	21,010,166.29	21,941,637.16
Postages telephone & telegram expenses	23,998,513.39	28,405,299.66
Miscellaneous expenses	6,620,296.90	6,429,022.25
Investor protection funds	22,651,107.16	35,575,301.41
Repair expenses	834,911.75	1,068,899.56
Others	62,220,569.84	39,315,698.88
Total	1,698,603,944.92	1,494,373,390.55

VII. Changes in the consolidation scope

The former subsidiary 西证创新资本(深圳)有限公司 (Southwest Innovation Capital (Shenzhen) Co., Ltd.*) cancelled its registration at the administration for industry and commerce and returned all investment funds to Southwest Securities Innovation Investment Co., Ltd. in November 2019, which, therefore, was excluded from the consolidation scope since the date of returning investment funds.

* *The English name is for identification purpose only.*

VIII. Interest in other entities

(I) Interest in significant subsidiaries

1. Significant subsidiaries

(1) Basis information

Subsidiaries	Main operating place	Place of registration	Business nature	Holding proportion (%)		Acquisition method
				Direct	Indirect	
Southwest Securities Equity Investment Co., Ltd.	Chongqing	Chongqing	Equity investment	100		Set up
Southwest Securities Innovation Investment Co., Ltd.	Chongqing	Chongqing	Investment	100		Set up
西证重庆股权投资基金管理有限公司 (Southwest Securities Chongqing Equity Investment and Fund Management Co., Ltd.*)	Chongqing	Chongqing	Equity investment management and consulting		100	Set up
重庆西证小额贷款有限公司 (Chongqing Southwest Securities Microcredit Co., Ltd.*)	Chongqing	Chongqing	Loans, bills discounting and assets transfer		100	Set up
Southwest Securities International Investment Co., Ltd.	Hong Kong	Hong Kong	Equity investment	100		Set up
Southwest Futures Co., Ltd.	Chongqing	Chongqing	Futures brokerages, investment consulting, assets management	100		Business combination not under common control
重庆鼎富瑞泽风险管理有限公司 (Chongqing Dingfu Ruize Risk Management Co., Ltd.*)	Chongqing	Chongqing	Base differential transaction, warehouse receipt service, cooperative hedging, pricing service		100	Set up
Southwest Securities International Securities Limited	Hong Kong	Hong Kong	Brokerage business, proprietary business, etc.		74.22	Business combination not under common control

2. Structured entities or the structured entities of which the control is formed through entrusted management

For the asset management plan in which the Company acts as its manager or investment consultant and the limited partnership in which the Company acts as its general partner or investment manager, after considering the investment decision-making right and other factors such as risk exposure to variable returns, the Company determines that it has control right over part of the asset management plan and the limited partnership, which are brought into the consolidation scope.

(II) Interest in joint ventures or associates

1. Significant joint ventures or associates

Joint ventures or associates	Main operating place	Place of registration	Business nature	Holding proportion (%)		Accounting treatment
				Direct	Indirect	
Yinhua Fund	Beijing	Shenzhen	Fund management	44.10		Equity method

* *The English names are for identification purpose only.*

2. Main financial information of significant associates

Items	Closing balance/Current period cumulative	Opening balance/Preceding period comparative
	Yinhua Fund	Yinhua Fund
Total assets	3,907,386,771.01	3,360,707,297.87
Total liabilities	1,174,556,484.22	975,407,497.83
Equity attributable to owners of parent company	2,732,830,286.79	2,385,299,800.04
Proportionate share in net assets	1,205,298,401.01	1,051,917,211.82
Adjustments		
Goodwill	892,261,060.27	892,261,060.27
Provision of impairment	-208,252,876.04	-208,252,876.04
Carrying amount of investments in associates	1,889,306,585.24	1,735,925,396.05
Operating revenue	2,230,915,007.13	1,709,278,568.16
Net profit	574,192,373.54	397,450,788.83
Other comprehensive income	564,898.19	1,638,346.11
Total comprehensive income	574,757,271.73	399,089,134.94
Dividend received from associates in current period	100,217,010.15	88,653,224.28

3. Aggregated financial information of insignificant associates

Items	Closing balance/Current period cumulative	Opening balance/Preceding period comparative
Associates	OTC Company	OTC Company
Total carrying amount of investments	124,088,764.07	110,840,000.00
Proportionate shares in the following items		
Net profit	16,331,743.37	6,157,630.51
Other comprehensive income		
Total comprehensive income	16,331,743.37	6,157,630.51

(III) Interest in unconsolidated structured entities

1. Basic information

On December 31, 2019, structured entities that related to the Company but not brought into the consolidation scope included asset management plans, funds and limited partnership that established by the Company, whose nature and purpose are managing investors' assets and earning management fees. Their financing pattern is to issue investment products to investors. The Company's interests in those unconsolidated structured entities mainly include investment income through direct holding investment or management fees income through managing the structured entities; unconsolidated structured entities also included invested asset management plans, limited partnership enterprise and bank financial products that established by other institutions, whose nature and purpose are to obtain investment income. The Company's interests in those unconsolidated structured entities mainly include investment income through direct holding investment.

On December 31, 2019, the structured entities established the Company but not included into the consolidation scope are mainly engaged in investment business. The total entrusted assets of these structured entities as at December 31, 2019 totaled 45,808,157,308.40 yuan.

2. Carrying amount of equity-related assets and liabilities and maximum exposure to losses

Financial statement items	Carrying amount		Maximum exposure to losses	
	Closing balance	December 31, 2018	Closing balance	December 31, 2018
Held-for-trading financial assets, financial assets at fair value through profit or loss and available-for-sale financial assets	3,099,413,756.90	2,773,641,668.57	3,099,413,756.90	2,773,641,668.57

3. Determination method for maximum exposure to losses
No excess losses, and limited to the carrying amount of actual investment.

IX. Risks related to financial instruments

(I) Risk management policies and organization structure

1. Risk management policies

The Company's objectives of risk management are to build a sound risk control indicator system centered on net capital, to build a risk control system covering all business and management activities, to manage market risk and credit risk, to control operational risk and to prevent liquidity risk, so as to ensure the overall risk is measurable, controllable and acceptable. Based on these objectives, the Company has built a sound comprehensive risk management system which is in line with its development strategy, mainly including operable management system, sound organization structure, reliable information technology system, quantified risk indicator system, professional talent team, effective risk coping mechanisms and good risk management culture.

