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Post Hearing Information Pack of

## **GF SECURITIES CO., LTD.**

### **廣發証券股份有限公司**

**(the “Company”)**

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

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**GF SECURITIES CO., LTD.**  
**廣發証券股份有限公司**

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

**[Redacted]**

**Number of [Redacted] under the [Redacted] : [Redacted] H Shares (subject to the [Redacted])**  
**Number of [Redacted] : [Redacted] H Shares (subject to adjustment and the [Redacted])**  
**Number of [Redacted] : [Redacted] H Shares (subject to adjustment)**  
**Maximum [Redacted] : HK\$[Redacted] per H Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing), plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%**  
**Nominal Value : RMB1.00 per H Share**  
**Stock Code : [Redacted]**

*Joint Sponsors\**



**Goldman  
Sachs**

**[Redacted]**

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A copy of this [Redacted], having attached thereto the documents specified in “Documents Delivered to the Registrar of Companies in and Available for Inspection” in Appendix VII to this [Redacted], has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this [Redacted] or any other documents referred to above.

The [Redacted] is expected to be fixed by agreement between us and the [Redacted] (for themselves, and on behalf of the [Redacted] and the [Redacted]) on the [Redacted]. The [Redacted] is expected to be on or around [Redacted] and, in any event, not later than [Redacted]. The [Redacted] will not be more than HK\$[Redacted] and is currently expected to be not less than HK\$[Redacted] unless otherwise announced. If, for any reason, the [Redacted] is not agreed between us and the [Redacted] (on behalf of the [Redacted] and the [Redacted]) by [Redacted], the [Redacted] will not proceed and will lapse.

The [Redacted] for themselves, and on behalf of the [Redacted] and [Redacted] may, with our consent, reduce the number of [Redacted] and/or the indicative [Redacted] range below that stated in this [Redacted] (which is HK\$[Redacted] to HK\$[Redacted] per [Redacted]) at any time prior to the morning of the last day for lodging applications under the [Redacted]. In such a case, notices of the reduction in the number of [Redacted] and/or the indicative [Redacted] range will be published in the [Redacted] (in English) and the [Redacted] (in Chinese) not later than the morning of the last day for lodging applications under the [Redacted]. Such notice will also be available on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.gf.com.cn](http://www.gf.com.cn). Further details are set out in the sections headed “Structure of the [Redacted]” and “How to Apply for [Redacted]” in this [Redacted].

The obligations of the [Redacted] under the [Redacted] to subscribe for, and to procure applicants for the subscription for, the [Redacted], are subject to termination by the [Redacted] (for themselves, and on behalf of the [Redacted] and the [Redacted]) if certain grounds arise prior to 8:00 a.m. on the [Redacted]. Such grounds are set out in the section headed “Underwriting” in this [Redacted]. It is important that you refer to that section for further details.

We are incorporated, and our principal businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and the different risks relating to investment in PRC incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed “Risk Factors”, “Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V — Summary of the Articles of Association” in this [Redacted].

The [Redacted] have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that [Redacted] may be offered, sold or delivered to (i) Qualified Institutional Buyers in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A, or another available exemption from registration under the U.S. Securities Act and (ii) outside the United States in accordance with Regulation S.

\* in alphabetical order

**[REDACTED]**

**EXPECTED TIMETABLE<sup>(1)</sup>**

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[Redacted]

**EXPECTED TIMETABLE<sup>(1)</sup>**

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[Redacted]

**EXPECTED TIMETABLE<sup>(1)</sup>**

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[Redacted]

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**IMPORTANT NOTICE TO PROSPECTIVE INVESTORS**

*We have issued this [Redacted] solely in connection with the [Redacted]. This [Redacted] is not an offer to sell or a solicitation of an offer to buy any securities other than the [Redacted]. This [Redacted] may not be used for the purposes of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a [Redacted] of the [Redacted] in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this [Redacted] in any jurisdiction other than Hong Kong. The distribution of this [Redacted] for purposes of a [Redacted] and the [Redacted] in other jurisdictions are subject to restrictions and may not be made except as permitted under applicable securities laws.*

*You should rely only on the information contained in this [Redacted] and the [Redacted] to make your investment decision. We, the [Redacted], [Redacted], the Joint Sponsors, [Redacted], any of our or their respective directors or advisors, or any other person or party involved in the [Redacted] have not authorized anyone to provide you with information that is different. If anyone provides you with different or inconsistent information, you should not rely on it. Information contained on our website [www.gf.com.cn](http://www.gf.com.cn) does not form part of this [Redacted].*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this [Redacted]. As it is a summary, it does not contain all the information that may be important to you and is qualified by its entirety by, and should be read in conjunction with, the full text of this [Redacted]. You should read this [Redacted] in its entirety before you decide to invest in the [Redacted].*

*There are risks associated with any investment in the [Redacted]. We set out some of the particular risks in investing in the [Redacted] in “Risk Factors,” beginning on page 34 of this [Redacted]. You should read that section carefully before you decide to invest in the [Redacted].*

## OVERVIEW

We are a provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China’s quality SMEs and affluent individuals. According to the SAC, we ranked No. 3 among securities firms in China by net assets and No. 4 by total assets, net capital, revenue and net profit as of and for the year ended December 31, 2013, each on an unconsolidated basis.

We have built a diversified business serving the varying needs of corporations (especially SMEs), individuals (especially affluent individuals), institutional investors, financial institutions and government clients. Our principal business activities are:

- **Investment banking:** we provide equity and debt underwriting and financial advisory services to corporate clients;
- **Wealth management:** we provide brokerage services for the trading of equities, bonds, funds, futures and other tradable securities, and offer investment advisory services and financial products such as asset management products, structured notes and securitization products, and provide margin financing and securities lending and repurchase transaction services;
- **Trading and institutional client services:** we engage in market-making and proprietary trading of equity, fixed-income and derivative products, and provide trading advisory and execution, investment research and prime brokerage services for institutional clients; and
- **Investment management:** we provide asset management and fund management services, and engage in private equity and alternative investments.

## COMPETITIVE STRENGTHS

We are a provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China’s quality SMEs and affluent individuals. We believe that by always putting our clients first and leveraging a market-oriented business mechanism that drives our



## **SUMMARY**

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sustained competitiveness, together with the competitive strengths described below, we are well positioned to capitalize on the market opportunities presented by the transformation of the PRC economy and securities industry, and to maintain and enhance our leadership across various market segments.

- China’s fourth largest securities firm with market-oriented business mechanism;
- China’s leading SME-focused investment bank with strong, comprehensive corporate client service capabilities;
- market-leading wealth management business with a large affluent client base and the industry’s largest investment advisory team;
- strong product innovation and research capabilities resulting in rapid growth of our institutional client services business;
- the largest asset management platform in the PRC securities industry, offering comprehensive investment management services;
- at the forefront of the PRC securities industry in the innovative use of Internet finance, expanding client base by offering enhanced user experience; and
- clearly defined organizational structure and corporate governance, and time-proven and effective risk management capabilities.

## **BUSINESS STRATEGIES**

We aim to become the first-choice provider of comprehensive capital market services in China and abroad to China’s quality SMEs and affluent individuals, especially high-net-worth individuals. To achieve this goal, we plan to enhance our human resources and strategic investments in areas such as investment banking, wealth management, institutional client services, investment management, Internet finance and the globalization of our operations, and adopt the following specific business strategies:

- solidify our strength in serving China’s quality SMEs by expanding our industry coverage, diversifying our service offerings, enhancing our client service capabilities and growing with our clients;
- achieve sustainable growth in revenue by enhancing service capability with respect to affluent clients, especially high-net-worth individuals, and expanding coverage of and deepening product penetration among affluent clients;

## **SUMMARY**

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- solidify our position as a leading market-maker by enhancing our capability to offer comprehensive financial solutions so as to capitalize on the business opportunities from our growing institutional client services business;
- establish a comprehensive investment management platform, strengthen and expand product advantage to create an industry-leading investment management brand;
- devote major efforts in developing Internet finance services and establish a comprehensive Internet finance service platform;
- internationalize our business to capitalize on the globalization of China’s economy;
- optimize our capital structure and reasonably increase leverage while managing liquidity risk, thereby improving return on capital;
- further enhance our performance evaluation system and employee long-term incentive scheme to attract top talent in China and overseas; and
- continue to emphasize sound risk management principles and enhance our overall risk management capabilities.

## **OUR BUSINESS MODEL**

Our business model classifies our products and services into the following four categories:

- **Investment banking:** we earn underwriting commissions and sponsorship and advisory fees from equity and debt underwriting and financial advisory services;
- **Wealth management:** we earn fees and commissions from providing brokerage and investment advisory services to retail clients, and earn interest income from margin financing and securities lending activities, reverse repurchase transactions and cash held on behalf of clients, and earn fees from selling financial products developed by us and other financial institutions;
- **Trading and institutional client services:** we earn investment gains and interest income from market-making in, and proprietary trading of equity, fixed income, and derivative products, and earn fees and commissions from providing trading advisory and execution, investment research and prime brokerage services to institutional clients; and
- **Investment management:** we earn management and advisory fees from providing asset management, fund management and private equity investment management services, and earn investment gains from our private equity and alternative investments.

## **SUMMARY**

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### **SUBSTANTIAL SHAREHOLDERS**

As of the Latest Practicable Date, our registered share capital was RMB5,919,291,464, comprising 5,919,291,464 A Shares. Liaoning Cheng Da Co., Ltd., our single largest Shareholder, held Shares representing approximately 21.12% of our total issued share capital. Jilin Aodong Pharmaceutical Group Co., Ltd., our second largest Shareholder, held Shares representing approximately 21.03% of our total issued share capital. Zhongshan Public Utilities Group Co., Ltd, our third largest Shareholder, held Shares representing approximately 11.60% of our total issued share capital.

Immediately following the completion of the [Redacted] and assuming the [Redacted] is not exercised, Liaoning Cheng Da Co., Ltd. will continue to be our single largest Shareholder, holding A Shares representing approximately [Redacted]% of our then total issued share capital. Jilin Aodong Pharmaceutical Group Co., Ltd. will continue to be our second largest Shareholder, holding A Shares representing approximately [Redacted]% of our then total issued share capital. Zhongshan Public Utilities Group Co., Ltd will continue to be our third largest Shareholder, holding A Shares representing approximately [Redacted]% of our then total issued share capital.

### **SUMMARY OF FINANCIAL AND OPERATING INFORMATION**

The following tables present our summary consolidated financial information as of and for the years ended December 31, 2012, 2013 and 2014. We have derived this summary from our audited consolidated financial statements set forth in the Accountants’ Report in Appendix I to this [Redacted]. You should read this summary in conjunction with those financial statements and accompanying notes, and the information set forth in “Financial Information.”

**SUMMARY**

**Consolidated Statements of Profit or Loss Information**

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Revenue</b>			
Commission and fee income .....	4,001.5	4,399.4	8,217.3
Interest income .....	1,541.2	2,349.2	4,324.6
Net investment gains .....	1,688.1	2,525.1	3,605.0
Other income and gains .....	49.7	58.1	16.6
<b>Total revenue and other income.....</b>	<b><u>7,280.5</u></b>	<b><u>9,331.8</u></b>	<b><u>16,163.5</u></b>
<b>Expenses</b>			
Depreciation and amortization .....	(251.6)	(246.9)	(257.4)
Staff costs .....	(2,435.3)	(2,947.6)	(4,345.9)
Commission and fee expenses.....	(150.3)	(105.5)	(240.8)
Interest expenses .....	(500.4)	(1,378.6)	(2,757.7)
Other operating expenses .....	(1,341.6)	(1,451.9)	(2,100.4)
Impairment losses .....	(290.6)	(117.1)	(149.9)
<b>Total expenses.....</b>	<b><u>(4,969.8)</u></b>	<b><u>(6,247.6)</u></b>	<b><u>(9,852.1)</u></b>
Share of results of associates and joint ventures .....	374.5	393.1	337.2
Profit before income tax .....	2,685.2	3,477.3	6,648.6
Income tax expense.....	(494.9)	(664.7)	(1,503.1)
<b>Profit for the year .....</b>	<b><u>2,190.3</u></b>	<b><u>2,812.6</u></b>	<b><u>5,145.5</u></b>
<b>Attributable to:</b>			
Owners of the Company .....	2,191.5	2,812.5	5,022.6
Non-controlling interests .....	(1.2)	0.1	122.9
	<u>2,190.3</u>	<u>2,812.6</u>	<u>5,145.5</u>

**SUMMARY**

**Consolidated Statements of Financial Position Information**

	As of December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Current assets</b>			
Advances to customers .....	5,246.5	20,490.7	64,695.8
Due from banks .....	—	—	1,000.0
Prepaid lease payments .....	9.6	9.6	9.6
Accounts receivable .....	337.6	322.6	1,267.4
Other accounts receivable, other receivables and prepayments .....	677.1	1,516.3	1,893.3
Amounts due from associates .....	12.3	16.1	8.3
Available-for-sale financial assets .....	11,781.0	19,690.3	32,300.2
Loan and receivable investments .....	—	50.0	402.7
Financial assets held under resale agreements .....	74.2	3,375.2	11,800.7
Financial assets at fair value through profit or loss .....	21,787.6	23,610.3	26,936.7
Derivative financial assets .....	0.1	57.4	91.3
Deposits with exchanges and non-bank financial institutions .....	2,958.0	2,581.7	3,029.9
Clearing settlement funds .....	5,018.2	5,656.3	22,624.8
Pledged and restricted bank deposits .....	381.8	549.5	401.1
Bank balances .....	36,378.8	31,374.1	67,199.4
House accounts .....	9,033.3	6,146.7	18,203.5
Cash held on behalf of customers .....	27,345.5	25,227.4	48,995.9
<b>Total current assets .....</b>	<b>84,662.8</b>	<b>109,300.1</b>	<b>233,661.2</b>
<b>Current liabilities</b>			
Borrowings .....	246.0	444.1	1,285.9
Short-term financing payables .....	7,546.4	9,044.5	29,536.7
Due to banks and other financial institutions .....	3,340.0	5,300.0	1,123.0
Accounts payable to brokerage clients .....	34,287.6	31,609.2	71,465.6
Accrued staff costs .....	1,198.5	1,666.0	3,201.9
Other accounts payable, other payables and accruals .....	502.0	2,151.5	2,714.1
Provisions .....	49.2	47.9	33.4
Current tax liabilities .....	321.5	399.3	1,081.2
Other liabilities .....	469.6	369.9	4,283.3
Derivative financial liabilities .....	0.2	79.5	87.3
Financial assets sold under repurchase agreements .....	8,850.5	19,399.8	50,717.7
<b>Total current liabilities .....</b>	<b>56,811.5</b>	<b>70,511.7</b>	<b>165,530.1</b>
<b>Net current assets .....</b>	<b>27,851.3</b>	<b>38,788.4</b>	<b>68,131.1</b>

## SUMMARY

### Consolidated Statements of Cash Flow Information

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Net cash used in operating activities.....	(5,021.2)	(7,024.6)	(15,040.5)
Net cash used in investing activities .....	(568.4)	(8,022.5)	(8,723.4)
Net cash from financing activities.....	6,014.1	12,372.2	36,106.6
Net increase/(decrease) in cash and cash equivalents.....	424.5	(2,674.9)	12,342.7
Cash and cash equivalents at the beginning of the year.....	8,886.5	9,310.7	6,628.5
Effect of foreign exchange rate changes.....	(0.3)	(7.3)	2.4
Cash and cash equivalents at end of the year .....	<u>9,310.7</u>	<u>6,628.5</u>	<u>18,973.6</u>

### Key Financial Data and Operating Indicators

The following table sets forth the key measurements of our profitability:

	Year ended December 31,		
	2012	2013	2014
Total revenue and other income (RMB in millions) <sub>2</sub> .....	7,280.5	9,331.8	16,163.5
Operating profit (RMB in millions) <sup>(1)</sup> .....	2,261.0	3,026.1	6,294.8
Operating margin <sup>(2)</sup> .....	31.3%	32.6%	39.0%
Adjusted operating margin <sup>(3)</sup> .....	34.4%	38.8%	47.9%
Profit for the year (RMB in millions) .....	2,190.3	2,812.6	5,145.5
Net margin <sup>(4)</sup> .....	30.3%	30.3%	31.9%
Adjusted net margin <sup>(5)</sup> .....	33.3%	36.1%	39.1%
Return on average equity <sup>(6)</sup> .....	6.8%	8.3%	13.5%
Return on average total assets <sup>(7)</sup> .....	2.6%	2.7%	2.8%

<sup>(1)</sup> Represents the difference between total revenue and total expenses.

<sup>(2)</sup> Calculated by dividing operating profit by total revenue.

<sup>(3)</sup> Adjusted operating margin = (total revenue - total expenses) / (total revenue - commission and fee expenses - interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities companies present their operating revenues after deduction of commission and fee expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this [Redacted] may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.

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## SUMMARY

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- (4) Calculated by dividing profit for the year by total revenue.
- (5) Adjusted net margin = (profit for the year) / (total revenue - commission and fee expenses - interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
- (6) Calculated by dividing profit attributable to owners of the Company by the average balance of shareholders' equity at the end of the previous year and the end of the current year.
- (7) Calculated by dividing profit attributable to owners of the Company by the average balance of total assets at the end of the previous year and the end of the current year.

Total revenue and other income increased by 73.2% from RMB9,331.8 million in 2013 to RMB16,163.5 million in 2014. The increase primarily reflected (1) the growth of our margin financing and securities lending business, with the closing balance of margin financing and securities lending increased from RMB19,945.1 million as of December 31, 2013 to RMB64,356.2 million as of December 31, 2014, (2) increased trading in stock and funds by our brokerage clients, with total stock and fund trading volumes increased from RMB3,846.1 billion in 2013 to RMB6,733.5 billion in 2014, (3) the growth of our equity underwriting business, with the number of equity offerings lead-underwritten by us increased from 6 in 2013 to 31 in 2014, and (4) the growth of our asset management business, with the total AUM of GF Asset Management increased from RMB135,784 million as of December 31, 2013 to RMB196,777 million as of December 31, 2014.

Total revenue and other income increased by 28.2% from RMB7,280.5 million in 2012 to RMB9,331.8 million in 2013. The increase primarily reflected (1) the growth of our margin financing and securities lending business, with the closing balance of margin financing and securities lending increased from RMB5,183.0 million as of December 31, 2012 to RMB19,945.1 million as of December 31, 2013, (2) increased trading in stock and funds by our brokerage clients, with total stock and fund trading volumes increased from RMB2,586.3 billion in 2012 to RMB3,846.1 billion in 2013, and (3) increased investment gains from proprietary trading activities, primarily resulting from improved performance of our equity portfolio.