According to the related requirements of the "Company Law", the "Measures for Overall Risk Management of Securities Companies" and the "Guidelines for Internal Control of Securities Companies" etc., the Company establishes a series of regulations and systems including "Internal Control System", "Risk Management System", "Measures for Liquidity Risk Management", "Measures for Market Risk Management", "Measures for Operational Risk Management", "Measures for Credit Risk Management", "Measures for Management of Stress Test", "Measures for Management of Business Authorization", "Risk Control Indicator Dynamic Monitoring Management Method", "Implementation Rules for Monitoring Risk Control Indicator of Net Capital", "Measures for Risk Management of Stock Pledged Repo Transactions", "Measures for Risk Management of Stock Options Brokerage", "Measures for Risk Management of Proprietary Trading on Exchange Traded Derivatives", "Guidelines for Monitoring Risk of Margin Trading and Short Selling Business", "Guidelines for Monitoring Risk of Agreed Repurchase

Transactions", "Guidelines for Monitoring Risk of Brokerage Business", "Guidelines for Monitoring Risk of Asset Management Business", "Guidelines for Monitoring Risk of Securiteis Investment Business" etc., builds a comprehensive and systematic policies and procedures of risk control, strictly follows the principle of standardization, measurement and systematization, performs accurate identification, careful assessment, dynamic monitoring, timely response and full management for the liquidity risk, the market risk, the credit risk, the operational risk, the innovative business risk, etc., so as to make the risk measurable, controllable, acceptable.

During the reporting period, the Company newly formulated risk management systems such as "Measures for Internal Rating Management", "Measures for Financial Instrument Valuation Management", "Measures for Financial Instrument Impairment Management", "Measures for Information Technology Risk Management", "Measures for Risk Management of Overseas Operating Institutions", "Measures for Compliance and Risk Management of STAR Market Business", "Emergency Response Plan for Risk Events of STAR Market Business", etc. According to the management requirements and business development, the Company revised the "Measures for Market Risk Management", "Measures for Credit Risk Management", "Measures for Operational Risk Management", "Measures for Risk Management of RMB Interest Rate Swap Business", "Measures for Margin Trading and Short Selling Management", "Measures for IPO Inquiry and Quotation Management", "Measures for Key Monitoring Account Management", "Measures for Management of White List and Quota of Counterparties in Fixed Income Investment Business", "Measures for Risk Management of Stock Option Brokerage Business", "Guidelines for Monitoring Risk of Brokerage Business", "Guidelines for Monitoring Risk of Credit Trading Business" and "Guidelines for Monitoring Risk of Proprietary Business", so as to improve its comprehensive risk management system.

2. Organization structure of risk governance

The Company uses layered architecture and centralized management model to manage the overall risk. Risk management structure includes four levels, which are the Board of Directors and the Risk Control Committee; the Management, the Chief Risk Officer, and the Risk and Compliance Management Committee; internal control departments such as Risk Control Department, Compliance Department, and Audit Department; functional departments and business units.

The Board of Directors is responsible for supervision, examination, assessment of risk management; Risk Control Committee under the Board is responsible for formulating risk management regulations, objectives, and policies, deliberating risk management strategies, assessment reports of material risk events and solutions of material risk control.

The Management is responsible for implementation of risk management in operation and management; the Chief Risk Officer has full responsibility for risk management, who will not take other incompatible positions or be in charge of incompatible departments and has right to participate or attend any meeting which is related to his/her duty, to access related documents and necessary information. The directors and shareholders shall not breach the established procedures to directly give orders to the Chief Risk Officer or interfere in his/her work.

The Company has set up independent Risk Management Department leading by the Chief Risk Officer, which monitors, assesses, and reports the Company's overall risk level, provides recommendations on risk management in business decision, assists, guides and examines risk management activities of other departments or branches. The Risk Management Department and the Finance Department are jointly responsible for the liquidity risk management, the Brand Publicity Department is in charge of the reputation risk management. All departments, branches, and staffs shall report to the Chief Risk Officer or the Risk Management Department proactively and timely when identifying potential risks.

According to the scope of duty, full-time or part-time compliance positions are set to assist the person in charge of risk management. The head of each branch should fully understand about various risks associated with the business and adequately consider them in the decision making, timely identify, assess, cope, and report related risks, and take direct responsibility of the effectiveness of risk management.

The Company further promoted the establishment of a sound risk management structure and system process, urged its subsidiaries to further improve the risk management structure, ensured that risk management covered all business lines and major risk types, and achieved full coverage of risk management. The risk management of subsidiaries was included in the Company's comprehensive risk management reporting system, and the risk management post in the risk management department of subsidiaries was responsible for summarizing and reporting the business risk of subsidiaries to ensure that the Company fully and promptly understands the risk of subsidiaries.

(II) Credit risk

Credit risk is the risk that borrower or counterparty will cause a financial loss by failing to discharge an obligation.

The Company's credit risk is primarily attributable to: 1) the breach of clients of credit transactions, such as margin trading and short selling, agreed repurchase transactions and stock pledged repo transactions; 2) asset loss and income change due to the default of investment in bonds, namely the issuer or counterparty of the invested bonds default or refuse to pay due principle and interest. Along with the rapid development of the Company's credit services, default event or credit risk exposure may cause a certain degree of losses to the Company.

The credit risk of the Company's financing services mainly attributable to false information provided by clients, clients' failure to make full repayment on time, contractual breach of portfolio limits and compositions, violation of regulatory requirements, and collaterals involved in legal disputes. The credit risk arising from financing services is mainly managed through client education, credit reference checks, credit approval, daily mark to market, client risk alert, forced liquidation, establishment of standards on banning entry, enhancement of project due diligence and follow-up management, judicial recourse and others.

The credit risk management of bond investment is mainly on the basis of risk limits and credit rating etc.; based on the credit risk limits and internal rating, the Company authorizes by levels and categories from three aspects including investment type, issuer, and counterparty. The limits involve two categories which are position limits and trading limits. Position limits include credit risk level of portfolio, exposure to credit risk of counterparties, concentration degree of credit bonds, and the proportion of credit bonds with low credit rating, etc.; trading limits include trading limits of bonds with low credit rating and settlement risk limits of counterparties. Settlement risk limits adopt different settlement methods and grant different credit limits for different types of counterparties. All transactions exceeding the granted limits need to be approved by a higher level of authority. Internal credit rating management system of counterparty includes internal credit rating, measurement of exposure to credit risk, and credit risk stress test for counterparties, etc.