We believe we achieved our financial performance during the Track Record Period because we were able to seize the market opportunities arising from increased financing and investment needs of our clients by leveraging our competitive strengths outlined above, including (1) our investment banking business's brand recognition and strong, comprehensive corporate client service capabilities, (2) our market-leading wealth management business's large affluent client base, and (3) our large asset management platform offering comprehensive investment management services.

Please see “Business — Our Principal Business Lines” on pages 165, 171, 177 and 182 and “Financial Information — Overall Results of Operations” on pages 264 and 265 for details.

## SUMMARY

The following table sets forth our revenue and other income by segments for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	(RMB in millions, except percentages)					
		%		%		%
Investment banking .....	1,119.1	15.4	376.6	4.0	1,785.9	11.1
Wealth management .....	3,460.7	47.5	5,396.9	57.8	8,703.3	53.8
Trading and institutional client services <sup>(1)</sup> .....	1,649.6	22.7	2,242.5	24.0	3,414.7	21.1
Investment management .....	548.6	7.5	910.2	9.8	1,808.0	11.2
Others .....	502.5	6.9	405.6	4.4	451.6	2.8
<b>Total</b> .....	<b><u>7,280.5</u></b>	<b><u>100.0</u></b>	<b><u>9,331.8</u></b>	<b><u>100.0</u></b>	<b><u>16,163.5</u></b>	<b><u>100.0</u></b>

(1) Includes net investment gains from proprietary trading of RMB1,011.7 million, RMB1,523.3 million and RMB2,123.1 million in 2012, 2013 and 2014, respectively, accounting for 13.9%, 16.3% and 13.1% of our total revenue and other income during the same periods.

The following table sets forth our segment margins for the periods indicated, which is calculated as the profit/(loss) before income tax divided by the sum of segment revenue and other income and the share of results of associates and joint ventures.

	Year ended December 31,		
	2012	2013	2014
	(%)	(%)	(%)
Investment banking <sup>(1)</sup> .....	60.4	(3.1)	50.9
Wealth management .....	36.8	43.6	46.5
Trading and institutional client services .....	47.5	39.8	43.2
Investment management .....	88.0	81.6	59.3
Others .....	(171.2)	(203.2)	(233.4)

(1) Our investment banking segment recorded a loss and negative operating margin in 2013, primarily reflecting decreased revenue resulting from decreased IPO activity after the CSRC slowed down issuing approvals for IPOs in October 2012.

For a discussion of our segment results, please see “Financial Information — Segment Operating Results” on page 276.



## SUMMARY

The following table sets forth the key operating data of our principal business lines for the periods indicated:

	Year ended/As of December 31,		
	2012	2013	2014
Amount of equity securities lead-underwritten (RMB in millions).....	17,670.0	3,168.0	34,024.0
Average commission rates of equity offerings lead-underwritten .....	3.8%	2.6%	2.5%
Amount of debt securities lead-underwritten (RMB in millions).....	26,000.0	30,969.1	63,065.0
Average commission rates of debt offerings lead-underwritten .....	0.9%	0.6%	0.6%
Stock and fund trading volume (RMB in billions).....	2,586.3	3,846.1	6,733.5
Average stock and fund brokerage commission rate.....	0.881‰	0.854‰	0.692‰
Closing balance of margin financing and securities lending (RMB in millions) .....	5,183.0	19,945.1	64,356.2
Average proprietary trading volume <sup>(1)</sup> (RMB in millions)....	17,456.8	26,133.8	28,607.0
Stocks .....	3,696.8	4,350.7	4,165.1
Funds .....	1,327.4	896.7	3,124.9
Bonds .....	12,125.1	19,557.5	20,512.7
Derivatives and others .....	307.5	1,328.9	804.3
Average rate of return from proprietary trading <sup>(2)</sup> .....	5.9%	4.4%	12.7%
Combined AUM (RMB in millions) <sup>(3)</sup> .....	149,533.0	281,284.0	368,598.0
Management fees generated by GF Asset Management (RMB in millions) .....	112.0	206.1	425.8
Management fees generated by GF Fund (RMB in millions).....	1,305.8	1,361.7	1,461.4

(1) Calculated by dividing the aggregate daily costs of open trading position by the number of days in the relevant year. |

(2) Calculated by dividing the aggregate net investment gains and other comprehensive income (less impairment loss) of available-for-sale financial assets (before income tax) by average proprietary trading volume. |

(3) Refers to the combined AUM of GF Fund and GF Asset Management. |

### OUR MARKET POSITIONS

We have achieved a leading position in all of our core businesses as set forth below:

- *Equity Finance:* in 2014, we underwrote A share IPOs with an aggregate amount issued of RMB14.6 billion, ranking us No. 1 among PRC securities firms. As of December 31, 2014, we had 38 A share IPO projects pending approval, ranking us No. 1 among PRC securities firms. |

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## SUMMARY

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- *Debt finance:* in 2014, we ranked No. 5 by total number and No. 7 by total amount underwritten among PRC securities firms for enterprise bond and corporate bond issuances.
- *Financial advisory:* in 2014, we acted as financial advisor for 16 major asset restructurings in China that were approved by the relevant regulatory authorities, ranking us No. 3 among PRC securities firms. Since the establishment of the NEEQ in 2006 and up to December 31, 2014, we acted as chief agency broker for the quotations of 73 companies on the NEEQ, ranking us No. 3 among PRC securities firms.
- *Brokerage network:* as of December 31, 2014, we had 249 securities brokerage branches in the PRC, approximately 76.6% of which are located in the Pearl River Delta, Yangtze River Delta and Bohai Rim, China’s most economically developed regions. As of the same date, we also had 26 futures brokerage branches located in 16 provinces and municipalities in China.
- *Margin financing and securities lending:* as of December 31, 2014, the closing balance of margin financing and securities lending amounted to RMB64.4 billion, ranking us No. 4 among PRC securities firms.
- *OTC Sales and Trading:* as of December 31, 2014, according to the China Securities Capital Market Development Monitoring Center, we ranked No. 1 in the PRC securities industry in terms of our registered OTC products.
- *Research:* in 2014, our research team ranked No. 4 in New Fortune’s “Best Domestic Research Team” survey. Out of New Fortune’s 30 sector-specific surveys in 2014, we achieved No. 1 ranking in three sectors, No. 2 ranking in three sectors and No. 3 ranking in six sectors.
- *Asset management:* as of December 31, 2014, we had the largest asset management platform among PRC securities firms as measured by the combined AUM of mutual funds and CAM schemes.

## RISK MANAGEMENT AND CAPITAL ADEQUACY

We have established comprehensive risk management and internal control processes for monitoring, evaluating and managing our exposure to market, credit, operational and legal and compliance risks in our business activities. The CSRC rated us “Class A Grade AA”, the highest rating received by PRC securities firms, for four consecutive years from 2011.

We have established a dynamic net capital monitoring mechanism to comply with the regulatory requirements for net capital. As of December 31, 2014, we had net capital (on an unconsolidated basis) of RMB32,664.1 million. In addition, we are required to comply with certain risk indicator requirements to engage in different businesses, such as direct investment, futures brokerage and proprietary trading. As of December 31, 2012, 2013 and 2014, all of our capital adequacy and risk indicators complied with applicable regulatory requirements. Please see pages 298 and 299 of the [Redacted] for details on our net capital and key regulatory risk indicators.

## SUMMARY

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### RECENT DEVELOPMENTS

Since December 31, 2014, our revenue and profits have continued to grow, and our business has grown in line with historical trends and our expectations. There had not been, as far as we are aware, any change in the general economic and market conditions in the PRC or our industry that would have a material and adverse impact on our business operations and financial condition.

The amount of equity securities lead-underwritten by us decreased from RMB10,341.6 million for the two months ended February 2014 to RMB3,120.2 million for the two months ended February 2015, because we underwrote fewer equity offerings in the two months ended February 2015. The amount of debt securities lead-underwritten decreased from RMB5,590.0 million for the two months ended February 2014 to RMB4,800.0 million for the two months ended February 2015, primarily because of decreased debt financing activities of our clients. Our stock and fund brokerage trading volume increased from RMB596.9 billion for the two months ended February 2014 to RMB1,825.5 billion for the two months ended February 2015, primarily because of increased trading activities of our brokerage clients. The closing balance of margin financing and securities lending increased from RMB64,356.2 million as of December 31, 2014 to RMB72,026.7 million as of February 28, 2015, primarily because our margin financing and securities lending business continued to grow driven by increased client demand. The average proprietary trading volume increased from RMB26,877.4 million for the two months ended February 28, 2014 to RMB36,376.4 million for the two months ended February 28, 2015, primarily reflecting our increased proprietary trading activities. The combined AUM of GF Asset Management and GF Fund increased from RMB368,598.0 million as of December 31, 2014 to RMB421,822.2 million as of February 28, 2015 primarily because of increased investing activities of our clients.

We are required by the CSRC to publish certain unaudited, unconsolidated financial data of our Company and GF Asset Management on the website of the Shenzhen Stock Exchange on a monthly basis. The below discusses the latest of such financial data:

- In the two months ended February 28, 2015, the unaudited unconsolidated total revenue and net profit of our Company were RMB2,303.5 million and RMB971.5 million, respectively, as compared with RMB1,700.5 million and RMB547.6 million during the same period in 2014, respectively. As of February 28, 2015, the unaudited unconsolidated net assets of our Company were RMB38,810.5 million. Such financial data was extracted from the unconsolidated management accounts of the Company for the two months ended February 28, 2014 and 2015 reviewed by our reporting accountants in accordance with International Standard on Review Engagements 2410.
- In the two months ended February 28, 2015, the unaudited unconsolidated total revenue and net profit of GF Asset Management were RMB104.3 million and RMB62.2 million, respectively. As of February 28, 2015, the unaudited unconsolidated net assets of GF Asset Management were RMB769.9 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has performed agreed upon procedures in respect of such financial data based on the Standard on Related Services for CPAs of China No. 4101 — Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (《中國註冊會計師相關服務準則第4101號—對財務信息執行商定程序》). These agreed upon procedures include

## SUMMARY

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(1) comparing the respective income statement and the statement of financial position to the respective general ledger for each line item, (2) comparing the respective statement of changes in equity with the corresponding line items in the respective income statement and the statement of financial position, (3) comparing the revenue calculation schedules of the top ten products for the respective period to the respective sub-ledger, and (4) checking the arithmetical accuracy of the respective income statement, statement of financial position, statement of changes in equity, and the revenue calculation schedules of the top ten products based on the formula set out in the statements or the calculation schedules.

These financial data were extracted from the management accounts of our Company and GF Asset Management for the respective periods prepared based on PRC GAAP. We have not provided a reconciliation to IFRS because the only difference in accounting treatment between PRC GAAP and IFRS arises from the use of different methods in accounting for our investment in E Fund and Guangdong Equity Exchange Center Co., Ltd., the effect of which on the financial data disclosed above is not material. These financial data are not indicative of our operating results for 2015 and are not directly comparable to the consolidated financial information presented in this [Redacted].

On January 30, 2015, we issued subordinated bonds in the principal amount of RMB3.0 billion. We used the net proceeds from the issuance of subordinated bonds primarily to fund our working capital. Please see “Financial Information — Indebtedness” beginning on page 292 of this [Redacted] for details.

On March 9, 2015, we issued RMB3.0 billion principal amount of 365-day 5.30% securities-firm short-term corporate bonds that trade on Shenzhen Stock Exchange’s negotiated transaction platform. These bonds are unsecured and unguaranteed. We used the net proceeds from this issuance primarily to fund our working capital.

## USE OF PROCEEDS

Assuming an [Redacted] of HK\$[Redacted] per H Share (being the mid-point of the stated range of the [Redacted] of between HK\$[Redacted] and HK\$[Redacted] per H Share), we estimate that we will receive net proceeds of approximately HK\$[Redacted] million from the [Redacted] (after deducting the underwriting commissions and other estimated expenses) if the [Redacted] is not exercised.

In line with our business strategies, we aim to become the first-choice provider of comprehensive capital market services in China and abroad to quality SMEs and affluent individuals in the PRC, especially high-net-worth individuals. We intend to use the net proceeds from the [Redacted] for the following purposes and in the amounts set out below:

- approximately [Redacted], or HK\$[Redacted] million, in our wealth management business: primarily developing our margin financing and securities lending business, strategically building an Internet finance platform and wealth management platform, continually improving client penetration and further enhancing our leading position in this business;

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**SUMMARY**

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- approximately [Redacted], or HK\$[Redacted] million, in our investment management, investment banking and trading and institutional client services businesses: primarily providing M&A financing for SMEs, developing investment management products and increasing investment in seed funding to enhance the AUM of our investment management business, and actively striving to become a leading market maker for various financial products and providing liquidity support to enhance our pricing ability and market influence; and
- Approximately [Redacted], or HK\$[Redacted] million, in international operations to further globalize and strengthen our business: primarily investing greater resources in overseas wealth management business in selected countries and/or regions where affluent individuals with PRC background gathered, including but not limited to Hong Kong, Canada and UK; strengthening overseas acquisitions and mergers, investment management and trading and institutional client services businesses; establishing new business platforms through making strategic investments; and advancing our comprehensive services globally by satisfying the needs of clients with PRC backgrounds. Currently, we do not have any specific acquisition or investment target.

For more details, please see “Future Plans and Use of Proceeds” beginning on page 311. |

**[REDACTED] STATISTICS**

All statistics in this table are based on the assumption that no [Redacted] will be granted.

	<b>Based on an [Redacted] of HK\$[Redacted]</b>	<b>Based on an [Redacted] of HK\$[Redacted]</b>
Market capitalization <sup>(1)</sup> .....	HK\$[Redacted]	HK\$[Redacted]
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup> .....	HK\$[Redacted]	HK\$[Redacted]

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(1) The calculation of market capitalization is based on [Redacted] H Shares expected to be [Redacted] and outstanding following the [Redacted].

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company is arrived at after the adjustments referred to in “Appendix II — Unaudited Pro Forma Financial Information.”

**DIVIDEND POLICY**

Our Articles of Association require us to distribute in any three consecutive fiscal years cash dividends in an amount equal to at least 30% of the average annual distributable profits in the same period if there are no significant investment or capital expenditure plans. We may also distribute stock dividends and interim dividends based on our financial performance and working capital requirements.

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## SUMMARY

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We declared cash dividends for 2012, 2013 and 2014 in the aggregate amount of RMB887.9 million, RMB1,183.9 million and RMB1,183.9 million, respectively, representing RMB1.5, RMB2.0 and RMB2.0 per 10 A Shares, respectively. Our A Share dividend payout ratio (calculated by dividing dividend declared for the year by profit for the year attributable to owners of the company) was 40.5%, 42.1% and 23.6%, respectively. Only our A Shareholders are entitled to the cash dividends declared for 2014, which will be paid after the Listing with internal resources, including cash in our bank balances. Our historical dividends may not be indicative of future dividend payments.

Under PRC law, we may only pay dividends out of our distributable profits. For further details, please see “Financial Information — Dividend Policy” beginning on page 307 of this [Redacted]. Furthermore, under CSRC rules, as a securities firm, we are not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in distributable profits.

### RISK FACTORS

There are a number of risks involved in our operations and in connection with the [Redacted], many of which are beyond our control. These risks can be categorized into (i) risks relating to our business and industry, (ii) risks relating to doing business in China and (iii) risks relating to the [Redacted].

We believe our major risks include the risks associated with:

- market and economic conditions in China and other jurisdictions where we operate;
- regulatory changes that may affect our operations or the cost of doing business; and
- our ability to compete effectively in the highly competitive financial services industry.

For further information relating to these and other risks relating to an investment in our Shares, please see “Risk Factors” beginning on page 34 of this [Redacted].

### REGULATORY NON-COMPLIANCE AND INSPECTIONS

We are subject to regulation by PRC and Hong Kong regulatory authorities, such as the CSRC, SAC, the Shenzhen Stock Exchange, the SFC and the Hong Kong Stock Exchange. We have, from time to time, detected incidents of regulatory non-compliance committed by us or our employees. For example, the CSRC inspected our margin financing and securities lending business in December 2014 and issued a regulatory letter identifying certain regulatory violations on January 16, 2015. In addition, we are subject to inspections and examinations by the CSRC and other regulatory agencies, which may reveal certain deficiencies with respect to our business operations, risk management and internal controls. Please see “Business — Laws and Regulations” beginning on page 212 for details.

### NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since December 31, 2014, being the date of our latest audited financial statements.

**SUMMARY**

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**LISTING EXPENSES**

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the [Redacted]. Listing expenses to be borne by us are estimated to be approximately RMB[Redacted], of which approximately RMB[Redacted] is directly attributable to [Redacted] and to be capitalized, and approximately RMB[Redacted] has been or is expected to be reflected in our consolidated income statements. None of the listing expenses were reflected in our consolidated income statements during the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations for 2015.