During the reporting period, in order to further improve the level of credit risk prevention and control, and to standardize the internal rating system of bond investment, the Company established the internal rating management system process and internal rating system, formed the internal rating group, set up a special post to be responsible for the internal rating system of bond investment transactions, and established the corresponding risk limit indicator system according to the internal rating results to ensure that the rating results can effectively give guidance to bond investment transactions, as well as control and reduce the credit default risk of bond investment transactions. At the same time, the Company formulated and improved the “Measures for Management of White List and Quota of Counterparties in Fixed Income Investment Business”, established the counter party white list and credit management mechanism, conducted an unified management on counterparties of the proprietary and asset management bond transactions, and further clarified the standard of counter party white list, credit limit calculation rules, credit limit management rules and due diligence standards. In addition, in view of the large scale of bonds that coming due and the frequent occurrence of credit risk events in 2019, the Company actively adjusted the investment scale of proprietary and asset management low-grade bonds and controlled the portfolio risk exposure on the basis of bond investment risk information monitoring work; the Company organized special risk investigations on industries with excess capacity, private enterprise bonds and private-placement bonds to effectively prevent default risk.

Meanwhile, in order to further standardize the Company’s stock pledge business and prevent the default risk of stock pledge financing, the risk control department effectively prevented and reduced the default risk by strictly controlling the business scale, limiting the business concentration, strengthening project risk assessment and credit management, improving due diligence, upgrading the risk monitoring system, strengthening business risk monitoring and improving the closeout and margin call process. At present, the risk exposure level of the Company's stock pledge financing business with its own funds is significantly lower than the industry average, and the overall maintenance guarantee ratio is much higher than the early warning value. The risk of the stock pledge financing business is controllable and affordable as a whole. As of the end of 2019, the Company's overall guarantee ratio of margin trading and short selling business was 337.97%, the overall performance guarantee ratio of agreed repurchase transactions was 246.49%, and the overall performance guarantee ratio of the stock pledged repos was 311.02%.

Measurement of expected credit loss

The Company has implemented the revised financial instrument standards since January 1, 2019, measures the impairment of financial assets that under the expected credit loss framework and recognizes loss allowances accordingly.

The Company adopts a three-stage model to measure the expected credit losses of other debt investments at amortized cost and financial assets other than cash and bank balances, settlement reserve fund, refundable deposits and receivables. The Company classifies relevant financial assets into the following stages according to the changes in credit risk since the initial recognition date:

Stage 1: if the credit risk of a financial instrument has not increase significantly since initial recognition, the Company shall measure the loss allowance at an amount equal to the 12-month expected credit losses.

Stage 2: if the credit risk of a financial instrument has increased significantly since the initial recognition, but there is no objective evidence of impairment, the Company shall measure the loss allowance at an amount equal to lifetime expected credit losses.

Stage 3: for a financial instrument that is credit impaired after initial recognition, the Company shall measure the loss allowance at an amount equal to lifetime expected credit losses.

The assessment factors involved in the expected credit loss model mainly include probability of default (PD), exposure at default (EAD) and loss given default (LGD).

PD refers to the likelihood of a default over a specific period; its calculation involves historical data and expectations of future conditions, etc.;

EAD refers to the total value that the Company is exposed to at the time of default in the next 12 months or the lifetime.

LGD refers to an estimate of the loss arising from a transaction in which a default occurs.

The measurement of expected credit loss is based on the probability weighted results of PD, EAD and LGD.

Whether the credit risk has increased significantly

At initial recognition of a financial asset, the Company will test whether the credit risk has increased significantly according to the impairment requirements. If the credit risk has increased significantly since the initial recognition, the loss allowance shall be measured at the amount equal to lifetime expected credit losses.

When conducting the assessment on credit risk, the Company will consider all reasonable and supportable qualitative and quantitative information, including historical experience and forward-looking information that are available without undue cost or effort. The Company considers different factors when assessing whether the credit risk of each asset portfolio has increased significantly.

In assessing whether the credit risk has increased significantly, the following factors may be considered:

1) Whether there is a significant change in external market indicators for the credit risk of the same financial instrument or similar financial instruments with the same expected duration.

2) Whether there is a significant change in the actual or expected external credit ratings of financial instruments;

3) Whether the actual or expected internal rating of the debtor is downgraded;

4) An adverse change in business, financial or economic conditions that are expected to result in significant changes in the debtor's solvency;

5) Whether there is a significant change in the actual or expected debtor's operating results;

6) Whether there is a significant adverse change in the regulatory, economic or technological environment to which the debtor is subject;

7) Whether there is a significant change in the value of collateral for debt or the quality of guarantee or credit enhancement provided by the third party;

8) A significant adverse change in the effectiveness of actual or expected credit enhancement measures;

9) Whether there is a significant change in the expected performance and repayment behavior of the debtor.

When judging whether the credit risk of financial assets has increased significantly since the initial recognition and measuring the expected credit loss, the Company uses forward-looking information. The Company analyzes historical data to identify expected credit losses of various business types and key economic indicators related to expected credit losses. Key economic indicators include macro-economic indicators and indicators reflecting market volatility, such as GDP, producer price index, consumer price index, stock index, etc.

Specific criteria for the division of three stages of major financial assets, specific measurement methods and parameters for impairment

1) Classification criteria of risk stages

a. The Company classifies the risk stages of bond investment business according to the following standards:

Stages	Classification criteria
Stage 1	Other debts, excluding those in stage 2 and stage 3, that have not triggered conditions of significant increase in credit risk or credit impaired.
Stage 2	The principal or interest is overdue for less than or equal to 30 days. The rating of domestic bonds with credit rating above AA (inclusive) at initial recognition was downgraded and was below AA (exclusive) after the downgrade. The rating of domestic bonds with credit rating below AA at initial recognition was downgraded. Other conditions that indicate a significant increase in credit risk.
Stage 3	The principal or interest has been overdue for more than 30 days. The external rating is default level (domestic default level is D) or the issuer has other default bonds in the open market. Other conditions that can be identified as breach of contract.

b. The Company classifies the risk stages of margin trading and short selling business according to the following standards:

Stages	Classification criteria
Stage 1	Performance guarantee ratio ≥ 150%; Other conditions that have not triggered conditions of significant increase in credit risk or credit impaired.
Stage 2	130% ≤ performance guarantee ratio <150%; Performance guarantee ratio is below 130% only on that very day and the last working day; Other conditions that indicate a significant increase in credit risk.
Stage 3	Performance guarantee ratio <130% for 2 consecutive working days; Other conditions that can be identified as breach of contract.

c. The Company classifies the risk stages of stock pledged repo business and agreed repurchase securities business according to the following standards:

Stages	Classification criteria
Stage 1	Other businesses, excluding those in stage 2 and stage 3, that have not triggered conditions of significant increase in credit risk or credit impaired.
Stage 2	The maximum overdue days of principal or interest are less than or equal to 30 days; The Company's internal client risk is classified as early warning level; The performance guarantee ratio is lower than the recovery line but higher than the closing line; Other conditions that indicate a significant increase in credit risk.
Stage 3	The maximum overdue days of principal or interest are more than 30 days; The Company's internal client risk is classified as default level; The performance guarantee ratio is lower than the closing line; It is intended to dispose of the business in default or other conditions indicating default.