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## DEFINITIONS

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*In this [Redacted], unless the context otherwise requires, the following expressions shall have the following meanings.*

“A Shares”	domestic shares of our Company, with a nominal value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange and traded in RMB
“active client(s)”	client(s) holding non-dormant account(s)
“affluent client(s)”	wealth management client(s) and high-net-worth client(s)
“affluent individual(s)”	individual(s) with personal assets of at least RMB500,000
“AIWM”	Association of International Wealth Management, an international professional organization located in Switzerland and established in 2007 for practitioners such as wealth managers, portfolio managers, investment advisors and asset management managers worldwide, being an independent third party
	[Redacted]
“Articles of Association” or “Articles”	the articles of association of the Company, a summary of which is set out in Appendix V to this [Redacted]
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board of Directors” or “Board”	the board of Directors
“Bohai Rim”	the region comprising Beijing, Shandong, Tianjin, Liaoning and Hebei
“Business Day”	a day on which banks in Hong Kong are generally open for normal banking business to the public, excluding Saturdays, Sundays and public holidays in Hong Kong
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant



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## DEFINITIONS

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFETS”	China Foreign Exchange Trading System & National Interbank Funding Center (中國外匯交易中心暨全國銀行間同業拆借中心)
“CFEX”	China Financial Futures Exchange (中國金融期貨交易所)
“China” or “PRC”	the People’s Republic of China, and for the purposes of this [Redacted], excluding Hong Kong, Macau and Taiwan
“Company” or “GF Securities”	GF Securities Co., Ltd. (廣發証券股份有限公司), a joint stock company established in Guangdong Province, the PRC with limited liabilities in accordance with PRC laws, the A Shares of which are listed on the Shenzhen Stock Exchange with the stock code 000776, and, if the context requires, including its predecessors, subsidiaries, branch offices and branches
“connected person(s)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“CSDC”	<u>China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限公司)</u>
“CSRC”	China Securities Regulatory Commission (中國証券監督管理委員會)
“Director(s)”	director(s) of our Company
“dormant account”	the A share account and related capital account of an investor whose securities account has nil balance, whose capital account has balance of no more than RMB100 and who has not conducted any trading in securities under his securities account in the last three consecutive years
“E Fund”	E Fund Management Co., Ltd. (易方達基金管理有限公司), a company with limited liability incorporated in the PRC on April 17, 2001, whose 25% equity interest is held by our Company and the remaining 75% held by four independent third parties

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## DEFINITIONS

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“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was adopted by the Tenth National People’s Congress on March 16, 2007, and became effective on January 1, 2008
“GDP”	gross domestic product
“GFHK”	GF Holdings (Hong Kong) Corporation Limited (廣發控股(香港)有限公司), a company with limited liability incorporated in Hong Kong on June 14, 2006, and a wholly owned subsidiary of our Company
“GF Asset Management”	GF Securities Asset Management (Guangdong) Co., Ltd. (廣發証券資產管理(廣東)有限公司), a company with limited liability incorporated in the PRC on January 2, 2014, and a wholly owned subsidiary of our Company, and if the context otherwise requires, including its predecessor, the asset management department of GF Securities
“GF Asset Management (Hong Kong)”	GF Asset Management (Hong Kong) Limited (廣發資產管理(香港)有限公司), a company with limited liability incorporated in Hong Kong on July 14, 2006, and a wholly owned subsidiary of GFHK
“GF Capital (Hong Kong)”	GF Capital (Hong Kong) Limited (廣發融資(香港)有限公司), a company with limited liability incorporated in Hong Kong on July 14, 2006, and a wholly owned subsidiary of GFHK
“GF Financial Markets (UK) Limited”	GF Financial Markets (UK) Limited (previously known as Natixis Commodity Markets Limited), a limited liability company incorporated in the United Kingdom on February 2, 1976 and renamed as GF Financial Markets (UK) Limited on July 26, 2013. GF Futures (Hong Kong) acquired 100% equity interest of GF Financial Markets (UK) Limited in July 2013
“GF Fund”	GF Fund Management Co., Ltd. (廣發基金管理有限公司), a company with limited liability incorporated in the PRC on August 5, 2003, in which our Company currently holds a 51.13% equity interest. Fiberhome Telecommunication Technologies Co., Ltd. (烽火通信科技股份有限公司), Shenzhen Qianhai Heungkong Finance Holding Group Co., Ltd. (深圳市前海香江金融控股集團有限公司), Kangmei Pharmaceutical Co., Ltd. (康美葯業股份有限公司) and Canton Venture Capital Ltd. (廣州科技風險投資有限公司), each an independent third party, hold approximately 15.76%, 15.76%, 9.46% and 7.88% equity interest in GF Fund, respectively

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## DEFINITIONS

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“GF Futures”	GF Futures Co., Ltd. (廣發期貨有限公司), a company with limited liability incorporated in the PRC on March 23, 1993 <sub>2</sub> and a wholly owned subsidiary of our Company
“GF Futures (Hong Kong)”	GF Futures (Hong Kong) Co., Limited (廣發期貨(香港)有限公司), a company with limited liability incorporated in Hong Kong on May 8, 2006, and a wholly owned subsidiary of GF Futures
“GF International Investment Management”	GF International Investment Management Limited (廣發國際資產管理有限公司), a company with limited liability incorporated in Hong Kong on December 10, 2010, and a wholly owned subsidiary of GF Fund
“GF Investments (Hong Kong)”	GF Investments (Hong Kong) Company Limited (廣發投資(香港)有限公司), a company with limited liability incorporated in Hong Kong on September 21, 2011, and a wholly owned subsidiary of GFHK
“GF Qianhe”	GF Qianhe Investment Co., Ltd. (廣發乾和投資有限公司), a company with limited liability incorporated in the PRC on May 11, 2012, and a wholly owned subsidiary of our Company
“GF Securities (Canada)”	GF Securities (Canada) Company Limited, a company with limited liability incorporated in Canada on March 10, 2014, and a wholly owned subsidiary of GF Investments (Hong Kong)
“GF Securities (Hong Kong) Brokerage”	GF Securities (Hong Kong) Brokerage Limited (廣發證券(香港)經紀有限公司), a company with limited liability incorporated in Hong Kong on July 14, 2006, and a wholly owned subsidiary of GFHK
“GF Xinde”	GF Xinde Investment Management Co., Ltd. (廣發信德投資管理有限公司), a company with limited liability incorporated in the PRC on December 3, 2008 <sub>2</sub> and a wholly owned subsidiary of our Company
“GF Xinde Healthcare Capital Management”	GF Xinde Healthcare Capital Management Co., Ltd (廣發信德醫療資本管理有限公司), a company with limited liability incorporated in the PRC on September 12, 2013, and a subsidiary of GF Xinde

[Redacted]

## **DEFINITIONS**

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[Redacted]

“Group” or “we” or “our” or “us”      GF Securities and its subsidiaries, and their respective predecessors

[Redacted]

“H Shares”      overseas listed foreign shares in our ordinary share capital with a nominal value of RMB1.00 each, to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange

“high-net-worth client(s)”      client(s) with assets of at least RMB5.0 million in their accounts with us

“high-net-worth individual(s)”      individual(s) with personal assets of at least RMB5.0 million

“HKSCC”      Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited

“HKSCC Nominees”      HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC

“HK\$” or “Hong Kong dollars” or “HK dollars”      Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong” or “HK”      the Hong Kong Special Administrative Region of the PRC

“Hong Kong Companies Ordinance”      the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

“Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance”      the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

“Hong Kong Listing Rules”      the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time

[Redacted]

## **DEFINITIONS**

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[Redacted]

“Hong Kong Stock Exchange” The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited

[Redacted]

“IFRS” the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by International Accounting Standards Board, and interpretation issued by the International Accounting Standards Committee (IASC)

“independent third party(ies)” party(ies) who, as far as the Directors are aware after having made all reasonable enquiries, are not connected with our Company within the meaning of the Hong Kong Listing Rules

[Redacted]

**DEFINITIONS**

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[Redacted]

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## DEFINITIONS

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“Joint Sponsors”	GF Capital (Hong Kong) and Goldman Sachs (Asia) L.L.C.
“Latest Practicable Date”	[Redacted], the latest practicable date for the inclusion of certain information in this [Redacted] prior to its publication
“Listing”	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about [Redacted], on which the H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and other PRC government departments on August 27, 1994, as amended, supplemented or otherwise modified from time to time
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“Money Lenders Ordinance”	the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong)
“NAFMII”	National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會)
“NCSSF”	National Council for Social Security Fund of the PRC (中華人民共和國全國社會保障基金理事會)
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“New Fortune”	the New Fortune magazine (新財富), an influential finance magazine in the PRC
“Non-PRC resident enterprises”	as defined under the EIT Law, means companies established pursuant to non-PRC laws with their de facto management conducted outside the PRC, but which have established institutions or premises in the PRC, or which have institutions income originating from the PRC without having established organizations or premises in the PRC

## **DEFINITIONS**

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“NPC” National People’s Congress of the PRC (中華人民共和國全國人民代表大會)

[Redacted]

“PBOC” People’s Bank of China (中國人民銀行), the central bank in China

“Pearl River Delta” the region comprising Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Huizhou, Jiangmen and Zhaoqing, all of which are located in Guangdong province

“PRC Company Law” Company Law of the PRC (中華人民共和國公司法), which was amended and adopted by the Standing Committee of the Eighth National People’s Congress on October 27, 2005 and became effective on January 1, 2006, as amended, supplemented and otherwise modified from time to time and subsequently amended by the 12th session of the Standing Committee of the NPC on December 28, 2013 and became effective on March 1, 2014

“PRC GAAP” generally accepted accounting principles in the PRC

“PRC government” the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities



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## DEFINITIONS

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“PRC Securities Law”	Securities Law of the PRC (中華人民共和國證券法) as promulgated by the Standing Committee of the NPC on December 29, 1998 and effective on July 1, 1999, as last amended on August 31, 2014 with immediate effect
	[Redacted]
“Promoters”	the promoters of our Company at its conversion into a joint stock limited company on July 25, 2001
“province”	each being a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the central governmental of the PRC
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the U.S. Securities Act
“Renminbi” or “RMB”	the lawful currency of the PRC
“Risk Indicator Measures”	Administrative Measures for the Risk Indicator of Securities Companies (2008 Amendment) (證券公司風險控制指標管理辦法 (2008 年修訂))
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAC”	Securities Association of China (中國證券業協會)
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	<u>the Securities and Futures Commission of Hong Kong</u>
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	shares of our Company, with a nominal value of RMB1.00 each, comprising the A Shares and H Shares
“Shareholder(s)”	holder(s) of the Shares

## **DEFINITIONS**

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“Shenzhen Stock Exchange”	the Shenzhen Stock Exchange (深圳證券交易所)
“SMEs”	enterprises that meet the listing criteria of SME Board or ChiNext Board of the Shenzhen Stock Exchange, the NEEQ or the Growth Enterprise Market of the Hong Kong Stock Exchange
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994
	[Redacted]
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary” or “subsidiaries”	has the meaning ascribed <u>thereto under</u> the Hong Kong Listing Rules
“substantial shareholder”	has the meaning ascribed thereto <u>under</u> the Hong Kong Listing Rules
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of our Company
“Track Record Period”	the years ended December 31, 2012, 2013 and 2014
	[Redacted]
“U.S. dollars” or “US\$” or “USD”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“wealth management client(s)”	client(s) with assets ranging from RMB500,000 to RMB5.0 million in their accounts with us

## **DEFINITIONS**

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[Redacted]

“Wind Info”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a company with limited liability incorporated in the PRC in 1994 and an integrated service provider of financial data, information and software, being an independent third party
“Xinjiang GF Xinde Wensheng”	Xinjiang GF Xinde Wensheng Investment Management Co., Ltd. (新疆廣發信德穩勝投資管理有限公司), a company with limited liability incorporated in the PRC on March 25, 2013, and a wholly owned subsidiary of GF Xinde
“Yangtze River Delta”	the region comprising Jiangsu and Zhejiang provinces and Shanghai

*In this [Redacted], the terms “associate”, “close associate”, “connected person”, “controlling shareholder”, “core connected person” and “substantial shareholder” shall have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.*

*Certain amounts and percentage figures included in this [Redacted] have been subjected to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.*

*Certain abbreviations used and defined in the English [Redacted] are not used in the Chinese version. In the Chinese [Redacted], the full expression for these abbreviations is included in both the defined term and its definition.*

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## GLOSSARY

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*This glossary contains explanations of certain terms used in this [Redacted] in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.*

“AUM”	assets under management
“A shares”	the shares that are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange in Renminbi
“B shares”	foreign invested shares that are traded on the Shanghai Stock Exchange or Shenzhen Stock Exchange in U.S. dollars or HK dollars
“CAGR”	compound annual growth rate
“CAM”	collective asset management
“CBOT”	Chicago Board of Trade
“CME”	Chicago Mercantile Exchange
“COMEX”	Commodities Exchange Inc.
“C-type brokerage branch(es)”	securities brokerage branch(es) that are not equipped with on-site information systems nor provide on-site securities trading services
“capital-based intermediary”	services that securities firms provide to clients in their securities and derivatives trading, investment and financing by leveraging their capital position and integrated trading platform, primarily including margin financing and securities lending, repurchase agreements, collateralized stock repurchase agreements, dealer-quoted bond repurchase agreements, total return swaps, OTC market-making and provision of liquidity
“ChiNext Board”	the growth enterprise board of the Shenzhen Stock Exchange (深圳證券交易所創業板)
“CSI 300 Index”	a capitalization-weighted stock market index compiled by the China Securities Index Company, Ltd. (中證指數有限公司) and designed to replicate the performance of 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange
“CSI 300 Index Futures”	CSI 300 index futures contracts
“eIPO”	electronic IPO

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## GLOSSARY

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“ETFs”	exchange-traded funds
“FICC”	fixed-income, currencies and commodities
“FOF”	fund of funds
“ft <sup>2</sup> ”	<u>square feet</u>
“H shares”	overseas-listed shares of PRC companies that are traded on the Hong Kong Stock Exchange
“IPO”	initial public offering
“IB”	referral of clients by securities firms to futures companies
“IT”	information technology
“LME”	London Metal Exchange
“margin financing and securities lending”	provision of collaterals by investors to securities firms qualified for conducting margin financing and securities lending business to borrow funds for securities purchases (margin financing) or to borrow and sell securities (securities lending)
“m <sup>2</sup> ”	<u>square meter</u>
“M&A(s)”	merger(s) and acquisition(s)
“Main Board”	the stock exchange (excluding the futures market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
“MOF bonds”	debt instruments issued by the Ministry of Finance
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“Net Capital”	equals net assets minus risk-adjusted financial assets, other risk-adjusted assets and contingent liability minus/plus other adjustments recognized or approved by the CSRC
“NYMEX”	New York Mercantile Exchange
“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)

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## GLOSSARY

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“RQFII”	RMB Qualified Foreign Institutional Investor (人民幣合格境外機構投資者)
“SAM”	specified asset management
“securitization”	financing through issuance of tradable securities backed by specific asset portfolio or cash flows
“SME Board”	the Small and Medium Enterprises Board of the Shenzhen Stock Exchange (深圳證券交易所中小企業板)
“sponsor representative(s)”	professional representative(s) qualified in the PRC to sponsor and execute the offerings and listings of securities pursuant to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (證券發行上市保薦業務管理辦法)
“ST stock(s)”	Special treatment stock(s) of listed companies that experience unusual circumstances in their financial condition or operation, exposing them to delisting risks or making it impracticable for investors to evaluate the companies’ business prospects
“structured notes”	marketable securities issued by securities firms with the payment of principal and return linked to specific underlying assets
“TAM”	targeted asset management
“TMT”	technology, media and telecommunications
“VaR”	value at risk

*Certain abbreviations used and defined in the English [Redacted] are not used in the Chinese version. In the Chinese [Redacted], the full expression for these abbreviations is included in both the defined term and its definition.*

## **FORWARD-LOOKING STATEMENTS**

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This [Redacted] contains forward-looking statements. Such forward-looking statements relate to events that are subject to significant risks and uncertainties, including the risks described in the section headed “Risk Factors” in this [Redacted]. These forward-looking statements include (but are not limited to) words and expressions such as “aim”, “expect”, “believe”, “plan”, “intend”, “estimate”, “project”, “seek”, “anticipate”, “may”, “will”, “should”, “would” and “could” or similar words, expressions or statements or the negative thereof, in particular, in the sections headed “Business” and “Financial Information” in this [Redacted] in relation to future events, including our strategies, plans, objectives, goals, targets, future financial results, business prospects, the future development of our industry, the general economy of our key markets and the national and global economy.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future and the information currently available to our management. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance, which is subject to known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, and may cause our 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 risks and uncertainties include, but are not limited to, those discussed under “Risk Factors” and elsewhere in this [Redacted] and the following:

- general political and economic conditions;
- macroeconomic measures taken by the PRC government to manage economic growth;
- future development, trends and environment of the industry and markets in which we operate;
- exchange rate fluctuations and evolving legal systems pertaining to the PRC and the industry and markets in which we operate;
- regulatory environment of the PRC and the industry in which we operate;
- market competition, and action and development of competitors;
- our business prospect;
- our business plans, strategies and goals and our ability to successfully implement these business plans, strategies and goals;
- our expansion plan and change in estimated capital expenditure;
- our financial conditions, operating results and performance;
- our ability to reduce costs;

## **FORWARD-LOOKING STATEMENTS**

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- fluctuations in our service fee and commission income; and
- our dividend policy.

We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this [Redacted]. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this [Redacted] might not occur. All forward-looking statements contained in this [Redacted] are qualified by reference to the cautionary statements set out in this section.



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## **RISK FACTORS**

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*You should carefully consider all of the information in this [Redacted], including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially adversely affect our business, financial condition and results of operations. The trading price of our H Shares could significantly decrease if any of these risks materializes, and you may lose all or part of your investment. You should note that we are a PRC company governed by a legal and regulatory regime that differs from that of other countries. For more information concerning China and certain related matters discussed below, please see “Supervision and Regulation,” “Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions” and “Appendix V — Summary of the Articles of Association.”*

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

#### **Our businesses may be adversely impacted by market and economic conditions in China and other jurisdictions where we operate.**

Our businesses are highly dependent on economic and market conditions in China and other jurisdictions in which we operate, including Hong Kong. As China’s capital markets are still continuing to develop and improve, market conditions may change suddenly and dramatically, and could materially adversely affect our results of operation and financial condition. In addition, global market conditions may adversely affect the Chinese market. For example, recent volatilities in the capital markets in the United States and Europe, which may recur in the future, had affected China’s financial markets.

Unfavorable or uncertain economic and market conditions could adversely affect investors’ confidence, resulting in decline in securities trading and corporate finance activities, which may adversely affect the commission and fee income from our wealth management business and the underwriting commission and sponsor fee income from our investment banking business. Unfavorable financial or economic conditions and market volatility may also reduce the value of our trading and investment positions and increase the risk of default in our margin financing and securities lending business. During periods of adverse financial or economic conditions, we may experience decline in the value of our asset management portfolio, reduced opportunities to exit and realize value from our private equity investments, and increased client redemptions, which could adversely affect the fee income from our asset management business and investment gains from our private equity business. In addition, we may not be able to find suitable investments for our funds to effectively deploy capital during periods of unfavorable or uncertain economic and market conditions, which could adversely affect our ability to raise new funds.

In addition, our results of operations and financial condition could also be adversely affected by changes in interest rates. For example, an increase in interest rates could cause a corresponding decline in the market value of fixed-income products we invest in and increase our cost of funding. A decrease in interest rates could lower the yields on our new fixed-income investments.

## **RISK FACTORS**

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**Our businesses are highly regulated in China and other jurisdictions in which we operate.**

As a participant in the financial services industry, we are subject to extensive regulation in China and other jurisdictions in which we operate. Our regulators limit our business activities by imposing capital requirements, limiting the types of products and services we may offer and restricting the types of securities we may invest in.

The PRC and overseas regulatory authorities conduct periodic inspections, examinations and inquiries in respect of our compliance with relevant regulatory requirements. For example, the CSRC assigns a regulatory rating to each securities firm based on its risk management capabilities, competitiveness and compliance with regulatory requirements. For four consecutive years since 2011, we have received from the CSRC a “Class A Grade AA” regulatory rating, the highest rating received by PRC securities firms during that period. However, we cannot assure you that the CSRC will not lower our regulatory rating in the future, which may cause us to be subject to a higher reserve ratio for our securities investor protection fund or make us ineligible for conducting certain new businesses or obtaining business permits or approvals for our businesses. Any of these events may materially and adversely affect our business, financial condition and results of operations.

We have in the past been found to be non-compliant with regulatory requirements. For example, the CSRC inspected our margin financing and securities lending business in December 2014 and issued a regulatory letter identifying certain regulatory violations of some of our margin financing and securities lending accounts on January 16, 2015. In 2014, non-compliant margin accounts accounted for approximately 1% of the total interest income of our margin financing and securities lending business, and approximately 0.2% of our total brokerage commission and fee income. Please see “Business — Laws and Regulations — Regulatory Non-Compliance” for details. Material incidents of non-compliance may subject us to penalties or limitations or conditions on our business activities, which could have a material adverse effect on our business, financial condition or results of operations.

New laws or regulations or changes in enforcement of existing laws or regulations applicable to our businesses or those of our clients could be imposed on a subset of financial institutions (based on size, activities, geography or other criteria), which may adversely affect our ability to compete effectively with other financial institutions that are not affected in the same way. In addition, deregulation could subject us to increased competitive pressures, which could have a material adverse effect on us.

**If we are unable to compete effectively in the highly competitive financial services industry, our business and prospects may be materially adversely affected.**

We operate in intensely competitive markets, in particular in the securities markets of China and Hong Kong. We compete on the basis of a number of factors, including price, products and services, innovation, execution capability, reputation, experience and knowledge of our staff, employee compensation and geographic scope.

## **RISK FACTORS**

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We compete principally with other large securities firms in China and Hong Kong. We also face increasing competition from small securities firms, especially in our wealth management business. In addition, we compete with commercial banks, insurance companies, fund managers and private equity funds in particular areas, such as wealth management and asset management businesses. In addition, we expect that we will face increased competition in our other businesses if the Chinese regulators change the laws to allow other financial institutions to engage in businesses traditionally engaged in only by securities firms.

We have experienced intense price competition in some of our businesses in recent years. For example, increasingly intense industry competition has resulted in downward pressure on brokerage commissions. In particular, we expect the rapid development of Internet finance in China to increase competition for our businesses and products, which may result in lost clients or decrease in the assets our clients invest or trade through us. In addition, our underwriting, financial advisory and asset management businesses have also been subject to pricing pressure from our competitors. We believe that we will continue to experience competition in these and other areas in the future as some of our competitors seek to obtain market share by reducing prices.

We also face competition from foreign institutions in China and overseas, many of which are larger in terms of asset size and client base and have greater financial resources, more specialized capabilities or more extensive distribution capabilities. Some of the foreign financial institutions we compete with have been expanding their operations in China, either organically or in partnership with existing financial institutions in China. We expect that we will face greater competition from our foreign competitors if the limitations and restrictions on the business activities of foreign financial institutions in China are lifted in the future. We also face increasing competition in overseas securities markets as we expand our international operations.

**Our business, financial condition or results of operations could be materially and adversely affected by a reduction in our clients’ trading activities or our brokerage commission rates.**

Revenue from our brokerage business depends significantly on the number of trades that we execute for our clients, which in turn is influenced by market conditions in China, Hong Kong and other jurisdictions where we operate our businesses. Trading volume is influenced by macro-economic and market conditions, government monetary policies, fluctuations in interest rates and investor behavior, all of which are beyond our control. Our brokerage business could also be adversely affected by a reduction in our brokerage commissions as a result of increased price competition in the brokerage industry. For example, some of our competitors have recently launched Internet account opening services, which significantly lowered the commission rates charged to brokerage clients. We believe that price competition and pricing pressure will continue as investors are increasingly less willing to pay for brokerage services, and some of our competitors seek to obtain market share by further reducing brokerage fees and commissions. As a result, our brokerage revenues could decline in the future, which could materially adversely affect our results of operations and financial condition.

## **RISK FACTORS**

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**We may incur substantial losses in connection with our equity and fixed income sales and trading due to market volatility or sub-optimal investment decision-making.**

We engage in the trading of various types of investment products, including equity, equity-linked securities, fixed income securities and derivatives. As each type of product we trade presents a different risk and revenue profile, we are exposed to risks that are specific to each investment product, and we could incur substantial losses from our investments due to fluctuations in or our failure to assess market conditions. In 2012, 2013 and 2014, the average daily VaR of the Company’s investment portfolio at a 95% confidence interval was RMB87.8 million, RMB86.9 million and RMB82.3 million, respectively. In addition, accounting rules requires us to adjust some of our investments to their fair value and reflect any related gains or losses in our results of operations, and therefore may increase the volatility of our financial results. Furthermore, limited availability of investment options and hedging strategies in China may affect our ability to effectively hedge our exposure to the risks associated with our investments, which could materially adversely affect our results of operations and financial condition.

**Our asset management fees could decline if the investments we manage perform poorly or our clients withdraw assets we manage.**

In 2012, 2013 and 2014, revenue and other income from our investment management business accounted for 7.5%, 9.8% and 11.2%, respectively, of our total revenue and other income. Investment performance affects our AUM and is also one of the most important factors in retaining clients and competing for new investment management business. Market volatility and limitations in investment options and hedging strategies in China could limit our ability to provide stable returns for our clients and cause us to lose clients. In addition, we may not be able to keep or increase our AUM due to increased competition from other securities firms, fund managers, private equity investment funds, insurance companies, trust companies, banks and other competitors, which could adversely affect our results of operations and financial condition.

**Our investment banking business is subject to various risks associated with the underwriting and sponsorship of securities.**

Our investment banking business accounted for approximately 15.4%, 4.0% and 11.1% of our total revenue and other income in 2012, 2013 and 2014. If a project is not completed as scheduled or at all for any reason, such as failure to obtain regulatory approval for a listing application we sponsor, we may not receive payment for our services in a timely manner, or at all, which could materially adversely affect our results of operations and financial condition. In addition, if we fail to sell the securities we underwrite, we would suffer reputational damage, as well as incur expenditure to purchase and hold the underwritten securities, thereby materially adversely affecting our results of operations and financial condition.

Securities offerings in China are generally subject to compliance reviews and approvals by the PRC regulators. The timing and the result of the reviews and approvals are beyond our control and may substantially delay or result in the abortion of the securities offerings we sponsor or underwrite. We cannot assure you that the CSRC will approve the offerings that we sponsor or underwrite in a timely manner or at all in the future.

## **RISK FACTORS**

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When we act as a sponsor, we must fulfill certain due diligence and disclosure requirements in connection with the offering. Failure to satisfy these requirements could subject us to fines and other administrative or regulatory penalties, including suspension of our licenses, which could materially adversely affect our business, reputation, financial condition and results of operations. For example, we have in the past been found to have failed to discharge our duty to monitor several companies after their listings, which we sponsored. Please see “Business — Laws and Regulations — Regulatory Non-Compliance” for more details.

In addition, as the CSRC promotes the transformation of China’s IPO system from an approval-based to a registration-based system and PRC regulators adopt other deregulation measures, securities firms must increasingly possess strong client development, research, pricing and distribution capabilities. If we are unable to continue to maintain our leading research, pricing and distribution capabilities or fail to adjust our business strategies to meet the new challenges brought by such reforms, we may not be able to compete effectively against other securities firms, which could in turn materially adversely affect income from our equity underwriting business.

**We may fail to realize profits from our private-equity investment management or lose some or all of the capital invested.**

Our private equity funds hold investments in securities that are not publicly traded. The ability of our private equity funds to dispose of investments is dependent on the stock markets. During stock market volatility, our private equity funds may sometimes be forced to sell stakes in the investee companies at undesirable prices or defer the sale, potentially for a substantial length of time, exposing our investment returns to market risks during the intended disposition period. In addition, failure of the net profit of the portfolio companies to meet expectations could also affect our ability to exit our investments. We expect to continue to make capital investments in our current and future private equity funds provided that we continue to meet the relevant net capital and risk indicators requirements. Contributing capital to these funds is risky, and we may lose some or all of the principal amount of our investments.

In addition, we have limited control over the portfolio companies in which we have invested. We are subject to the risk that our portfolio companies may make business, financial or management decisions that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve our interests. Furthermore, our portfolio companies may fail to abide by their agreements with us, for which we may have limited or no recourse. If any of the foregoing were to occur, the value of our investments could decrease and our financial condition, results of operations and cash flow could be adversely affected.

**Holding large and concentrated positions may expose us to losses.**

We commit substantial amounts of capital to margin financing and securities lending activities, repurchase transactions, proprietary trading, institutional client services and our investment management business. This exposes us to concentration risks, including market and credit risks, from holding particular assets or asset classes as part of our investment portfolio or our margin financing and securities lending business. Any significant decline in the value of such assets may reduce our revenue or result in losses.

## **RISK FACTORS**

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**We face increasing risks as new business initiatives lead us to offer new products and services, transact with a broader array of clients and counterparties and expose us to new asset classes and new markets.**

As we continually expand our business and adjust our business strategies in response to the changing market, our new business initiatives often lead us to offer new products and services and transact with individuals and entities that are not our traditional clients and counterparties. These business activities expose us to new and greater risks, including reputational concerns arising from dealing with less sophisticated counterparties and investors, greater regulatory scrutiny, increased credit, operational and market risks.

**Our operations may be adversely affected if we fail to obtain or maintain necessary approvals for conducting a particular business or offering specific products.**

We operate in a highly regulated financial industry where many aspects of our business depend upon obtaining and maintaining the necessary approvals, licenses, permits or qualifications from relevant PRC regulators, such as the CSRC. We are required to comply with the relevant regulatory requirements when applying for approvals, licenses or permits for conducting new businesses or offering new products. As China’s legal system and financial services industry continue to evolve, changes in the relevant laws and regulations or in their interpretation or enforcement may make them more difficult to comply with, or adversely affect the type and scope of businesses we are permitted to engage in. For example, the AUM of our TAM schemes grew significantly during the Track Record Period, primarily because of the relaxation of certain regulatory restrictions. Please see “Business — Our Principal Business Lines — Investment Management — Asset Management — GF Asset Management” for details. We cannot assure you the AUM of and management fees attributable to TAM schemes will not decline significantly in the future due to adverse changes in relevant regulatory requirements. In addition, further regulatory approvals, licenses, permits or qualifications may be required in the future, and some of our current approvals, licenses, permits or qualifications are subject to periodic renewal. If any of our business activities fails to meet the regulatory requirements, or if we fail to obtain or renew the required permits, licenses, approvals or qualifications, our business, financial condition and results of operations may be materially adversely affected.

**We are subject to the risks associated with overseas expansion.**

We have expanded and intend to further expand our operations beyond China. In expanding our business internationally, we have entered and plan to continue to explore markets where we have limited or no experience. We may not be able to attract a sufficient number of clients because of our limited presence in these markets. Furthermore, we may fail to adequately address competitive conditions in new markets that are different from those in our existing markets. In addition, such expansion may increasingly subject us to the risks inherent in conducting business internationally, including but not limited to:

- economic instability and recessions;
- political instability;



## **RISK FACTORS**

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- approval or license requirements;
- obligations to comply with foreign laws and other regulatory requirements;
- potential adverse tax consequences;
- changes in tariffs;
- difficulties in administering foreign operations generally;
- increased risks of exposure to terrorist activities;
- fluctuations and changes in currency exchange rates;
- inability to effectively enforce contractual or legal risks; and
- difficulties in recruiting and retaining qualified personnel.

In particular, despite our efforts to comply with all applicable regulations in all the jurisdictions in which we operate, we may fail to do so. Overseas regulators may bring administrative or judicial proceedings against us or our employees, representatives, agents and third-party service providers, which could adversely affect our business, reputation, financial condition and results of operations.

**Our business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by our clients and counterparties.**

We are exposed to the risk that our clients and counterparties may default on their obligations to us as a result of bankruptcy, lack of liquidity, operational failure or other reasons. The amount and duration of our credit exposure have been increasing over the past several years, as has the breadth of the entities to which we have credit exposure. Our credit risk exposure arises from a variety of business activities, including margin financing and securities lending, futures trading, collateralized stock repurchase agreements, derivatives and repurchase transactions. For example, we are subject to substantial risks in our margin financing and securities lending business, if borrowers of margin loans default on payments or the value of the collateral for the loans is insufficient to cover the margin loan amount. Although we regularly review our credit exposure to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. We may also fail to receive all relevant information with respect to the trading risks of our clients and counterparties. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us.

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## **RISK FACTORS**

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**Our risk management policies, procedures and internal control systems may not fully protect us against all risks we are exposed to.**

We have established risk management policies and internal control systems and procedures to manage our risk exposure to the risks associated with our business activities. Certain areas within our risk management policies and internal control systems and procedures may require constant monitoring, maintenance and continual improvement by our senior management and staff. Although we implement our risk management policies and internal control systems, they may not totally prevent the occurrence of non-compliance incidents, such as our former Supervisor’s breach of 9.09 (b) of the Listing Rules as described in “our History and Operational Reform — Our Shareholding and Group Structure”. Our businesses and prospects may be materially adversely affected if our efforts to maintain these policies, systems and procedures are ineffective or inadequate. Deficiencies in our risk management and internal control systems and procedures may adversely affect our ability to record, process, summarize and report financial and other data in an accurate and timely manner, as well as adversely impact our ability to identify any reporting errors and non-compliance with rules and regulations.

**Our business may be adversely affected if we are unable to retain and hire key senior managers and employees.**

Our business depends upon the continued services of our key senior managers and employees. Our ability to effectively compete in the industry and manage and expand our businesses depends on our ability to attract new talented employees and to retain and motivate our existing employees. If we lose the services of any key senior manager or employee, we may not be able to secure suitable or qualified replacement, and may incur additional expenses to recruit and train new personnel, which could severely disrupt our business and growth. In addition, if any of our key senior managers resigns and joins our competitors, our business could be adversely affected. Competition for talented employees in the financial services industry is intense, and the availability of suitable and qualified candidates is limited. This is particularly the case in new markets that we enter into, where we often compete for talent with entities that have a significantly greater local presence or established brand name. We may need to pay higher compensation to attract and retain experienced personnel required to achieve our business objectives and failure to do so could severely disrupt our business and growth.

**A failure in our operational systems or infrastructure, or those of third parties, could impair our liquidity, disrupt our business, damage our reputation and cause losses.**

Our business is highly dependent on our ability to process and monitor daily, a large number of transactions, many of which are highly complex. As our client base and our geographical network expand and client demand on service quality increases, the volume, speed, frequency and complexity of transactions also increase. This is especially the case for electronic transactions and the requirements to report transactions on a real-time basis to clients, regulators and exchanges. As a result, developing and maintaining our operational systems and infrastructure become more challenging, and our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as human error, natural disasters, power failure, computer viruses, spam attacks, unauthorized access and data loss or leakage. The inability of our systems to accommodate



## **RISK FACTORS**

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an increasing volume of transactions could also constrain our ability to expand our business. We must continually update these systems to support our operations and growth and to respond to changes in regulations and markets. We must also invest heavily in controls and training to ensure that such transactions do not violate applicable laws and regulations. Any error in processing such transactions may adversely affect the markets, our clients and counterparties or the firm. System enhancements and updates, as well as the requisite training, entail significant costs and create risks associated with implementing new systems and integrating them with existing ones.

Our operations depend on the secure processing, storage and transmission of confidential and other information in our computer systems and networks and we are vulnerable to unauthorized access, computer viruses or other malicious programs and other events that could cause a security breach. An occurrence of one or more of such events could jeopardize the confidentiality of information processed, stored in, and transmitted through our computer systems and networks, or otherwise disrupt our operations, which could result in reputational damage, litigation and financial losses.

We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any operational failure or termination of the particular financial intermediaries that we use could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk. In addition, as our interconnectivity with our clients grows, we will increasingly face the risk of operational failure with respect to our clients’ systems.

We routinely transmit and receive personal, confidential and proprietary information through the Internet, by email and other electronic means. Any interception, misuse or mishandling of personal, confidential or proprietary information sent to or received from a client or counterparty could result in legal liability, regulatory action and reputational harm. We are also exposed to similar risks arising from the interception, misuse or mishandling of personal, confidential or proprietary information by, vendors, service providers and other third parties who may receive such information from us, and our efforts to ensure that these third parties have appropriate controls in place may not be successful.

### **Fraud or misconduct by our employees, supervisors, representatives, agents, clients and other third parties could harm our reputation and business and is difficult to detect and deter.**

Fraud or misconduct by our employees, supervisors, representatives, agents, clients and other third parties could result in violation of law, regulatory sanctions against us and material reputational and financial harm to us. Such misconduct could include entering into transactions that exceed authorized limits, hiding unauthorized or unsuccessful activities resulting in unknown and unmanaged risks or losses, improperly using or disclosing confidential information, recommending transactions that are not suitable for us or our clients, engaging in fraudulent or otherwise improper activities, engaging in unauthorized or excessive trading to the detriment of us or our clients, or otherwise not complying with laws or our internal control procedures.

We have, from time to time, detected regulatory incidents arising from fraud or misconduct by our employees, supervisors, representatives, agents, clients or other third parties. For example, our former Supervisor, Ms. Chak Mei Hing, breached Rule 9.09(b) of the Listing Rules when a company she controlled sold A Shares during the restricted period prescribed under that rule. Please see “Our

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History and Operational Reform — Our Shareholding and Group Structure” for details. We have not been subject to any penalty for such incidents, nor have any of our approvals or permits required for our business operations been revoked as a result of these incidents. However, we cannot assure you that future incidents of fraud or other misconduct will not occur or future regulatory incidents will not subject us to severe penalties or limitation on our business activities. It is not always possible to detect fraud or other misconduct by our employees, supervisors, representatives, agents, clients or other third parties and our internal control procedures designed to monitor our operation and ensure overall regulatory compliance may not be able to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. We could also suffer from negative publicity, reputational damage or litigation losses that arises from such fraud or misconduct, which may materially adversely affect our business, results of operations or financial condition.

**Substantial legal liability or significant regulatory action against us could have material adverse financial effect or result in significant reputational damage, which in turn may seriously harm our business prospects.**

We face significant legal risks in our business, including potential liabilities under securities or other laws for materially false or misleading statements made in connection with securities offerings, potential liabilities for the advice provided to clients in corporate transactions and possible disputes over the terms and conditions of complex trading arrangements. We may also be subject to claims for alleged negligent misconduct, breach of fiduciary duty or breach of contract. These risks may be difficult to assess or quantify and their existence and magnitude often remain unknown for a substantial period of time. We may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies.

From time to time, we are party to legal proceedings arising in the ordinary course of our business. We may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations or cause significant reputational harm to us and seriously harm our business prospects.

**We may not be able to detect money laundering and other illegal or improper activities in our business operations on a timely basis or at all, which could subject us to liabilities and penalties and adversely affect our business.**

We are required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in China and other jurisdictions in which we operate. The PRC Anti-money Laundering Law (中華人民共和國反洗錢法) and the anti-money laundering laws and regulations in Hong Kong, the United Kingdom and Canada require us, among other things, to adopt and enforce sound internal control policies and procedures and to report suspicious transactions to the regulatory authorities in different jurisdictions. Although we have adopted policies and procedures aimed at detecting and preventing the use of our networks for money-laundering activities by terrorists and terrorist related organizations and individuals generally, such policies and procedures may not completely eliminate instances where our networks may be used by other parties to engage in money laundering and other

## **RISK FACTORS**

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illegal or improper activities due to, in part, the short history of these policies and procedures. To the extent we may fail to fully comply with applicable laws and regulations, the relevant government agencies to which we report have the power and authority to impose fines and other penalties on us, which may adversely affect our business.