Note: It is only required to satisfy any one of the above classification criteria.

The Company shall implement differentiated management on shares as collateral in stock pledged repo business and agreed repurchase securities transaction business. In principle, the closing line of outstanding shares in projects with own funds is 130%, and the recovery line is 150%; the closing line of restricted shares is 150%, and the recovery line is 170%.

2) Specific measurement methods and parameters of impairment

a. Method for Stage 1 and Stage 2

PD/LGD method: the expected credit loss is measured by using the PD/LGD model in Stage 1 and Stage 2 according to the parameters of EAD, historical actual PD, LGD and forward-looking factors of assets or portfolio at different risk levels, with loss allowance recognized accordingly. The EAD for impairment is the sum of principal and accrued interest receivable under different performance guarantee ratio, and historical actual PD is obtained based on the migration rate conversion or by the internal master scale mapping of external rating and forward-looking adjustment. The LGD is obtained based on the adjustment of external LGD.

b. Method for Stage 3

The Company comprehensively considers the cash flows of all recoverable contracts of each business, while the factors considered include but not limited to the credit status and repayment capacity of the financier, the value of other guaranteed assets, other credit enhancement measures such as joint and several guarantees provided by the third party, etc., and calculates the impairment of the project based on the total valuation of the project collateral and the performance guarantee ratio, and accrues loss allowance accordingly.

The Company's maximum credit risk exposure without taking account of any collateral and other credit enhancements is the carrying amount of financial assets (i.e., balance after deducting the recognized provision for impairment):

Items involving credit risks	Closing balance	Opening balance [Note]
Cash and bank balances	13,424,668,076.82	10,509,663,189.00
Settlement reserve fund	2,912,119,926.36	3,276,097,164.20
Refundable deposits	879,184,971.17	583,244,152.71
Held-for-trading financial assets	12,982,884,020.74	13,699,360,678.57
Loans to clients for buying securities	10,578,077,246.80	8,559,209,293.23
Derivative financial assets	79,592.31	6,300,485.44
Financial assets under reverse repo	1,560,086,843.75	2,086,863,461.70
Accounts receivable	14,746,675.73	52,226,037.05
Other debt investments	11,383,678,879.93	14,029,225,758.72
Other equity instrument investments	179,174.00	
Financial assets in other assets	336,483,506.97	740,377,938.01

Items involving credit risks	Closing balance	Opening balance [Note]
Total	54,072,188,914.58	53,542,568,158.63

Note: Please refer to section III (XXXIII) 2 of the notes to financial statements for details on the difference between the opening balance of current period and the closing balance of preceding period (i.e. December 31, 2018).

(III) Liquidity risk

Liquidity risk is the risk that the Company will not be able to obtain sufficient funds in a timely manner and at reasonable cost to meet its obligations as scheduled, to fulfill other payment obligations and to meet the funding needs of its normal operations.

The Company's liquidity risks mainly include asset liquidity risk and liability liquidity risk. Asset liquidity risk refers to the risk that assets held by the Company cannot be timely realized or the cost of realization is expensive, resulting in the possibility of loss on own investment or client's asset; liability liquidity risk refers to the risk that due to the lack of cash, the Company cannot afford expenses of normal business or repay debts on time, or unable to satisfy the redemption of Group's products in large scale. In addition, factors including stand-by underwriting of investment banking in large amount, the over expanded scale of proprietary business, the maturity mismatch and the large proportion of long-term assets will also cause cash flow problems and difficulties in liquidity.

During the reporting period, the Company further strengthens the management of liquidity index, obtains understandings of its liquidity in a timely manner through stress tests, daily monitoring and measurement, communicates with Financial Treasury Department and Business Department based on the Company's liquidity conditions in corresponding period, suggests relevant departments to further rational asset allocation and to reduce term mismatches, so as to satisfy the needs for adequate liquidity. The Company insists the operating principle of fund operation safety consistent with liquidity and benefits, emphasizes centralized management and operation of funds. Interbank lending and repo transactions are centralized managed by the Financial Capital Department to ensure the adequate liquidity. the Company properly controls investment scale of various securities, avoiding over holding volumes of one single security or over concentration in investment, and builds a mechanism of portfolio analysis by quantitative indicators, and dynamically adjusts the assets allocation so as to ensure the adequate liquidity of the portfolio.

The Company monitors in real time and regularly calculates the monitoring indicators of liquidity risk (liquidity coverage ratio and net stabilization fund ratio). As of the end of 2019, the Company's liquidity coverage ratio was 238.87%, and the net stabilization fund ratio was 143.86%, which were all in compliance with the regulatory requirements.

(IV) Market risk

Market risk is the risk that the Company may encounter fluctuation in fair value or future cash flows of financial instruments due to changes in market price, including foreign currency risk, interest risk, and other price risks.

The Company's Proprietary Trading Department is exposed to market risk, together with securities investment in asset management plan using self-owned fund. The invested equity products and derivatives such as stocks, funds, stock index futures, and portfolios may be exposed to price risk under market price or volatility fluctuations without effective hedge mechanism. The fixed-income securities such as bonds may be exposed to interest rate risk under interest rate and yield curve changes. Fluctuations in foreign currency exchange rates may lead to currency risk.

The Company has set a three-tier decision making and authorization system for self-owned fund investments, composed of the Board of Directors, the Investment Decision-Making Committee, and the Proprietary Trading Department; meanwhile, the independent Risk Management Department has been set to assess, monitor, and report the market risks so as to ensure the Company's overall market risk level is controllable. Risk limits are used to control the market risk faced by each business unit, which include size limit, stop-loss limit, risk level limit, etc. The Board of Directors determines the annual scale of proprietary trading and the maximum affordable risk limit; the Investment Decision-Making Committee determines the scale and stop-loss limit for each project; the Proprietary Trading Department uses portfolio, daily mark to market, project alert line, and stop-loss limit, etc. as frontline control; the Risk Management Department performs real-time monitoring and risk warning, supervises the Proprietary Trading Department to deal with risks. In addition, the Company has established a stress testing mechanism to analyze the possible market risk under extreme scenarios including macroeconomic downturn, significant unfavorable changes in prices and interest rates of securities market, and the occurrence of special risk events, etc., so as to assess the possible losses of self-owned fund investments under extreme scenarios, to determine whether the Company's overall market risk is acceptable and to make risk response strategy.

During the reporting period, the Company newly formulated "Supplementary Plan on Further Regulating the Bond Trading Management", which was rectified and standardized item by item. The Company improved the internal control system of bond investment trading, including the establishing and improving the internal control mechanism of bond investment trading to realize effective supervision and mutual check and balance among various departments of bond investment trading; strengthening the unified management of bond trading to achieve effective supervision and balance; strengthening and standardizing the management of bond investment traders' behavior to prevent the moral risk of bond investment trading and improve the risk management of internal control department on bond business. The Company will establish a multi-indicator differentiated investment benchmark and strengthen the monitoring of abnormal transactions, improve the authorization management of bond investment business and establish a risk emergency response mechanism, and improve the internal rating and due diligence process to enhance the credit risk management level of bond investment transactions. The Company will also establish a unified inquiry tool to standardize the inquiry and trace work of bond investment transactions.

The Company's major exposure to market risk is the price risk of equity securities and the interest rate risk of fixed-income products.

Interest rate risk is the risk that the uncertainty of changes in market interest rates may have influences on the fixed-income investment portfolios. The Company's fixed-income investments include central bank bills, treasury bonds, short-term financing bonds, treasury bond futures, interest rate swaps, etc. The Company daily monitors and measures the indicators such as duration, convexity, and DV01 to measure the interest rate risk of fixed-income investment portfolios. As of December 31, 2019, the parent company's bonds scale is 22.097 billion yuan. Based on the sensitivity analysis to the Company's fixed-income investment portfolios, the influence on the profit before tax and equity providing 100 basis points increase or decrease is as below:

Interest rate fluctuation	Profit before tax	Equity
+100 basis points	-181,164,575.09	-317,202,713.61
-100 basis points	188,335,797.32	328,632,258.17

The price risk of equity securities is the risk arising from price fluctuation in stocks, funds and other equity derivatives. The Company manages the market risk using risk limit indicators such as position limits, quantified risk limits, stop-loss limits, concentration management, etc., and adopts the value at risk (VaR) as the main tool to measure the market risk of portfolios. VaR is the potential maximum losses of portfolios caused by the fluctuation in market prices during a specified time period. The Company adopts confidence interval of 99% and an observation period of one trading day to calculate VaR based on historical data.

The Company's VaR analysis by risk categories is listed as follows (in ten thousand yuan) :

Items	As at December 31, 2019	Highest	Lowest	Averages
Stock price-sensitive financial instruments	2,017	8,819	1,962	5,575
Interest rate-sensitive financial instruments	4,292	4,716	762	1,766
Total portfolio VaR	6,309	13,535	2,724	7,341

X. Fair value disclosure

(I) Fair value of assets and liabilities at fair value at the balance sheet date

Items	Fair value as at the balance sheet date			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurement				
1. Held-for-trading financial assets	4,456,540,815.70	12,359,510,280.26	851,317,737.87	17,667,368,833.83

Items	Fair value as at the balance sheet date			
	Level 1	Level 2	Level 3	Total
Debt instrument investments	710,955,808.75	11,029,481,561.20		11,740,437,369.95
Equity instrument investments	3,745,585,006.95	1,330,028,719.06	851,317,737.87	5,926,931,463.88
2. Other debt investments	251,957,047.62	11,131,721,832.31		11,383,678,879.93
3. Other equity instrument investments	640,264,702.65	2,601,338,749.94	76,389,261.12	3,317,992,713.71
4. Derivative financial assets		79,592.31		79,592.31
Total assets at recurring fair value measurement	5,348,762,565.97	26,092,650,454.82	927,706,998.99	32,369,120,019.78
5. Held-for-trading financial liabilities	488,250.00	779,275,790.12		779,764,040.12
6. Derivative financial liabilities		15,884,343.01		15,884,343.01
Total liabilities at recurring fair value measurement	488,250.00	795,160,133.13		795,648,383.13

(II) Basis for determining level 1 fair value at recurring and non-recurring fair measurement

Market value of level 1 fair value at recurring fair measurement is based on the closing price of active markets such as stock exchange at the end of the period.

(III) Qualitative and quantitative information of valuation technique(s) and key input(s) for level 2 fair value at recurring and non-recurring fair measurement

Items	Valuation techniques	Inputs
Debt instruments	Discount cash flow method	Return on bonds
Equity instruments	Object market price combination method, discounted method	Market price of investment object, discount due to lack of market liquidity
Derivative financial liabilities	Discount cash flow method	Forward rate, discounted rate
Financial liabilities designated as at fair value through profit or loss	Object market price combination method	Market price of investment object

(IV) Qualitative and quantitative information of valuation technique(s) and key input(s) for level 3 fair value at recurring and non-recurring fair measurement

Items for level 3 fair value measurement are all unlisted equity investments. For an unlisted equity investment with insufficient recent information, the Company takes cost as the appropriate estimate of its fair value; for other unlisted equity investments, the Company uses valuation techniques to determine the fair value, including discounted cash flow method and market comparison method, and uses key unobservable inputs such as liquidity discount, volatility, risk adjustment discount and market multiplier in the measurement. The fair value of unlisted equity investments is not significantly sensitive to the reasonable changes of these unobservable inputs.

In 2018, the Company accounted for and presented the above unlisted equity investments as available-for-sale financial assets and measured them at cost. After the implementation of the revised financial instrument standards in 2019, the above unlisted equity investments were classified as held-for-trading financial assets and other equity instrument investments according to the business model, and the valuation method was changed accordingly.

(V) Items for level 3 recurring fair value measurement, a reconciliation from the opening balances to the closing balances, and sensitive analysis on unobservable inputs

	Other equity instrument investment	Held-for-trading financial assets	Available-for-sale financial assets
Balance as at December 31, 2018			547,734,489.91
Impact of the revised standards	76,389,261.12	682,580,203.94	-547,734,489.91
Balance as at January 1, 2019	76,389,261.12	682,580,203.94	
Changes in fair value of those through profit or loss		134,518,277.36	
Changes in fair value of those through other comprehensive income			
Acquisition		79,947,826.91	
Disposal		45,728,570.34	
Closing balance	76,389,261.12	851,317,737.87	

(VI) Fair value of financial assets and liabilities not at fair value

The Company's financial assets and financial liabilities that are not measured at fair value mainly include: cash and bank balances, settlement reserve fund, loans to clients for buying securities, financial assets under reverse repo, refundable deposits, accounts receivable, other financial assets, short-term financing payable, financial liabilities under repo, acting trading securities, accounts payable, bonds payable and other financial liabilities, etc. As at December 31, 2019 and December 31, 2018, there was no significant difference between the carrying amount and fair value of the above financial assets and financial liabilities.