**Our liquidity and businesses may be adversely affected by an inability to access capital markets or to sell assets.**

Liquidity is essential to our businesses, particularly those businesses that involve investing, lending and market-making, such as margin financing and securities lending and provision of liquidity to clients. Our liquidity may be impaired by an inability to access the debt and equity markets, an inability to sell assets at market price or at all or unforeseen outflows of cash. This situation may arise due to circumstances that we may be unable to control, such as a general market disruption or an operational problem that affects our counterparties or us, or the perception among market participants that we, or other market participants, are experiencing liquidity risk. Furthermore, our ability to sell assets may be impaired if other market participants are seeking to sell similar assets at the same time, as is likely to occur in a liquidity crunch or other market crisis. If our available funding is limited or we are forced to fund our operations at a higher cost, these conditions may require us to curtail our business activities and increase our cost of funding, both of which could reduce our profitability.

**We are subject to capital requirements that may restrict our business activities.**

The CSRC requires securities firms in China to maintain certain minimum net capital and net asset ratios. For example, securities firms in China must maintain a minimum net capital to net asset ratio of 40%, a minimum net capital to total liabilities ratio of 8% and a minimum net assets to total liabilities ratio of 20%. A failure to meet such requirements could subject us to penalties and restrictions or conditions on our business activities in China, which could materially adversely affect our business, reputation, results of operations or financial condition.

**We may not be able to successfully manage our risks through the use of derivatives. In addition, derivative transactions may expose us to unexpected risks and potential losses.**

We engage in derivatives transactions, including interest rate swaps and treasury futures, to hedge the interest rate exposure that arises from our asset and liability positions. We also use derivative instruments, such as stock index futures, to reduce the impact of price volatility of our investment portfolio. However, as the derivatives market in China is still in its early stage of development, our ability to hedge the market risks associated with our businesses in China is constrained by the limited availability of derivative products. Therefore, we may not be able to successfully use available derivative instruments to reduce our exposure to fluctuations in interest rates and foreign exchange rates and the prices of our investment products.

## **RISK FACTORS**

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We also engage in derivative transactions as part of our trading and investment activities. Derivative contracts we enter into expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected losses. While a transaction remains unconfirmed or during any delay in settlement, we are subject to heightened credit and operational risk and in the event of default may find it more difficult to enforce the contract. In addition, the secondary market for derivatives is volatile and we may be inexperienced in dealing with new products or making appropriate judgments in trading derivative products.

**We regularly encounter potential conflicts of interest. Failure to appropriately identify and address conflicts of interest could adversely affect our business.**

Because of the broad scope of our businesses and our client base, we regularly encounter potential conflicts of interest, including situations where our services to a particular client or our own investments or other interests conflict, or are perceived to conflict, with the interests of another client, as well as situations where our businesses have access to material non-public information that may not be shared with other businesses within the firm and situations where we may be a counterparty of an entity with which we also have an advisory or other relationship.

We have extensive procedures and controls that are designed to identify and address conflicts of interest, including those designed to prevent the improper sharing of information among our businesses. We also have systems and procedures in place to detect employee misconduct, as well as training programs designed to foster a culture of professionalism and adherence to the highest standards of business ethics among our employees. However, appropriately identifying and dealing with conflicts of interest are complex and difficult, and our reputation could be damaged and the willingness of clients to enter into transactions with us may be affected if we fail, or appear to fail, to identify, disclose and deal with conflicts of interest appropriately. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

**We may be subject to liability and regulatory action if we are unable to protect personal data and confidential information of our clients.**

We are subject to various laws, regulations and rules governing the protection of the personal data and confidential information of our clients. We routinely transmit and receive personal data and confidential information of our clients through the Internet, by email and other electronic means. Third parties may have the technology or expertise to breach the security of our transaction data and we may not be able to ensure that our vendors, service providers, counterparties or other third parties have appropriate measures in place to protect the confidentiality of information. In addition, we cannot assure that our employees who have access to the personal data and confidential information of our clients will not improperly use such data or information. If we fail to protect our client's personal data and confidential information, the competent authorities may issue sanctions against us and we may have to provide economic compensation for losses arising from such failure. In addition, incidents of mishandling personal information or failure to protect the confidential information of our clients could bring reputational harm to us, which may materially adversely affect our businesses and prospects.

## **RISK FACTORS**

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**The use of the “Guangfa” brand name by other entities may expose us to reputational risks if these entities take actions that damage the “Guangfa” brand name.**

The “Guangfa” brand name is also used by other entities in China. If any of these entities takes any action that damages the “Guangfa” brand name, or any negative publicity is associated with any of these entities, our reputation, business, growth prospects, results of operations and financial condition may be materially and adversely affected.

**The level of our indebtedness and potential unavailability of credit may materially adversely affect our business.**

We rely on bank and other external borrowings and bond issuances to fund a significant portion of our working capital requirements. Our financial condition, liquidity and business operations will be adversely affected to the extent we are not able to repay our debt in a timely manner because of the lack or unavailability of internal resources or inability to obtain alternative financing. Even if we are able to meet our debt service obligations, the amount of debt we borrow could adversely affect us in a number of ways, including by:

- limiting our ability to obtain any necessary financing in the future for working capital, strategic investment, debt service requirements, or other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business;
- placing us at a competitive disadvantage relative to our competitors who have lower levels of debt;
- increasing our financing cost;
- making us more vulnerable to a downturn in our business or the economy generally;
- subjecting us to the risk of being forced to refinance our debts at higher interest rates; and
- requiring us to use a substantial portion of our cash to pay principal and interest on our debt, instead of contributing those funds to other purposes such as working capital and other capital requirements.

**We have not obtained title certificates to some of the properties we occupy and some of our lessors lack relevant title certificates for properties leased to us, which may materially adversely affect our right to use such properties.**

As of December 31, 2014, we owned and occupied one parcel of land and 145 properties in China. We have not obtained the land use right certificate and/or building ownership certificate for some of these properties. Please see “Business — Properties” for details. We are in the process of completing the legal procedures for obtaining the relevant building ownership certificates for such

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properties. However, there can be no assurance that we will be able to obtain the title certificates. Our rights as owner or occupier of these properties may be adversely affected as a result of the absence of formal title certificates and we may be subject to lawsuits or other actions against us and may lose the right to continue to operate on these properties.

As of December 31, 2014, we leased 333 properties in China, some of which the owners were not able to provide us with relevant title ownership certificates. If any of our leases is terminated as a result of challenges by third parties or if we fail to renew them upon expiration, we may be forced to relocate affected operations or subsidiaries and may incur additional costs associated therewith, which could materially adversely affect our business, financial condition and results of operations.

**The wealth management products that we distribute are risky investments and our failure to identify, fully appreciate or disclose such risks will negatively affect our reputation, client relationships, operations and prospects.**

We distribute a broad variety of wealth management products developed in-house or by third-party product providers. These products often have complex structures and involve various risks, including credit risks, market risks, liquidity risks and other risks. Our success in distributing these products depends, in part, on our successful identification and full appreciation of risks associated with such products. Financial products sold to clients are required to match their financial sophistication and risk-return profile. There is no guarantee that our risk management policies and procedures will be fully effective in mitigating the risk exposure of our clients in all market environments or against all types of risks. If we fail to identify and fully appreciate or disclose the risks associated with the wealth management products we distribute to clients, or sell unsuitable financial products to clients, and as a result our clients suffer financial loss or other damages, we could be subject to lawsuits brought by clients or regulatory actions, which could damage our reputation and client relationships, and adversely affect our business and prospects.

### **RISKS RELATING TO DOING BUSINESS IN CHINA**

**Our business could be materially adversely affected by changes in the economic, political and social conditions in China, as well as by changes in policies adopted by the PRC government.**

Most of our assets are located in China, and we derive most of our revenues from our operations in China. Accordingly, our business, results of operations, financial condition and prospects are subject to economic, political and legal developments in China.

Although the PRC’s economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, a substantial portion of productive assets in the PRC is still owned or controlled by the PRC government. The PRC government also exercises significant control over the economic growth through allocating resources, controlling capital investment, reinvestment and foreign exchange, setting monetary policies and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasizing the use of market forces to drive economic



## **RISK FACTORS**

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development. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy but have a negative effect on the industries in which we operate and subsequently our business.

While China’s economy has grown significantly in the past 30 years, there is no assurance that such growth can be sustained. Since the second half of 2008, the global economic slowdown, continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively added downward pressure to China’s economic growth. China’s real GDP growth rate declined from 9.3% in 2011 to 7.7% in 2013. If the business environment in China deteriorates as a result of the slowdown in economic growth, our business may be materially adversely affected.

**The PRC legal system is still evolving and there are inherent uncertainties as to interpretation, implementation and enforcement of laws and regulations, which could limit the legal protection available to us and to our Shareholders.**

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

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

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

**The PRC government’s control of foreign currency conversion may limit our foreign exchange transactions, including dividend payment on our H Shares.**

Substantially all of our revenues and expenses are denominated in RMB, which is currently not a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account, which includes the payment of dividends, do not require prior approval

## **RISK FACTORS**

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from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks with the PRC. As a result, following the completion of the [Redacted], we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Our foreign exchange transactions under the capital account, however, must be approved in advance by the SAFE. We cannot assure you that we will be able to obtain such approval in a timely manner, or at all.

There can be no assurance that the policies regarding foreign exchange transactions under the current account and the capital account will continue in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an effect on our foreign exchange transactions and the fulfillment of our other foreign exchange requirements. If there are changes in the policies regarding the payment of dividends in foreign currencies to shareholders or other changes in foreign exchange policies resulting in insufficient foreign exchange, our payment of dividends in foreign currencies may be affected. If we fail to obtain approval from the SAFE to convert RMB into any foreign exchange for foreign exchange transactions, our business, financial condition and results of operations may be adversely affected.

### **Fluctuations in exchange rates could have material adverse effect on our financial condition and results of operations.**

We collect substantially all of our revenues in RMB, some of which will need to be converted into foreign currencies to pay dividends to holders of our H Shares. The value of RMB against foreign currencies fluctuates, which is subject to changes resulting from the PRC government’s policies, domestic and international economic and political developments as well as supply and demand in the monetary market. Since July 2005, the PRC government has adopted a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of RMB against the U.S. dollar on the inter-bank spot exchange market to 1.0% around the central parity rate. In March 2014, PBOC further enlarged the floating band for the trading price of RMB against the U.S. dollar on the inter-bank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong and U.S. dollars against RMB, our ability to pay dividends in foreign currencies may be adversely affected.

In addition, since dividends in respect of our H Shares will be declared in RMB and paid in Hong Kong dollars, holders of our H Shares in countries other than China are subject to risks arising from adverse movements in the value of the RMB against the Hong Kong dollar, which may reduce any dividends paid in respect of the H Shares. Furthermore, following the [Redacted], our exposure to risks associated with foreign currency fluctuations may further increase as the net proceeds from the [Redacted] are expected to be denominated in currencies other than RMB. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. We cannot predict how the RMB will fluctuate in the future. The fluctuation in the exchange rate between the RMB and other currencies could have a material and adverse effect on our business, financial condition and results of operations.



## **RISK FACTORS**

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**Investments in the PRC securities firms are subject to ownership restrictions that may adversely affect the value of your investment.**

Investments in securities firms in China are subject to a number of ownership restrictions. Prior approval from the CSRC is required for any person or entity to hold 5.0% or more of the registered capital or total issued capital of a PRC securities firm. If a shareholder of a PRC securities firm increases its shareholding above the 5.0% threshold without obtaining prior approval from the CSRC, its voting right is invalid to the extent that it exceeds the 5.0% threshold and the shareholder could be subject to sanctions by the CSRC, such as correction of such misconduct, fines and confiscation of any related gains. In addition, our Articles of Association prohibit any entity or individual from directly or indirectly holding more than 5% equity interest in our Company without the approval of the CSRC. If any violation is not rectified in a timely manner, any shares that exceed the 5% limit will not carry voting rights during the period of violation. Ownership restrictions imposed by the government and our Articles of Association may materially adversely affect the value of your investment.

**It may be difficult to effect service of legal process upon, or to enforce any judgments obtained outside the PRC against us, our directors, supervisors or senior executive officers residing in the PRC.**

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

On July 14, 2006, the Supreme People’s Court of the PRC and the Government of the Hong Kong Special Administrative Region signed an Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters. Under such arrangement, where any designated People’s Court 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, any party concerned may apply to the relevant People’s Court or Hong Kong court for recognition and enforcement of the judgment. Although the arrangement became effective on August 1, 2008, the outcome and effectiveness of any action brought under the arrangement remains uncertain.

**Dividends payable by us to our foreign investors and gain on the sale of our Shares may be subject to withholding taxes under the PRC tax laws.**

Non-PRC resident individuals and Non-PRC resident enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares in accordance with applicable PRC tax laws, rules and regulations. Non-PRC domestic resident individuals are required to pay PRC individual income tax under China’s Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the overseas residents reside reduce or provide an exemption for the relevant tax obligations.

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Generally, a convenient tax rate of 10% shall apply to the dividends payable by a Hong Kong-listed domestic non-foreign-invested enterprises to overseas resident individual shareholders without application according to the applicable treaties. There remains uncertainty as to whether gains realized by non-PRC domestic resident individuals on disposition of H Shares are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to a 10% PRC enterprise income tax rate on dividend income received from a PRC company pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and other applicable PRC tax rules and regulations. The 10% tax rate is subject to reduction under special arrangements or applicable treaties between China and the jurisdiction where the non-resident enterprise resides. There is uncertainty as to whether gains realized upon the disposal of H shares by non-PRC domestic residents should be subject to PRC enterprise income tax.

There remains substantial uncertainty as to the interpretation and implementation of the EIT Law and other applicable PRC tax rules and regulations by the PRC tax authorities. China’s tax laws, rules and regulations may also change. If there is any unfavorable change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

### **U.S. withholding tax may be imposed on payments on the Shares.**

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), and applicable U.S. Treasury Regulations commonly referred to as “FATCA” generally impose 30% withholding tax on certain “withholdable payments” and, in the future, may impose such withholding on “foreign passthru payments” made by a “foreign financial institution” (an “FFI”). Under current guidance, the term “foreign passthru payment” is not defined and it is therefore not clear whether or to what extent payments on the Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments made before 1 January 2017. The United States has entered into an intergovernmental agreement (an “IGA”) with Hong Kong (the “Hong Kong IGA”), and has agreed in substance with the PRC to an IGA (the “PRC IGA”), which potentially modifies the FATCA withholding regime described above. Under the FATCA rules and the IGAs, the Company and its subsidiaries that are treated as FFIs will be subject to the diligence, reporting and withholding obligations under FATCA or an applicable IGA. It is not yet clear how the Hong Kong IGA and the PRC IGA will address foreign passthru payments. Prospective investors in the Shares should consult their tax advisors regarding the potential impact of FATCA, the PRC IGA and any non-U.S. legislation implementing FATCA, on their investment in the Shares.

### **Payment of dividends is subject to restrictions under PRC law.**

Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our after-tax profits as determined by PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. Furthermore, pursuant to the rules promulgated by the

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CSRC, we are not allowed to distribute gains from the fair value changes of financial assets that are included in distributable profits as cash dividends. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits not distributed in a given year is retained and available for distribution in subsequent years.

In addition, because the calculation of distributable profit under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have distributable profits for that year as determined under IFRS, or vice versa. As a result, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders.

**We may incur losses as a result of force majeure, natural disasters, terrorist attacks or outbreaks of contagious diseases.**

Natural disasters, epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions we conduct our business. These regions may be under the threat of typhoon, tornado, snow storm, earthquake, flood, drought, power shortages or failures, or are susceptible to epidemics, such as Severe Acute Respiratory Syndrome (“SARS”), avian influenza, H1N1 influenza, H5N1 influenza or H7N9 influenza, potential wars or terrorist attacks, riots, disturbances or strikes. Serious natural disasters may result in a tremendous casualties and destruction of assets and disrupt our business and operations. Severe contagious disease outbreaks could result in a widespread health crisis that could materially and adversely affect business activities in the affected regions, which could therefore materially affect our operations. Acts of war or terrorism, riots or disturbances may also cause casualties to our employees, and disrupt our business network and operations. Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, and materially and adversely impact our business, financial condition and results of operations.

### **RISKS RELATING TO THE [REDACTED]**

**There has been no public market for our H Shares prior to the [Redacted]. The trading volume and market price of our H Shares may be volatile.**

Prior to the [Redacted], there was no public market for our H Shares. The initial [Redacted] range for our H Shares was the result of negotiations between us and the [Redacted] (for themselves and on behalf of the [Redacted] and [Redacted]), and the market price for our H Shares following the [Redacted] may differ significantly from the [Redacted]. We have applied to list and trade our H Shares on the Hong Kong Stock Exchange. However, the [Redacted] does not guarantee that an active and liquid public trading market for our H Shares will develop. Furthermore, the price and trading volumes of our H Shares may be volatile. Factors such as fluctuations in our results of operations, general market conditions or other developments affecting us or our industry may affect the volume and price at which our H Shares will be traded.

## **RISK FACTORS**

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**Future sales or perceived sales of substantial amounts of our securities in the public market, including any future offerings or conversion of our A Shares to H Shares could adversely affect the market price of our H Shares and our ability to raise capital in the future.**

The market price of our H Shares could decline as a result of future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities relating to our Shares or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could materially adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate. In addition, our Shareholders may experience dilution in their shareholding.

In addition, subject to the approval of the CSRC or the authorized securities regulatory authorities of the State Council, our A Shares may be transferred to overseas investors and such transferred shares may be listed or traded on an overseas stock exchange provided certain conditions are met and certain procedures are completed. In the event of the conversion of A Shares into H Shares for the listing and trading on the Hong Kong Stock Exchange, we must obtain prior approval from the CSRC and other relevant PRC regulatory authorities and the Hong Kong Stock Exchange. Approvals from holders of A Shares and H Shares as separate classes are not required for the listing and trading of the converted H Shares. Please see “Share Capital — Conversion of A Shares into H Shares for Listing and Trading on the Hong Kong Stock Exchange”. Conversion of a substantial number of our A Shares into H Shares, or the perception that such conversion may occur, could materially adversely affect the price of our H Shares.

**Waivers were granted from certain requirements of the Hong Kong Listing Rules by the Hong Kong Stock Exchange. Shareholders will not have the benefit of the Hong Kong Listing Rules that are so waived. In addition, these waivers could be revoked, exposing us and our Shareholders to additional compliance obligations.**

We have applied for, and the Hong Kong Stock Exchange has granted to us, a number of waivers from strict compliance with the Hong Kong Listing Rules. Please see “Waivers from Strict Compliance with the Hong Kong Listing Rules” for further details. We cannot assure you that the Hong Kong Stock Exchange will not revoke any of these waivers granted or impose certain conditions on any of these waivers. If any of these waivers were to be revoked or to be subject to certain conditions, we may be subject to additional compliance obligations, incur additional compliance costs and face uncertainties arising from issues of multi-jurisdictional compliance, all of which could materially adversely affect us and our Shareholders.

**Because the [Redacted] of our H Shares is higher than the net tangible book value per H share, purchasers of our H Shares in the [Redacted] will experience immediate dilution.**

The [Redacted] of our H Shares is higher than the net tangible asset value per share of our H Shares immediately prior to the [Redacted]. Therefore, purchasers of our H Shares in the [Redacted] will experience an immediate dilution in pro forma adjusted net tangible assets of HK\$[Redacted] per H Share (assuming an [Redacted] of HK\$[Redacted], being the mid-point of our indicative [Redacted])

## **RISK FACTORS**

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range, and assuming the [Redacted] is not exercised), and our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per share for their shares. Purchasers of our H Shares may experience further dilution in their shareholding if the underwriters exercise the [Redacted] or if we issue additional Shares in the future.

**Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Share begins.**

The [Redacted] of our H Shares is expected to be determined on the [Redacted]. However, trading of the H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several days after the pricing date. Accordingly, investors of our H shares may not be able to sell or otherwise trade the H Shares during that period. As a result, holders of our H Shares may be subject to the risk that the trading price of our H Shares could fall before trading begins due to adverse market conditions or other adverse developments that may arise between the [Redacted] and the date on which the trading begins.

**Our A Shares are listed in China and the characteristics of the A shares and H shares markets are different.**

Our A Shares are listed and traded on the Shenzhen Stock Exchange. Following the [Redacted], our A Shares will continue to be traded on the Shenzhen Stock Exchange and our H Shares will be traded on the Hong Kong Stock Exchange. Our H Shares and A Shares are neither convertible nor fungible between each other without the approval from the competent regulatory authorities. The H share and A share markets have different characteristics, including different trading volume and liquidity, and investor bases, including different participation levels of retail and institutional investors. As a result of these differences, the trading prices of our H Shares and A Shares may not be the same. Fluctuations in the price of our A shares may adversely affect the price of our H Shares, and vice versa. Due to the different characteristics of the A share and H share markets, the historical prices of our A Shares may not be indicative of the performance of our H Shares. You must therefore not place undue reliance on the prior trading history of our A Shares when evaluating an investment in our H Shares.

**Dividends declared in the past may not be indicative of our dividend policy in the future.**

We declared cash dividends for 2012, 2013 and 2014 in the aggregate amount of RMB887.9 million, RMB1,183.9 million and RMB1,183.9 million, respectively. However, dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future. Our Board of Directors has discretion in determining the frequency and amount of dividend distributions, which will be subject to the approval of our Shareholders at a general meeting. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, capital adequacy ratios, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our

## **RISK FACTORS**

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Articles of Association, statutory and regulatory restrictions on the payment of dividends and other factors that our Board of Directors deems relevant. Please see “Financial Information — Dividend Policy”. There is no assurance that we will adopt the same dividend policy as we have adopted in the past.

**We have significant discretion as to how we will use the net proceeds of the [Redacted] and you may not necessarily agree with how we use them.**

Our management may use the net proceeds from the [Redacted] in ways you may not agree with or that do not yield a favorable return to our Shareholders. We plan to use the net proceeds from the [Redacted] to develop our wealth management, investment management, investment banking and trading and institutional client services businesses and expand our overseas businesses. Please see “Future Plans and Use of Proceeds — Use of Proceeds”. However, our management will have discretion as to the actual utilization of our net proceeds. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the net proceeds from this [Redacted].

**Certain facts, forecasts and statistics contained in this [Redacted] with respect to China, Hong Kong and their economy and securities industries are derived from various official or third-party sources and may not be accurate, reliable, complete or up-to-date.**

We have derived certain facts, forecasts and statistics in this [Redacted] relating to China, Hong Kong and their economy and securities industries from various government or other third-party sources. Neither we nor any other parties involved in this [Redacted] have prepared or independently verified such facts, forecasts and statistics, which may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside China. We cannot assure you of the accuracy or reliability of the information derived from official government or other third party sources. Accordingly, you should not place undue reliance on such information as a basis for making your investment in our H Shares.

**You should read the entire [Redacted] carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, our industries and the [Redacted].**

Prior to the publication of this [Redacted], there has been press and media coverage regarding us and the [Redacted], which may include certain information not contained in this [Redacted]. We have not authorized disclosure of any such information in the press or other media. Such media coverage, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation, business, financial condition and the price of our H Shares. We make no representation as to the appropriateness, accuracy, completeness or reliability of such information, and disclaim responsibility for such information.

In addition, because our A Shares are listed on the Shenzhen Stock Exchange, we are also required to make certain formal announcements in China and file certain reports with China’s regulators relating to us and our A Shares to comply with the rules and regulations relating to the listing of our A Shares. Such announcements and reports do not and will not form a part of this [Redacted] and should not be relied on by prospective investors of our H Shares.



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## **WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES**

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In preparation for the [Redacted], we have applied for the following waivers from strict compliance with the relevant provisions of the Hong Kong Listing Rules.

### **MANAGEMENT PRESENCE IN HONG KONG**

Rules 8.12 and 19A.15 of the Hong Kong Listing Rules require a PRC-incorporated issuer to have sufficient management presence in Hong Kong. This normally means that at least two of the PRC incorporated issuer’s executive directors must be ordinarily resident in Hong Kong. Currently, none of our executive directors resides in Hong Kong. Since our principal operations are in China, we do not and, for the foreseeable future, will not have executive directors who are ordinarily resident in Hong Kong for the purposes of satisfying the requirements of Rules 8.12 and 19A.15 of the Hong Kong Listing Rules.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with Rules 8.12 and 19A.15 of the Hong Kong Listing Rules, subject to , among other conditions, our appointment of:

- two authorized representatives, Mr. Lin Zihai and Mr. Wan Ka Hung, who will act at all times as our principal channel of communication with the Hong Kong Stock Exchange; and
- our joint compliance advisors, GF Capital (Hong Kong) and ABCI Capital Limited, who will act as our principal channel of communication with the Hong Kong Stock Exchange, in addition to our authorized representatives, pursuant to Rules 3A.19 and Rule 19A.06(4) of the Hong Kong Listing Rules.

We have made arrangements to maintain effective communication with the Hong Kong Stock Exchange as follows:

- each of our authorized representatives referred to above will have access to our Board and senior management at all times as and when the Hong Kong Stock Exchange wishes to contact them for any matter. All of our Directors have provided their respective mobile phone numbers, office phone numbers, email addresses and facsimile numbers to the Hong Kong Stock Exchange. We will also inform the Hong Kong Stock Exchange promptly in respect of any change in our authorized representatives;
- Mr. Wan Ka Hung, one of our authorized representatives and joint company secretaries, ordinarily resides in Hong Kong and will be readily contactable by the Hong Kong Stock Exchange at all times for any matters. All Directors who are not ordinary residents in Hong Kong have confirmed that they possess or may apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable notice; and
- in accordance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules, we have appointed GF Capital (Hong Kong) and ABCI Capital Limited as our joint compliance advisors for the period commencing on the date of Listing and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial

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**WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES**

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results for the first full financial year commencing after the date of Listing. The joint compliance advisors will act as our additional channel of communication with the Hong Kong Stock Exchange and the joint compliance advisors shall have access at all times to our authorized representatives, our Directors and other officers to ensure that they are in a position to promptly respond to queries or requests from the Hong Kong Stock Exchange.

**QUALIFICATION OF COMPANY SECRETARY**

Rules 3.28 and 8.17 of the Hong Kong Listing Rules require our company secretary to be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Hong Kong Stock Exchange, capable of discharging the functions of a company secretary.

Mr. Luo Binhua has been the secretary of our Board since November 2009 and was appointed as a joint company secretary in November 2014 with effect from the Listing Date. As Mr. Luo does not have the qualifications stipulated under Rules 3.28 and 8.17 of the Hong Kong Listing Rules, we have appointed Mr. Wan Ka Hung, who is ordinarily resident in Hong Kong and who has the requisite knowledge and experience under Rules 3.28 and 8.17 of the Hong Kong Listing Rules, to act as the joint company secretary and assist Mr. Luo in discharging his duties as our company secretary. This appointment has a term of three years with effect from the Listing Date. We will also implement procedures to provide Mr. Luo with appropriate training in order to enable him to acquire such necessary experience upon the expiry of the three-year period.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The waiver will be revoked if Mr. Wan ceases to be the other joint company secretary and we fail to appoint another qualified joint company secretary to assist Mr. Luo during the three years after the Listing Date. Upon the expiry of the three-year period, we will re-evaluate whether Mr. Luo satisfies the qualifications specified in Rules 3.28 and 8.17 of the Hong Kong Listing Rules.

**SUBMISSION SEEKING CONSENT FROM THE HONG KONG STOCK EXCHANGE REGARDING THE REQUIREMENTS UNDER RULE 10.04 AND PARAGRAPH 5(2) OF APPENDIX 6 OF THE HONG KONG LISTING RULES**

Rule 10.04 of the Hong Kong Listing Rules provides that a person who is an existing shareholder of the issuer may only subscribe for or purchase any securities for which listing is sought which are being marketed by or on behalf of a new applicant either in his or its own name or through nominees if the conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are fulfilled. The conditions in Rules 10.03(1) and (2) of the Hong Kong Listing Rules are as follows: (i) no securities are offered to the existing shareholders on a preferential basis and no preferential treatment is given to them in the allocation of the securities; and (ii) the minimum prescribed percentage of public shareholders required by Rule 8.08(1) of the Hong Kong Listing Rules is achieved.



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## **WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES**

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Paragraph 5(2) of Appendix 6 to the Hong Kong Listing Rules provides that, unless with the prior consent of the Hong Kong Stock Exchange, no allocations will be permitted to directors or existing shareholders of the applicant or their associates, whether in their own names or through nominees unless the conditions set out in Rules 10.03 and 10.04 of the Hong Kong Listing Rules are fulfilled.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, its consent under Rule 10.04 and Paragraph 5(2) of Appendix 6 of the Hong Kong Listing Rules so that our Company could allocate H Shares under the [Redacted] tranche of the [Redacted] to its existing shareholders of A Shares and their close associates on the grounds that:

- the [Redacted] comprises the [Redacted] and the [Redacted], and the [Redacted] will solicit indications of interest from prospective investors in the book-building phase of the [Redacted];
- we have a wide spread of shareholder base and do not have any controlling shareholder as defined under the Hong Kong Listing Rules; and
- it is not intended that any connected persons of us or any of their associates would participate in the [Redacted], or otherwise subscribe for or purchase any H Shares of us under the [Redacted].

The Hong Kong Stock Exchange has granted such consent on the condition that:

- such holders of A Shares and their close associates would be shareholders who each holds less than 2% of our issued share capital immediately prior to the [Redacted] and has no board representation in our Company and therefore would not be in a position to exert any influence over the allocation process in the [Redacted];
- such holders of A Shares and their close associates are not, and would not be, our core connected persons or any of our close associates immediately prior to or after the [Redacted];
- the proposed [Redacted] of shares would be at the same price offered in the [Redacted];
- such holders of A Shares and their close associates would be subject to the same book building and allocation process as other investors in the [Redacted], and no preferential treatment would be given to them in the allocation of H Shares in the [Redacted];
- allocation to these holders of A Shares and their close associates would not affect our ability to satisfy the public float requirement under Rule 8.08 of the Hong Kong Listing Rules; and
- all relevant information in respect of the allocation to the holders of A Shares and their close associates would be disclosed in the [Redacted].

***THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT***

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**WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES**

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**CLAWBACK MECHANISM UNDER PARAGRAPH 4.2 OF PRACTICE NOTE 18 OF THE HONG KONG LISTING RULES**

[Redacted]

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**WAIVERS FROM STRICT COMPLIANCE WITH THE HONG KONG LISTING RULES**

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[Redacted]

**ISSUE OF ANNUAL REPORT AND ACCOUNTS UNDER THE HONG KONG LISTING RULES**

Rule 13.46(2) of the Hong Kong Listing Rules requires a PRC issuer to send a copy of its annual report and accounts or summary financial report to its shareholders within four months after its financial year end.

Our Company has included in this [Redacted] the audited financial information in respect of the year ended December 31, 2014.

Our Company is not in breach of the Articles or laws and regulations of the PRC or other regulatory requirements regarding its obligation to publish annual results announcement and distribute annual reports and accounts.

In addition, our Company has included in this [Redacted] a short statement as to whether we intend to comply with the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules after the Listing and if not, reasons for its proposed departure from the Corporate Governance Code. Please see “Directors, Supervisors and Senior Management — Corporate Governance” for details.

The Directors consider that this [Redacted] has provided sufficient particulars and information for the year ended December 31, 2014 to enable investors to form a valid and justifiable opinion of the Company’s H Shares and the financial condition and profitability of the Company at the time when this [Redacted] is issued, and strict compliance with the requirements of Rule 13.46(2) of the Hong Kong Listing Rules will not provide further material information for the year ended December 31, 2014 to the investors but will incur unnecessary financial and administrative resources of our Company.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements of Rule 13.46(2) of the Hong Kong Listing Rules in respect of the issue of annual report for the year ended December 31, 2014.

**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]

**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]

**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]

**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]

**INFORMATION ABOUT THIS [REDACTED] AND THE [REDACTED]**

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[Redacted]



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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**DIRECTORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
<b>Executive Directors</b>		
Mr. Sun Shuming (孫樹明)	Room 1605, 2/F Jia 11 Wan Shou West Street Haidian District Beijing PRC	Chinese
Mr. Lin Zhihai (林治海)	Room 5, District 20 Clifford Estates, Shi Guang Road Panyu District Guangzhou Guangdong PRC	Chinese
Mr. Qin Li (秦力)	Room 2707 No. 88 Tao Yu Road Tianhe District Guangzhou Guangdong PRC	Chinese
Ms. Sun Xiaoyan (孫曉燕)	20#301 Hua Xu Street Ti Yu East Road Tianhe District Guangzhou Guangdong PRC	Chinese
<b>Non-executive Directors</b>		
Mr. Shang Shuzhi (尚書志)	Unit 2, 3-4/F No. 6 Wuwu Road Neighborhood Zhongshan District Dalian, Liaoning PRC	Chinese
Mr. Li Xiulin (李秀林)	Block 5 Yang Guang Cheng Phase 3 Xin Xing Community District Sheng Li Street Dunhua, Jilin PRC	Chinese

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Mr. Chen Aixue (陳愛學)	Room 1002 Block 11 Yuan Yang Cheng Zun Yu Zhongshan Guangdong PRC	Chinese
<b>Independent non-executive Directors</b>		
Mr. Liu Jiwei (劉繼偉)	187-1-5-2 Jian Shan Street Sha He Kou District Dalian, Liaoning PRC	Chinese
Mr. Yang Xiong (楊雄)	Unit 101, 1-1/F Block 11, Courtyard 59 Gao Liang Qiao Xie Street Haidian District Beijing PRC	Chinese
Mr. Tang Xin (湯欣)	10-3-2801# Dong Hu Bay Lizexi Street, Wang Jing Beijing PRC	Chinese
Mr. Chan Kalok (陳家樂)	Flat B, 3/F, Block 17 Senior Staff Quarters The Hong Kong University of Science and Technology Sai Kung Hong Kong	American

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**SUPERVISORS**

<b>Name</b>	<b>Residential Address</b>	<b>Nationality</b>
Mr. Wu Zhaoming (吳釗明)	Room 1001 21 Huijing South Road Huijing Xin Cheng Tianhe District Guangzhou Guangdong PRC	Chinese
Mr. Cheng Huaiyuan (程懷遠)	Room 3505 No. 38 Hua Jing North Road Tianhe District Guangzhou Guangdong PRC	Chinese
Mr. Zhao Jin (趙金)	No. 5, Unit 1 Building 6 Renmin Street District Wuyi Road, Jiayuguan Gansu PRC	Chinese
Ms. Zhan Lingzhi (詹靈芝)	Unit 904 Block 2 Hua Mao Hua Yuan Da Guan District Anqing Anhui PRC	Chinese

Please refer to the section headed “Directors, Supervisors and Senior Management” in this [Redacted] for further details of our Directors and Supervisors.