XI. Related party relationships and transactions

(I) Related party relationships

1. Information of the parent company

(1) Parent company

Parent company	Place of registration	Business nature	Registered capital	Holding proportion over the Company (%)	Voting right proportion over the Company (%)
重庆渝富资产经营管理集团有限公司 (Chongqing Yufu Assets Management Group Co., Ltd.*)	Chongqing	Asset management	10 billion	26.99	26.99

(2) The Company's ultimate controlling party is Chongqing State-owned Assets Supervision and Administration Commission.

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2. Please refer to section VIII in the notes to the financial statements for details on the Company's subsidiaries.

3. Associates

Please refer to notes to interest in other entities for details on the Company's significant associates. Details of related party transactions between other associates and the Company in the current period or in preceding period but with balances in current period are as follows:

Joint ventures or associates	Relationships with the Company
Yinhua Fund	Associate
OTC Company	Associate

4. Other related parties of the Company

Related parties	Relationships with the Company
重庆银行股份有限公司 (Bank of Chongqing Co., Ltd.*)	Its directors or senior executives are the directors, supervisors or senior executives of the Company's holding shareholder
重庆市城市建设投资 (集团)有限公司 (Chongqing City Construction Investment (Group) Co., Ltd.*)	Shareholder holding more than 5% shares
安诚财产保险股份有限公司 (An'cheng Property Insurance Co., Ltd.*)	Its directors or senior executives are the directors, supervisors or senior executives of the Company's holding shareholder
重庆高速公路集团有限公司 (Chongqing Expressway Group Co., Ltd.*)	Shareholder holding more than 5% shares
博时基金管理有限公司 (Bosera Asset Management Co., Ltd.*)	Its directors or senior executives are the Company's directors, supervisors or senior executives

(II) Related party transactions

1. Business cooperation with related parties

(1) Trading seat leases

The Company receives trading seat fees as the lessor:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Yinhua Fund	1,537.29	1,170.94
Bosera Asset Management Co., Ltd.	115.64	

(2) Fund consignment

The Company receives handling fees as the consignee:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Yinhua Fund	132.58	170.21
Bosera Asset Management Co., Ltd.	1.45	

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(3) Asset management business

The Company receives managing fees as the manager:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Bank of Chongqing Co., Ltd.	900.39	800.03
Chongqing City Construction Investment (Group) Co., Ltd.	0.93	15.40

(4) Financial products underwriting services

The Company receives service fees as the underwriter:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Bank of Chongqing Co., Ltd.	120.00	275.50

(5) Purchase of financial products

Purchase of fund products and financial products that publicly sold by related parties and acquisition of the trust beneficial right under the collective fund trust plan publicly issued by related parties as well as relevant gains are as follows:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Bank of Chongqing Co., Ltd.		826.85
Yinhua Fund	604.40	

(6) Investment consulting service

The Company receives service fees as the consultor concerning special asset management plan:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Chongqing Expressway Group Co., Ltd.	9.50	

(7) Interbank spot transactions of bonds

Details of the interbank bond transactions with related parties in daily operation of the fixed income business:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Bosera Asset Management Co., Ltd.	5,118.23	
Yinhua Fund	3,180.42	

(8) Interbank pledged repo transactions

Details of the interbank pledged repo transactions with related parties in daily operation of the fixed income business:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
Bosera Asset Management Co., Ltd.	122,564.29	

(9) Purchase of insurance services

Details of fixed assets and vehicle insurances purchased from related parties:

Related parties	Current period cumulative (in ten thousand yuan)	Preceding period comparative (in ten thousand yuan)
An'cheng Property Insurance Co., Ltd.	5.77	8.06

2. Current accounts of related parties

Related parties	Closing balance	Opening balance
Other receivables:		
Chongqing Yufu Assets Management Group Co., Ltd.		30,970,000.00
OTC Company	106,842.33	58,759.73

3. Key management's emoluments

The Company has a total of 17 directors, supervisors and senior executives (including 2 employees resigned during the reporting period). Emoluments payable in the current period totaled 5.02 million yuan, and the actual emoluments paid totaled 5.86 million yuan.

XII. Commitments and contingencies

(I) Significant commitments

As of December 31, 2019, the Company has no significant commitments to be disclosed.

(II) Contingencies

1.The lawsuit brought by the Company against 同益实业集团有限公司 (Tongyi Industrial Group Co., Ltd.*) for dispute over bond transactions

From September 16 to 17, 2019, the Company, as the manager of "Southwest Securities Shuangxi Gold Bond Collective Asset Management Plan No. 1", "Southwest Securities Shuangxi Gold Bond Collective Asset Management Plan No. 2", "Southwest Securities Shuangxi Gold Bond Collective Asset Management Plan No. 3", "Southwest Securities Shuangxi Gold Bond Collective Asset Management Plan No. 4", "Southwest Securities Shuangxi Gold Bond Collective Asset Management Plan No. 5", "Southwest Securities Shuangxi Shengyu Strategy Collective Asset Management Plan No. 2", "Southwest Securities Shuangxi Shengyu Private Placement Strategy Collective Asset Management Plan No. 1", "Southwest Securities Shuangxi Shengyu Hybrid Collective Asset Management Plan No. 4" (collectively referred to as the "Asset Management Plans"), respectively filed lawsuits with the Chongqing No. 1 Intermediate People's Court and the People's Court of Jiangbei District, Chongqing on behalf of the Asset Management Plans,

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requesting Tongyi Industrial Group Co., Ltd. to bear the liability for breach of contract and repay bond principal of 231.326 million yuan and interest thereof, liquidated damages, overdue interest, lawyer's fees, litigation costs, etc. for failing to fulfill the repurchase obligation of 2016 corporate bonds (bond abbreviation: 16 Tongyi Bond) as agreed. Currently, the case is in the first instance stage.

The Asset Management Plans have been brought into the consolidation scope. The Company has performed the duties of the manager strictly in accordance with regulatory provisions and the asset management plan contracts. The final litigation result of the case will be borne by the investors of the Asset Management Plans and the Company enjoys the rights and undertakes the corresponding obligations according to the asset management plan contracts concerning the part with its own fund (with principal approximately amounting to 231 million yuan).