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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**PARTIES INVOLVED IN THE [REDACTED]**

**Joint Sponsors**

**(in alphabetical order)**

GF Capital (Hong Kong) Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

Goldman Sachs (Asia) L.L.C.  
68/F Cheung Kong Center  
2 Queen’s Road Central  
Central  
Hong Kong

[Redacted]

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[Redacted]

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[Redacted]

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[Redacted]

**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[Redacted]



**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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[Redacted]

**Legal advisors to the Company**

*as to Hong Kong law and U.S. law:*

Latham & Watkins

18th Floor, One Exchange Square

8 Connaught Place

Central

Hong Kong

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**DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE [REDACTED]**

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	<p><i>as to PRC law:</i> Jia Yuan Law Offices F407, Ocean Plaza 158 Fuxing Men Nei Avenue Beijing China</p>
<b>Legal advisors to the Joint Sponsors and the [Redacted]</b>	<p><i>as to Hong Kong law and U.S. law:</i> Clifford Chance 27/F, Jardine House One Connaught Place Central Hong Kong</p> <p><i>as to PRC law:</i> Beijing King &amp; Wood Mallesons 40th Floor, Tower A, Beijing Fortune Plaza 7 Dongsanhuan Zhonglu Chaoyang District Beijing PRC</p>
<b>Reporting accountants</b>	<p>Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway Hong Kong</p>
<b>Independent auditor</b>	<p>Deloitte Touche Tohmatsu Certified Public Accountants LLP 30th Floor, Bund Center 222 Yan An Road East Shanghai China</p>
<b>Receiving Banks</b>	<p>[Redacted]</p>

**CORPORATE INFORMATION**

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<b>Registered office and principal place of business in the PRC</b>	43rd Floor (Room 4301-4316) Metro Plaza No. 183-187, Tianhe North Road Tianhe District Guangzhou PRC
<b>Principal place of business in Hong Kong</b>	29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
<b>Company’s website</b>	www.gf.com.cn <i>(Information contained in this website does not form part of the [Redacted])</i>
<b>Joint company secretaries</b>	Mr. Luo Binhua 43rd Floor (Room 4301-4316) Metro Plaza No. 183-187, Tianhe North Road Tianhe District Guangzhou PRC  Mr. Wan Ka Hung <i>HKICPA, FCCA</i> 29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
<b>Authorized representatives</b>	Mr. Lin Zhihai Mr. Wan Ka Hung
<b>Strategic Committee</b>	Mr. Sun Shuming ( <i>chairman</i> ) Mr. Lin Zhihai Mr. Shang Shuzhi Mr. Li Xiulin Mr. Chen Aixue
<b>Audit Committee</b>	Mr. Yang Xiong ( <i>chairman</i> ) Mr. Liu Jiwei Mr. Tang Xin

**CORPORATE INFORMATION**

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<b>Remuneration and Nomination Committee</b>	Mr. Liu Jiwei ( <i>chairman</i> ) Mr. Lin Zhihai Mr. Qin Li Mr. Yang Xiong Mr. Tang Xin
<b>Risk Management Committee</b>	Mr. Sun Shuming ( <i>chairman</i> ) Mr. Lin Zhihai Mr. Qin Li
<b>Joint Compliance Advisors</b>	GF Capital (Hong Kong) Limited 29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong  ABCI Capital Limited 10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
<b>H Share Registrar</b>	[Redacted]
<b>Principal Bankers</b>	Industrial and Commercial Bank of China Limited Guangzhou No. 1 Branch 193 Yanjiang Road Central Yuexiu District, Guangzhou Guangdong PRC  Agricultural Bank of China Limited Guangzhou Tianhe Branch 38 Tianhe South Second Road, Guangzhou Guangdong PRC  Bank of China Limited Guangdong Branch Business Division Guangzhou International Finance Building 197 Dongfeng Road West, Guangzhou Guangdong PRC

**CORPORATE INFORMATION**

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China Construction Bank Corporation  
Guangdong Branch Business Division  
509 Dongfeng Road Central, Guangzhou  
Guangdong  
PRC

Bank of Communications Co., Ltd.  
Guangzhou Dongshan Branch  
G/F, Block 1  
21 Jiaochang Road West  
Yuexiu District, Guangzhou  
Guangdong  
PRC

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## INDUSTRY OVERVIEW

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*This section contains information and statistics on our industry. The information presented in this section is derived from various official or publicly available publications, as well as from the third-party data providers below:*

- **Wind Info:** *a leading integrated service provider of financial data, information and software in China. Wind Info serves financial enterprises, including securities firms, fund management companies, insurance companies, banks and investment companies. The financial database of Wind Info contains comprehensive information on stocks, bonds, futures, foreign exchange, insurance, derivatives and the macro-economy. Historical data and market estimates provided by Wind Info are collected by Wind Info independently from various public information sources, including, among others, the SAC, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Unless indicated otherwise, data presented in this section are sourced from Wind Info.*
- **Dealogic (Holdings) Plc (“Dealogic”):** *a leading international financial data and information provider. The database of Dealogic encompasses information on equity and debt capital markets, syndicated lending, M&As and institutional investors. Data and information provided by Dealogic are collected by Dealogic independently from various public sources, including, among others, stock exchange announcements, offering circulars and prospectuses.*
- **Thomson Reuters Corporation (“Thomson Reuters”):** *an international data and information provider in relation to finance, legal, tax, accounting, intellectual property and science and media markets. Data and information provided by Thomson Reuters are collected by Thomson Reuters independently from multiple third-party sources, including direct submissions from dealmakers and secondary research covering third-party websites, news releases, press articles, and regulatory filings.*
- **Zero2IPO Research:** *a professional information, research and consulting services provider in China’s private equity and venture capital industry. Data and information provided by Zero2IPO Research are collected by Zero2IPO Research independently from multiple third-party sources, including, among others, direct submissions from dealmakers and secondary research covering industry news releases, regulatory filings and third-party websites.*

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## **INDUSTRY OVERVIEW**

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As a securities firm, our business depends on and benefits from, among other things, China’s economic growth and the development and performance of its capital markets, including the issue and trading volumes of financial products, such as equities, bonds and wealth management products. Our investment banking business benefits from the increased financing and M&A activities of PRC enterprises, in particular SMEs, driven by their business growth and development. Our wealth management business benefits from increased trading turnovers, borrowing activities and growing client demand for wealth management products and services. Our institutional client services business benefits from increased participation of institutional investors in China’s capital markets. Our investment management business benefits from the relaxation of PRC regulatory restrictions on the permitted scope of investment in financial products and the growth of AUM driven by the accumulation of household wealth in China.

### **OVERVIEW OF THE ECONOMY IN CHINA**

China is the world’s second largest economy. In 2014, China’s nominal GDP reached RMB63.6 trillion, or RMB46,531.2 per capita. In recent years, the PRC economy has maintained a steady growth; China’s real GDP growth rate remained above 7% from 2009 to 2014. China’s economic growth has resulted in an increase in per capita disposable income. From 2009 to 2014, China’s per capita disposable income grew at a CAGR of 10.9% from RMB17,174.6 to RMB28,844.0. The rapid accumulation of personal wealth in China is driving a continuing growth in the number of affluent individuals.

China’s economy is currently in a stage of transformation and upgrading. Chinese enterprises have a sustainable demand for financing. The PRC government has introduced a series of policies to deepen reforms, promote structural transformation of the economy, streamline administration and decentralize decision-making authority. It has formulated the “One Belt One Road (一帶一路)” or the “New Silk Road Economic Belt” strategy for economic development. It also utilizes the financial sector to promote the transformation and upgrading of China’s real economy. Reforms in the financial industry include the liberalization of interest and exchange rates, internationalization of the RMB, relaxation of capital controls and simplification of approval procedures for capital market transactions. In addition, the PRC government is committed to accelerating the establishment of a multi-tiered capital market, promoting the development of direct financing and encouraging financial innovation. China’s capital markets, as an important emerging market, have strong long-term growth potential. China’s private enterprises, especially private SMEs, are a major driver of the structural changes in China’s economy. They play a leading role in creating employment, promoting innovation and contributing to China’s GDP. According to Wind Info, the aggregate registered capital of private enterprises amounted to RMB39.3 trillion, or 46.5% of the total registered capital of all Chinese domestic enterprises, as of December 31, 2013.

### **THE PRC CAPITAL MARKETS**

#### **Overview**

Driven by China’s economic growth, a conducive regulatory environment and the continual introduction of new financial products and services, the PRC capital markets have grown and matured rapidly in the past two decades.

## INDUSTRY OVERVIEW

### Stock Market

The PRC stock market has grown rapidly since the establishment of the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 1990. As of December 31, 2014, the total market capitalization of the companies listed on the two exchanges amounted to RMB37.3 trillion, ranking No. 2 in the world. The average daily turnover of the stocks traded on the Shanghai Stock Exchange in 2012, 2013 and 2014 was RMB67.7 billion, 96.5 billion and 153.3 billion, respectively. The average daily turnover of the stocks traded on the Shenzhen Stock Exchange during the same period was RMB61.8 billion, 100.2 billion and 149.7 billion, respectively.

The PRC stock market consists of the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, and the SME Board and the ChiNext Board of the Shenzhen Stock Exchange. The establishment of the SME Board and the ChiNext Board has significantly expanded the financing channels for enterprises in China, particularly SMEs. The following table sets forth the number and market capitalization of companies listed on the main boards, the SME Board and the ChiNext Board as of and for the periods indicated:

	2009	2010	2011	2012	2013	2014
<b>Number of Listed Companies</b>						
Main Boards .....	1,337	1,379	1,415	1,438	1,433	1,475
SME Board .....	327	531	646	701	701	732
ChiNext Board .....	36	153	281	355	355	406
<b>Total</b> .....	<b><u>1,700</u></b>	<b><u>2,063</u></b>	<b><u>2,342</u></b>	<b><u>2,494</u></b>	<b><u>2,489</u></b>	<b><u>2,613</u></b>
<b>Market Capitalization (RMB in billions)</b>						
Main Boards .....	22,545.6	22,269.3	17,989.5	19,282.2	18,682.1	29,963.8
SME Board .....	1,687.3	3,536.5	2,742.9	2,880.4	3,716.4	5,105.8
ChiNext Board .....	161.0	736.5	743.4	873.1	1,509.2	2,185.1
<b>Total</b> .....	<b><u>24,393.9</u></b>	<b><u>26,542.3</u></b>	<b><u>21,475.8</u></b>	<b><u>23,035.7</u></b>	<b><u>23,907.7</u></b>	<b><u>37,254.7</u></b>

Source: The Shanghai Stock Exchange and Shenzhen Stock Exchange

The following table sets forth the key indices of the PRC Stock Markets as of the dates indicated:

Key Index	December 31, 2012	December 31, 2013	December 31, 2014
SSE Composite Index.....	2,269.1	2,116.0	3,235.0
SZSE Component Index .....	9,116.5	8,121.8	11,014.6
CSI 300 Index.....	2,523.0	2,330.0	3,533.7



## INDUSTRY OVERVIEW

Driven by the growth of China’s SMEs and their increasing financing needs, the SME Board and ChiNext Board have grown rapidly in recent years. As of December 31, 2014, the total number of companies listed on the SME Board and ChiNext Board was 732 and 406, respectively. The total number of companies listed on the SME Board and ChiNext Board as a percentage of the total number of listed companies in China increased from 21.4% as of December 31, 2009 to 43.6% as of December 31, 2014. As of December 31, 2014, the market capitalization of companies listed on the SME Board and ChiNext Board was RMB5.1 trillion and RMB2.2 trillion, respectively. The total market capitalization of listed companies on the SME Board and ChiNext Board as a percentage of the total market capitalization of all listed companies in the PRC increased from 7.6% as of December 31, 2009 to 19.6% as of December 31, 2014. We expect the financing needs and demand for M&A and corporate restructuring by SMEs will continue to grow rapidly in the future, which will in turn drive the growth of the underwriting and financial advisory businesses of securities firms in China.

### Bond Market

The PRC bond market has grown rapidly in recent years. The total amount of proceeds raised from bond issuances by PRC enterprises increased from RMB2.0 trillion in 2009 to RMB6.5 trillion in 2014, representing a CAGR of 26.6%. As of December 31, 2014, the PRC bond market has become the world’s second largest after the United States. The PRC bond market has a diversified product offering, primarily including short-term financing bills and medium-term notes, corporate and enterprise bonds, financial bonds, convertible bonds, government-backed institutional bonds, local government bonds, asset-backed securities and private placement notes. The following table sets forth the amount of proceeds raised through the major types of bond issuances in China for the periods indicated:

(RMB in billions)	2009	2010	2011	2012	2013	2014
Short-term financing bills and medium-term notes.....	1,161.2	1,185.8	1,745.8	2,278.2	2,311.4	3,163.0
Corporate and enterprise bonds.....	398.7	333.9	377.7	912.3	645.3	831.2
Financial bonds.....	306.7	100.8	391.9	460.2	309.3	917.8
Convertible bonds.....	4.7	71.7	41.3	16.4	54.5	32.1
Government-backed institutional bonds.....	100.0	189.0	100.0	150.0	150.0	150.0
Local government bonds.....	—	—	22.9	28.9	53.1	109.2
Asset-backed securities.....	—	—	1.3	28.1	22.7	325.0
Private placement notes.....	—	—	90.4	375.9	552.7	983.2
<b>Total.....</b>	<b><u>1,971.3</u></b>	<b><u>1,881.2</u></b>	<b><u>2,771.3</u></b>	<b><u>4,250.0</u></b>	<b><u>4,099.0</u></b>	<b><u>6,511.4</u></b>

## **INDUSTRY OVERVIEW**

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In recent years, the PRC government has promulgated a series of policies conducive to the development of China’s bond markets. These policies include the Twelfth Five-year Plan, which aims to promote the development of the PRC bond market by improving the bond issuance mechanism, and encouraging innovation and diversification of bond products and the development of securitization products. There are currently 25 market makers (including 3 PRC securities firms) in China’s interbank bond market. In 2014, the CFETS approved 46 probationary market makers (including 13 PRC securities firms) to further promote market-making activities in China’s interbank bond market.

### **Derivatives Market**

The PRC futures market has grown rapidly in recent years. According to the China Futures Association, the total futures trading turnover in China increased from RMB130.5 trillion in 2009 to RMB292.0 trillion in 2014, representing a CAGR of 17.5%. Stock index futures were launched in China in April 2010. In 2014, the total trading turnover of stock index futures in China amounted to RMB163.1 trillion, representing 55.9% of the futures market’s total trading turnover.

The types of derivative products in the PRC are relatively limited due to regulatory restrictions. For example, many financial derivatives actively traded in major capital markets, such as foreign exchange futures and interest rate futures, are not available in China. Driven by the growing demand of an increasingly more diversified and sophisticated investor base for structured financial products, new types of derivative products are expected to be launched in the future, which will create more business opportunities for PRC securities firms and further diversify their source of revenues. China has relaxed the regulation of derivatives in recent years. For example, in March 2013, the SAC promulgated regulations to facilitate the financial derivatives trading business of securities firms in China. In addition, in January 2015, the CSRC promulgated regulations to allow PRC securities firms to engage in the trading and market-making of stock options.

### ***NEEQ and Regional Equity Exchanges***

In 2006, the CSRC launched the OTC Equity Market to augment the main boards, the SME Board and the ChiNext Board. The NEEQ was established in 2013 to formalize the trial operations of the OTC Equity Market and expand its regional coverage nationwide. In addition, regional equity exchanges across the country provide share transfer services for non-listed small and micro enterprises.

### ***OTC Markets of Securities Firms***

In 2012, we were one of seven PRC securities firms licensed to engage in OTC transactions. In August 2014, the SAC permitted securities firms to issue, sell or transfer a variety of products on the OTC market, including asset management schemes raised privately or underwritten by securities firms and their subsidiaries, structured notes, and products developed by banks, insurance companies or trust companies and issued, sold and transferred through securities firms.

## **INDUSTRY OVERVIEW**

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### **THE PRC SECURITIES INDUSTRY**

#### **Overview**

The PRC securities industry has entered a rapid development phase driven by various factors. According to SAC, as of December 31, 2014, there were 120 registered securities firms in China. As of the same date, the total assets and net assets of the PRC securities industry amounted to RMB4.1 trillion and RMB920.5 billion, respectively.

#### **Growth Drivers of the PRC Securities Industry**

As compared to other sectors of the PRC financial industry, the scale of the PRC securities industry is relatively small. We believe the following factors will drive the growth and transformation of the PRC securities industry.

- ***Securities regulatory reforms and innovations.*** Regulation of the PRC securities industry is undergoing market-oriented reforms, and the continual introduction of innovative policies by PRC regulators has created more business opportunities for securities firms. Please see “Supervision and Regulation” for details. In investment banking, the CSRC further improved the regulatory regime over corporate bond issuance and trading at the end of 2014, and is actively promoting the reform of the IPO registration system; in brokerage, securities firms are permitted to sell financial products developed by other financial institutions; in institutional client services, FICC innovative activities are encouraged; in asset management, the investment scope and use of funds are expanded for CAM schemes. In addition, a number of innovative products have been launched in China, such as collateralized stock repurchase agreements, structured notes, SME private placement bonds, and securitization products. The CSRC also encourages securities firms to develop their balance sheet business by replenishing capital through IPOs and follow-on offerings, and increasing leverage through the issuance of debt instruments. We believe that these regulatory initiatives will increase the profitability and financing sources of securities firms, which in turn will drive the rapid development of the PRC securities industry.
- ***Continuing growth in the financing needs of enterprises.*** The continual growth and transformation of China’s economy are driving the growth in the financing needs of China’s enterprises. The PRC capital markets have considerable room for growth when compared with their more developed overseas counterparts. According to Thomson Reuters, the ratio of direct financing to aggregate social financing in the real economy was 16.6% in China in 2013, as compared with 81.6% and 76.3% for the United States and Japan, respectively. Benefiting from the growing financing needs of China’s enterprises as China’s economy transforms and government policies encourage direct financing, the PRC capital markets have strong growth potential.

## **INDUSTRY OVERVIEW**

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- ***Growing number of affluent individuals.*** Driven by China’s strong economic growth in the past two decades, the number of affluent individuals in China and their demand for wealth management services have increased significantly. The investable assets held by PRC residents grew from RMB52.0 trillion as of December 31, 2009 to RMB92.0 trillion as of December 31, 2013, representing a CAGR of 15.3%. We expect the demand by affluent individuals for diversified asset portfolio will create new business opportunities for securities firms in China.
- ***Growing participation of institutional investors.*** As the PRC capital markets develop, the participation of institutional investors has been increasing in recent years. According to the data released by the CSDC, the number of A share accounts held by institutional investors grew from 540,558 as of December 31, 2009 to 699,790 as of December 31, 2014, representing a CAGR of 5.3%. Compared with individual investors, institutional investors have stronger demand for value-added services and customized structured products, and are less sensitive to price. We believe the increasing participation of institutional investors in the PRC capital market will diversify the source of revenues of PRC securities firms and improve their profit margins.
- ***Accelerated internationalization of the RMB.*** There is an increasing demand for the RMB in the international market as China’s economy grows in scale and importance relative to the global economy. The accelerated internationalization of the RMB drives the development of the QFII and RQFII markets. According to the SAFE, the approved investment quota for QFII increased from US\$21.6 billion as of December 31, 2011 to US\$68.0 billion as of December 31, 2014, representing a CAGR of 25.8%. The approved investment quota for RQFII increased from RMB10.7 billion as of December 31, 2011 to RMB304.5 billion as of December 31, 2014, representing a CAGR of 95.4%. The Shanghai-Hong Kong Stock Connect scheme was officially launched in November 2014, which allows PRC investors to trade Hong Kong stocks and Hong Kong investors to trade A shares on the Shanghai Stock Exchange.