2. The lawsuit brought by the Company against 张林 (Zhang Lin) and 唐军 (Tang Jun) for dispute over stock pledged repos.
In May 2019, the Company filed a lawsuit with the Chongqing No. 1 Intermediate People's Court, requesting the defendant Zhang Lin to repay the financing capital of 34.99 million yuan and interest thereof, liquidated damages, lawyer's fees, etc.; requesting the defendant Tang Jun to bear joint and several liabilities; requesting the defendant Zhang Lin to undertake the guarantee liability with the pledged shares of 3.7141 million shares of Guangdong Paisheng Intelligent Technology Co., Ltd. (Stock Code: 300176), and applying for a confirmation that the plaintiff has the priority of compensation. Currently, the case is in the first instance stage.

3. Petition for enforcement of the lawsuit brought by Chongqing Southwest Securities Microcredit Co., Ltd. against 张抛贫 (Zhang Paopin) and 邓祖兰 (Deng Zulan) for the dispute over mortgaged borrowing contract
The Company's wholly-owned subsidiary Chongqing Southwest Securities Microcredit Co., Ltd. filed a lawsuit with the Jiangbei District People's Court in August 2015, requesting the court to judge that the defendant Zhang Paopin shall repay the principal of 11.7 million yuan and bear interest and cost of the creditor's rights, and the defendant Deng Zulan shall bear joint and several liabilities. The principal of 10.03 million yuan has been recovered. As Chongqing Southwest Securities Microcredit Co., Ltd. intends to cancel the registration, the creditor's rights will be transferred to Southwest Securities Innovation Investment Co., Ltd. during the liquidation period. On February 27, 2020, the Jiangbei District People's Court ruled that the execution applicant was changed to Southwest Securities Innovation Investment Co., Ltd.

4. Petition for enforcement of the lawsuit brought by Chongqing Southwest Securities Microcredit Co., Ltd. against six guarantors including 邓刚 (Deng Gang) and 邓丽娟 (Deng Lijuan) for the dispute over guaranteed borrowing contract
In July 2016, the Company's wholly-owned subsidiary Chongqing Southwest Securities

Microcredit Co., Ltd. filed a lawsuit to Jiangbei District People's Court, and requesting the court to judge that six guarantors including Deng Gang, Deng Lijuan, 邓苏轩 (Deng Suxuan), 吴开平 (Wu Kaiping), 赵红浪 (Zhao Honglang), and 重庆蓥林科技发展有限公司 (Chongqing Yinglin Technology Development Co., Ltd.*) shall jointly and severally paid the loan principle of 10 million yuan owed by 重庆公信科技发展(集团)有限公司 (Chongqing Gongxin Technology Development (Group) Co., Ltd.*) to Chongqing Southwest Securities Microcredit Co., Ltd., together with interest, penalty interest and compound interest. In September 2016, Yubei District People's Court made the judgment of the first trial, requesting the above six guarantors to bear joint and several liabilities for the loan principal, interest, compound interest, and penalty interest. This case has entered into the enforcement phase, and principal of 0.695 million yuan has been recovered. As Chongqing Southwest Securities Microcredit Co., Ltd. intends to cancel the registration, the creditor's rights will be transferred to Southwest Securities Innovation Investment Co., Ltd. during the liquidation period. On December 25, 2019, the Jiangbei District People's Court ruled that the execution applicant was changed to Southwest Securities Innovation Investment Co., Ltd.

5. As of the date of report, there are 100 pending lawsuits for liability dispute over stock misrepresentation on the restructuring project of 鞍山重型矿山机器股份有限公司 (Anshan Heavy Duty Mining Machinery Co., Ltd.*) filed by investors against the Company, involving amount totaling 33.27 million yuan, all of which are currently in the first instance stage.

XIII. Events after the balance sheet date

(I) Application for private placement of A shares

In 2019, the Company promoted the implementation of private placement of A shares. Among the proposed subscribers, Chongqing Yufu Assets Management Group Co., Ltd. (hereinafter referred to as "Chongqing Yufu") is the controlling shareholder of the Company, and Chongqing City Construction Investment (Group) Co., Ltd. (hereinafter referred to as "Chongqing Urban Investment Group") is the shareholder holding more than 5% equity of the Company. According to relevant regulations, the intended subscription for the above A shares by Chongqing Yufu and Chongqing Urban Investment Group constitutes a related-party transaction. In this private placement of A shares (each with par value of 1.00 yuan), Chongqing Yufu intends to subscribe for no less than 280.5 million shares and no more than 330 million shares, with the subscription amount not exceeding 2.31 billion yuan, while Chongqing Urban Investment Group intends to subscribe for no less than 297.5 million shares and no more than 350 million shares, with the subscription amount not exceeding 2.45 billion yuan. The subscription price shall not be lower than the higher of: 1) 90% of the average transaction price of the Company's A shares for the 20 trading days before the pricing benchmark date; and 2) the audited net assets value per share

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attributable to the parent company's shareholders as at the end of the latest period before the issuance. The shares proposed to be subscribed by Chongqing Yufu shall not be transferred within 60 months, and those proposed to be subscribed by Chongqing Urban Investment Group shall not be transferred within 36 months.

As of the date of report, the Company has applied for the private placement of A shares to the CSRC, and has responded to the feedback as required. Currently, the Company is actively promoting the follow-up work.

(II) Profit distribution

Pursuant to the profit distribution plan of 2019 deliberated and approved by the 32nd meeting of the eighth session of the Board of Directors dated April 28, 2020, based on the total share of 5,645,109,124 shares as at December 31, 2019, cash dividend of 0.80 yuan (tax inclusive) per 10 shares is distributed to all shareholders. The plan is to be approved by the shareholders' general meeting.

(III) Others

The outbreak of pneumonia caused by novel coronavirus (the "epidemic") in January 2020 was reported. In order to prevent and control the epidemic, governments all over the country have issued epidemic prevention and control measures, and the Company actively responds to and implements the national regulations and requirements for the epidemic prevention and control. It is expected that the epidemic and prevention and control measures will have a certain impact on the Company's production and operation in 2020, and the degree of influence will depend on the situation of epidemic prevention and control, the duration and the implementation of various control policies. The Company will continue to pay close attention to the development of the epidemic and various regulatory policies, and actively respond to the impact on the Company's financial situation and operating results.

XIV. Other significant events

(I) Segment information

1. Identification basis for reportable segments

Reportable segments are identified based on operating segments which are determined based on the structure of the Company's internal organization, management requirements and internal reporting system. The Company's reportable segments include: brokerages, proprietary business, investment banking, asset management and other business.

2. Details on profit (loss), assets and liabilities of each reportable segment

Year 2019

Items	Brokerages	Proprietary business	Investment banking	Assets management	Others	Offset	Total
I. Operating revenue	1,493,333,721.94	1,566,163,075.93	277,819,448.61	63,292,330.87	88,228,859.83		3,488,837,437.18
Including: 1. Net handling charges and commission income	618,065,829.30	-1,937,036.86	277,819,448.61	63,239,722.26	-7,098,592.53		950,089,370.78
2. Other income	875,267,892.64	1,568,100,112.79		52,608.61	95,327,452.36		2,538,748,066.40
II. Operating cost	754,106,035.50	263,352,691.55	222,024,305.77	55,124,712.11	1,088,110,372.01		2,382,718,116.94
III. Operating profit	739,227,686.44	1,302,810,384.38	55,795,142.84	8,167,618.76	-999,881,512.18		1,106,119,320.24
IV. Total assets	25,496,774,211.36	31,078,573,992.48	11,291,911.81	70,645,064.37	9,297,469,764.21	-103,760,342.63	65,850,994,601.60
V. Total liabilities	12,520,030,238.98	13,529,904,093.37	61,104,093.42	45,080,388.17	20,137,098,030.64		46,293,216,844.58
VI. Supplement information							
1. Depreciation and amortization	56,591,011.04	167,924.72	6,185,411.20	877,589.39	65,817,822.59		129,639,758.94
2. Capitalized expenditure	20,720,666.72	205,831.76	468,473.30	145,483.89	60,225,620.20		81,766,075.87

Year 2018

Items	Brokerages	Proprietary business	Investment banking	Asset management	Others	Offset	Total
I. Operating revenue	1,098,853,906.62	833,904,445.63	450,032,579.52	129,674,510.72	231,688,950.98		2,744,154,393.47
Including: 1. Net handling charges and commission income	538,215,974.79	-4,467,112.22	450,032,579.52	125,611,237.74	36,813,784.67		1,146,206,464.50
2. Other income	560,637,931.83	838,371,557.85		4,063,272.98	194,875,166.31		1,597,947,928.97
II. Operating cost	685,818,407.32	345,124,703.87	339,067,477.35	71,384,976.51	1,084,654,686.98		2,526,050,252.03
III. Operating profit	413,035,499.30	488,779,741.76	110,965,102.17	58,289,534.21	-852,965,736.00		218,104,141.44
IV. Total assets	20,980,580,280.72	33,014,084,931.89	18,086,866.97	80,670,320.28	9,771,610,877.37	-169,817,215.16	63,695,216,062.07
V. Total liabilities	10,813,357,404.93	15,330,662,962.93	55,878,241.54	33,815,349.29	18,484,536,945.43		44,718,250,904.12
VI. Supplement information							
1. Depreciation and amortization	53,957,439.80	539,429.38	5,777,292.69	809,765.97	82,691,277.82		143,775,205.66
2. Capitalized expenditure	31,503,826.78	513,728.52	1,202,020.66	333,182.39	33,467,435.22		67,020,193.57

XV. Other supplementary information

(I) Non-recurring profit or loss

Items	Amount	Remarks
Gains on disposal of non-current assets, including write-off of provision for impairment	4,908,990.18	
Government grants included in profit or loss (excluding those closely related to operating activities of the Company, satisfying government policies and regulations, and continuously enjoyed with certain quantity/quota based on certain standards)	34,426,260.48	
Other non-operating revenue or expenditures	-6,932,664.72	Non-operating revenue - non-operating expenditures
Other profit or loss satisfying the definition of non-recurring profit or loss	6,061,395.76	

Items	Amount	Remarks
Subtotal	38,463,981.70	
Less: Enterprise income tax affected (Less: decrease)	9,456,217.60	
Non-controlling interests affected (after tax)		
Net non-recurring profit or loss attributable to owners of the parent company	29,007,764.10	

(II) RONA and EPS

1. Details

Profit of the reporting period	Weighted averages RONA (%)	EPS (yuan/share)	
		Basic EPS	Diluted EPS
Net profit attributable to shareholders of ordinary shares	5.46	0.18	0.18
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	5.31	0.18	0.18

2. Calculation process of weighted averages RONA

Items		Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares		A	1,042,001,454.67
Non-recurring profit or loss		B	29,007,764.10
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss		C=A-B	1,012,993,690.57
Opening balance of net assets attributable to shareholders of ordinary shares		D	18,577,804,378.69
Net assets attributable to shareholders of ordinary shares increased due to offering of new shares or conversion of debts into shares		E	
Number of months counting from the next month when the net assets were increased to the end of the reporting period		F	
Net assets attributable to shareholders of ordinary shares decreased due to share repurchase or cash dividends appropriation		G	169,353,273.72
Number of months counting from the next month when the net assets were decreased to the end of the reporting period		H	6
Others	Effect of other comprehensive income	I	143,116,194.70
	Number of months counting from the next month when the net assets were increased or decreased to the end of the reporting period	J	6
Number of months in the reporting period		K	12
Weighted averages of net assets		L= D+A/2+ E×F/K-G×H/K± I×J/K	19,085,686,566.52
Weighted average RONA		M=A/L	5.46%
Weighted average RONA after deducting non-recurring profit or loss		N=C/L	5.31%

3. Calculation process of basic EPS and diluted EPS

(1) Calculation process of basic EPS

Items	Symbols	Current period cumulative
Net profit attributable to shareholders of ordinary shares	A	1,042,001,454.67
Non-recurring profit or loss	B	29,007,764.10
Net profit attributable to shareholders of ordinary shares after deducting non-recurring profit or loss	C=A-B	1,012,993,690.57
Opening balance of total shares	D	5,645,109,124.00
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	E	
Number of shares increased due to offering of new shares or conversion of debts into shares	F	
Number of months counting from the next month when the share was increased to the end of the reporting period	G	
Number of shares decreased due to repurchase	H	
Number of months counting from the next month when the share was decreased to the end of the reporting period	I	
Number of shares decreased during the reporting period	J	
Number of months in the reporting period	K	
Weighted averages of outstanding ordinary shares	L=D+E+F×G/K-H×I/K-J	5,645,109,124.00
Basic EPS	M=A/L	0.18
Basic EPS after deducting non-recurring profit or loss	N=C/L	0.18

(2) The calculation process of diluted EPS is the same as that of basic EPS.

Southwest Securities Co., Ltd.

April 28, 2020

ISSUER

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