## INDUSTRY OVERVIEW

### Competitive Landscape in the PRC Securities Industry

As of December 31, 2013, there were 115 registered securities firms in China. The total revenues of the top 10 securities firms amounted to RMB65.0 billion in 2013, accounting for 40.9% of the total revenues of the PRC securities industry. The following table sets forth the ranking and market shares of the top 10 PRC securities firms in terms of revenue, total assets, net assets, net profit and net capital as of December 31, 2013 on an unconsolidated basis:

#### Top 10 Securities

Firms (Based on revenue)	Revenue <sup>(1)</sup>	Market share	Total Assets <sup>(1)</sup>	Market share	Net Assets <sup>(1)</sup>	Market share	Net profit <sup>(1)</sup>	Market share	Net capital	Market share
(RMB in millions, except percentages)										
CITIC Securities Company Limited .....	8,179.0	5.1 %	192,933.7	9.3 %	71,690.5	9.5 %	2,908.9	6.6 %	34,796.5	6.7 %
Haitong Securities Company Ltd.....	7,808.0	4.9 %	129,017.8	6.2 %	60,310.7	8.0 %	3,466.2	7.9 %	39,041.4	7.5 %
Guotai Junan Securities Co. Ltd.....	7,250.7	4.6 %	117,841.1	5.7 %	30,664.2	4.1 %	2,517.5	5.7 %	23,318.3	4.5 %
GF Securities Co., Ltd...	7,174.4	4.5 %	108,846.6	5.2 %	33,329.1	4.4 %	2,378.0	5.4 %	20,704.8	4.0 %
China Galaxy Securities Co., Ltd.....	6,843.9	4.3 %	69,729.4	3.4 %	25,039.1	3.3 %	2,125.2	4.8 %	20,481.5	3.9 %
Guosen Securities Co., Ltd. ....	6,034.2	3.8 %	70,760.7	3.4 %	19,904.4	2.6 %	1,783.5	4.0 %	13,743.8	2.6 %
Huatai Securities Co., Ltd. ....	5,926.4	3.7 %	88,349.7	4.2 %	32,052.1	4.3 %	2,037.5	4.6 %	19,204.6	3.7 %
China Securities Co., Ltd. ....	5,381.8	3.4 %	65,683.9	3.2 %	12,853.8	1.7 %	1,729.8	3.9 %	9,322.0	1.8 %
China Merchant Securities Co., Ltd....	5,363.5	3.4 %	75,184.0	3.6 %	26,407.1	3.5 %	2,048.3	4.7 %	14,041.3	2.7 %
Shenyin & Wanguo Securities Co., Ltd....	5,126.4	3.2 %	59,789.5	2.9 %	17,864.2	2.4 %	1,717.2	3.9 %	12,411.8	2.4 %
<b>Total .....</b>	<b><u>65,088.3</u></b>	<b><u>40.9 %</u></b>	<b><u>978,136.4</u></b>	<b><u>47.1 %</u></b>	<b><u>330,115.2</u></b>	<b><u>43.8 %</u></b>	<b><u>22,712.1</u></b>	<b><u>51.5 %</u></b>	<b><u>207,066.0</u></b>	<b><u>39.9 %</u></b>

<sup>(1)</sup> These financial data are prepared based on PRC GAAP.

Source: SAC

Securities firms derive revenue primarily from investment banking, brokerage, margin financing and securities lending, sales and trading, asset and fund management, private equity investment and alternative investment businesses.

## INDUSTRY OVERVIEW

### Investment Banking

The investment banking industry is primarily involved in equity and debt underwriting and the provision of financial advisory services.

### Equity Underwriting

Equity offerings in China have been affected by government regulatory policies and fluctuations in the stock market. The following table sets forth the amount of capital raised from equity offerings in China in the periods indicated:

(RMB in billions)	2009	2010	2011	2012	2013	2014
IPOs .....	202.2	491.1	272.0	99.5	—	78.7
Follow-on equity offerings...	155.8	398.4	225.5	216.6	269.0	436.8
<b>Total.....</b>	<b>358.0</b>	<b>889.5</b>	<b>497.5</b>	<b>316.1</b>	<b>269.0</b>	<b>515.5</b>

According to Wind Info, total amount of equity offerings underwritten by the top 10 PRC securities firms accounted for 53.9% of the total proceeds raised from equity offerings in China in 2014. The following tables set forth the amount of capital raised from equity offerings and IPOs underwritten by the top 10 PRC securities firms:

(RMB in millions)	China Securities	CITIC Securities	Haitong Securities	GF Securities	Southwest Securities	Guotai Junan Securities	Guosen Securities	Huatai United Securities	China Galaxy Securities	China Merchants Securities
Capital raised from equity offerings ..	42,548.4	38,658.3	34,734.9	30,080.1	25,582.8	25,553.1	25,306.6	22,332.4	17,477.0	15,664.3

(RMB in millions)	GF Securities	China Merchants Securities	CITIC Securities	Guosen Securities	China Securities	Guotai Junan Securities	Huatai United Securities	China International Capital Corporation	China Galaxy Securities	Haitong Securities
Capital raised from IPOs.....	14,570.8	8,246.6	6,251.8	6,044.0	4,232.0	3,529.1	3,145.8	2,432.5	2,165.2	1,865.9

In November 2013, the CSRC promulgated guidelines for reforming China’s IPO system, which is expected to drive the implementation of a registration-based IPO system in China. The reform will significantly shorten the time for reviewing and approving IPO applications by Chinese enterprises. We expect this market-oriented reform to benefit large securities firms with stronger research, pricing and distribution capabilities.

## INDUSTRY OVERVIEW

### *Debt Underwriting*

Capital raised from bond issuances underwritten by PRC securities firms increased from RMB845.3 billion in 2009 to RMB2,170.8 billion in 2014, representing a CAGR of 20.8%. The following table sets forth the amount of capital raised from bond issuances underwritten by PRC securities firms for the periods indicated:

(RMB in billions)	2009	2010	2011	2012	2013	2014
Short-term financing bills and medium-term notes.....	69.8	49.1	65.2	67.9	63.3	106.7
Corporate and enterprise bonds.....	390.8	315.9	371.5	912.3	641.1	828.1
Financial bonds.....	283.3	95.9	339.2	389.6	211.4	685.1
Convertible bonds.....	4.7	71.7	41.3	16.4	54.5	32.1
Government-backed institutional bonds.....	96.7	129.0	100.0	150.0	150.0	150.0
Local government bonds.....	—	—	—	—	—	1.6
Asset-backed securities.....	—	—	1.3	24.4	20.2	304.1
Private placement notes.....	—	—	3.5	7.1	17.1	63.1
<b>Total.....</b>	<b><u>845.3</u></b>	<b><u>661.6</u></b>	<b><u>922.0</u></b>	<b><u>1,567.7</u></b>	<b><u>1,157.6</u></b>	<b><u>2,170.8</u></b>

According to Wind Info, total amount of corporate bond and enterprise bond issuances underwritten by the top 10 PRC securities firms accounted for 46.7% of the total proceeds raised from corporate bond and enterprise bond issuances in China in 2014. The following table sets forth the total amount of capital raised from corporate bond and enterprise bond issuances underwritten by the top 10 PRC securities firms in 2014:

RMB in billions	China Development		China Securities	Haitong Securities	China Galaxy		Guotai Junan		Hong Yuan		Morgan Stanley	
	Bank Securities	Guosen Securities			Galaxy Securities	Junan Securities	GF Securities	Yuan Securities	Ping An Securities	Huaxin Securities		
Capital raised from corporate bond and enterprise bond issuances.....	<u>66.2</u>	<u>55.2</u>	<u>44.7</u>	<u>39.2</u>	<u>37.8</u>	<u>37.2</u>	<u>35.1</u>	<u>26.7</u>	<u>25.0</u>	<u>20.1</u>		

## **INDUSTRY OVERVIEW**

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Securitization products, an important type of fixed-income products, also have strong growth potential. From January 1 2012 to December 31, 2014, securitization products issued on China’s interbank bond market and stock exchanges amounted to RMB375.8 billion. In 2014, the CBRC and the CSRC launched filing systems for securitization products. We expect that the deregulation of the securitization business will increase market demand for securitization products in China and create new business opportunities for securities firms with innovation capabilities in structured products.

### ***Financial Advisory***

Financial advisory services primarily comprise M&A, corporate restructuring advisory and NEEQ quotation services.

The transformation and upgrading of China’s industry structures have increased enterprises’ demand for M&As, and have driven the growth of China’s M&A and restructuring market. According to Dealogic, the total value of M&A transactions in China increased from US\$117.6 billion in 2009 to US\$208.7 billion in 2014, representing a CAGR of 12.2%, and the total value of cross-border M&A transactions increased from US\$70.3 billion to US\$106.8 billion, representing a CAGR of 8.7%.

The government working report of 2014 encourages M&As and restructurings. In October 2014, the CSRC amended its regulations to significantly simplify the approval process for M&As and restructurings, improve the price determination mechanism for valuing shares used as consideration for asset purchases, and encourage the participation of M&A funds and industry investment funds in M&As and restructurings involving China’s listed companies. In addition, the regulations permit the use of innovative payment consideration for M&As and restructurings, such as convertible bonds, warrants and preference shares. We believe these developments will generate substantial financial advisory business opportunities in China’s M&A and restructuring market in the future.

The number of listed companies on NEEQ has increased significantly, from 200 as of December 31, 2012 to 1,572 as of December 31, 2014, representing a CAGR of 180.4%. The growth of NEEQ will benefit securities firms with stronger NEEQ business capabilities and generate significant business opportunities for them.

### **Brokerage**

The stock and fund trading turnovers of the PRC brokerage industry have been affected by fluctuations in China’s stock market in recent years. According to the statistics of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the total stock and fund trading turnovers of the PRC brokerage industry amounted to RMB151.5 trillion, and the top 10 PRC securities firms accounted for



## INDUSTRY OVERVIEW

48.1% of the total stock and fund trading turnovers of the PRC brokerage industry in 2014. The following table sets forth the stock and fund trading turnovers of the top 10 PRC securities firms in 2014:

(RMB in billions)	Huatai Securities	CITIC Securities <sup>(1)</sup>	Guotai Junan Securities	China Galaxy Securities	Haitong Securities	GF Securities	China Merchants Securities	Guosen Securities	Shenyin & Wanguo Securities	China Securities
Stock and fund trading turnover <sup>(2)</sup> ..	10,070.3	9,801.7	7,731.0	7,711.4	7,193.2	6,733.5	6,614.7	5,953.4	5,720.2	5,336.4

(1) Represents combined stock and fund trading turnovers of CITIC Securities, CITIC Securities (Zhejiang) and CITIC Securities (Shandong).

(2) Calculated on a bilateral basis.

In November 2012, the CSRC promulgated regulations to allow securities firms to sell financial products developed by other financial institutions, including wealth management products, structured notes, securitization products, trust schemes and insurance products. We believe this will enable PRC securities firms to diversify their product offerings and source of revenues.

In November 2014, the CSRC and the Securities and Futures Commission of Hong Kong launched the Shanghai-Hong Kong Stock Connect, which allows eligible investors in the PRC and Hong Kong to trade eligible securities listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. We expect the Shanghai-Hong Kong Stock Connect to better satisfy the securities investment demand from domestic and Hong Kong investors, and create wealth management business opportunities for securities firms with branches both in Hong Kong and the PRC.

### Margin Financing and Securities Lending

Since the CSRC permitted securities firms to engage in the margin financing and securities lending business in March 2010, the balance of margin financing and securities lending has grown from RMB12.8 billion in 2010 to RMB1,025.7 billion in 2014. The following table sets forth the total balance of margin financing and securities lending in China as of the dates indicated:

(RMB in billions)	2010	2011	2012	2013	2014
Balance of margin financing and securities lending .....	<u>12.8</u>	<u>38.2</u>	<u>89.5</u>	<u>346.5</u>	<u>1,025.7</u>

## INDUSTRY OVERVIEW

According to Wind Info, the top 10 PRC securities firms accounted for 55.4% of the total balance of margin financing and securities lending in China. The following table sets forth the balance of margin financing and securities lending of the top 10 PRC securities firms as of December 31, 2014:

(RMB in billions)	CITIC Securities <sup>(1)</sup>	Huatai Securities	Guotai Junan Securities	GF Securities	China Galaxy Securities	China Merchants Securities	Haitong Securities	Guosen Securities	Everbright Securities	China Securities Co., Ltd.
Balance of margin financing and securities lending at the end of the period.....	72.1	65.5	64.4	64.4	60.3	57.8	57.2	49.8	37.5	32.1

(1) Represents combined balance of margin financing and securities lending of CITIC Securities, CITIC Securities (Zhejiang) and CITIC Securities (Shandong).

### Sales and Trading

In May 2014, the CSRC promulgated guidelines to encourage the development of FICC innovative business in China. We expect FICC to become an important part of institutional client services for PRC securities firms. In August 2014, the CSRC promulgated regulations to permit securities firms to engage in OTC businesses and provide market-making services for non-standardized financial products. The table below sets forth the number of OTC market products of the top 10 PRC securities firms as of December 31, 2014:

Number of OTC market products..	GF Securities	Haitong Securities	Shanxi Securities	Guotai Junan Securities	China Galaxy Securities	Changjiang Securities	CITIC Securities	Qilu Securities	Industrial Securities	BOCI Securities
	366	288	75	70	67	56	48	30	21	21

Source: CS Capital Market Development and Testing Center

In January 2015, the CSRC promulgated regulations to allow PRC securities firms to engage in the trading and market-making of stock options. We believe this will further drive the growth of the sales and trading business of PRC securities firms.

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## INDUSTRY OVERVIEW

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### Asset Management

The asset management business of PRC securities firms has developed rapidly with the total AUM increased from RMB148 billion in 2009 to RMB8.0 trillion in 2014, representing a CAGR of 121.9%. The following table sets forth the total AUM of PRC securities firms as of the dates indicated:

(RMB in billions)	2009	2010	2011	2012	2013	2014
AUM .....	<u>148</u>	<u>187</u>	<u>282</u>	<u>1,890</u>	<u>5,200</u>	<u>7,970</u>

Source: SAC

The total AUM of PRC fund managers increased from RMB2.7 trillion in 2009 to RMB4.5 trillion in 2014, representing a CAGR of 10.8%. The following table sets forth the total AUM of PRC fund management firms as of the dates indicated:

(RMB in billions)	2009	2010	2011	2012	2013	2014
AUM .....	<u>2,670</u>	<u>2,497</u>	<u>2,168</u>	<u>2,796</u>	<u>2,930</u>	<u>4,535</u>

In October 2012, the CSRC introduced a filing-based system for CAM schemes, and expanded the permitted investment scope and use of funds for CAM schemes. In March 2013, the CSRC promulgated regulations to allow PRC securities firms to raise and manage mutual funds. These policies will enable securities firms with leading asset management and fund businesses to capture market share in China’s asset management market by structuring and offering more diversified asset management products.

### Private Equity Investment and Management

Private equity investments by securities firms in China have grown significantly in recent years. According to Zero2IPO Research, the amount of funds raised by private equity funds increased from US\$13.0 billion in 2009 to US\$83.2 billion in 2014, representing a CAGR of 45.0%. In July 2011, the CSRC issued guidelines to permit private equity investment subsidiaries of PRC securities firms to raise funds through private placement, and engage in angel investment, venture capital investment, pre-IPO investment and M&A investment. We believe these guidelines will drive the transformation of the private equity business from a pure principal investment model to an investment management model. According to the SAC, the registered capital of the private equity investment subsidiary of PRC securities firms increased by 11.5% from RMB35.5 billion in 2012 to RMB39.6 billion in 2013.

## **INDUSTRY OVERVIEW**

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### **Alternative Investment**

In May 2011, the CSRC promulgated regulations to allow PRC securities firms to establish subsidiaries to invest in financial products that are outside the permitted scope of their proprietary trading portfolios. Accordingly, PRC securities firms have a new source of revenue from making alternative investments in financial products through these subsidiaries. This development enables securities firms to invest in private placements, non-standard fixed-income products and structured products, and develop a diversified business model across various asset classes, investment strategies and markets.

### **Other Emerging Businesses**

As regulatory restrictions relaxed over the past few years, the PRC securities industry has begun to offer a greater variety of innovative products and services, including repurchase agreements, collateralized stock repurchase agreements, dealer-quoted bond repurchase agreements, structured notes and securitization products. These emerging businesses can better meet client needs for trading, investing, financing and liquidity, and have strong growth potential.

## **SUPERVISION AND REGULATION**

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### **Overview**

As a securities financial institution in China, we are subject to the supervision and regulation of the CSRC and other relevant authorities. Our operations are also subject to general regulations of China, including laws, regulations, rules and other statutory documents in respect of foreign exchange control, taxation and anti-money laundering.

### **Major Regulatory Authorities**

#### **CSRC**

The CSRC is responsible for supervision and management of the securities and futures market of the PRC and for maintaining the order thereof, and to secure their lawful operations in accordance with the laws, regulations and the authorities of the State Council. According to the PRC Securities Law (《中華人民共和國證券法》) and Regulations on the Administration of Futures Trading (《期貨交易管理條例》) (“**Regulations of Futures Trading**”), the main duties of the CSRC include:

- To enact regulations and rules in relation to the supervision and management of the securities and futures markets, and to exercise the right of examination, approval or verification according to law;
- To supervise and manage the issuance, listing, trading, registration, deposit and settlement of securities and the listing, trading, settlement, delivery of futures and related activities according to law;
- To supervise and manage the securities business activities of the securities issuers, listing companies, securities companies, securities investment fund management companies, securities services organizations, stock exchanges and securities registration and settlement organizations according to law; and to supervise and manage futures business activities of market-related participants, including the futures exchanges, futures companies, other futures business institutions, non-futures companies clearing member, futures margin security depository regulating institutions, futures margin depository bank, delivery warehouse and so forth;
- To enact qualification standards and practice codes for securities business personnel and futures practitioners according to law, and to supervise their implementation;
- To supervise and examine the disclosure of information in relation to the issuance, listing and trading of securities and information of futures trading according to law;
- To guide and supervise the activities of the SAC according to law;
- To investigate and punish activities in violation of laws and administrative regulations in relation to the supervision and management of securities and futures markets according to law; and

## **SUPERVISION AND REGULATION**

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- To perform other duties as stipulated in the applicable laws and administrative regulations.

### ***Stock Exchange***

Under the PRC Securities Law, a stock exchange is a self-regulatory legal entity which provides venues and facilities for centralized trading of securities and organizes and supervises trading of securities. The two major stock exchanges are Shanghai Stock Exchange and Shenzhen Stock Exchange. According to the PRC Securities Law and the Measures for the Administration of Stock Exchange (《證券交易所管理辦法》), the main duties of a stock exchange are as follows:

- To provide venues and facilities for the trading of securities;
- To formulate stock exchange rules;
- To accept applications for, and to arrange, the listing of securities;
- To organize and supervise the trading of securities;
- To supervise its members;
- To supervise the listed companies;
- To establish securities registration and settlement facilities;
- To manage and disclose market information;
- To handle suspension of listing, resumption of listing and delisting of shares and corporate bonds issued by listed companies;
- To adopt financially technical suspension and temporary suspension of trading; and
- To perform other duties permitted by the CSRC.

### ***Futures Exchange***

Under the Regulations of Futures Trading, a futures exchange is a self-regulatory non-profit legal entity which provides venues and facilities for centralized trading of futures and organizes and supervises the trading of futures. The main duties of a futures exchange are as follows:

- To provide venues, facilities and services for trading;
- To design the contracts and to arrange the listing of the contracts;
- To organize and supervise the trading, clearing and settlement of futures;
- To provide centralized guarantees for contract performance in futures trading;

## **SUPERVISION AND REGULATION**

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- To supervise its members in accordance with its articles of association and trading rules; and
- To perform other duties as specified by the futures supervision and administration authorities of the State Council.

According to the Measures for the Administration of the Futures Exchange (《期貨交易所管理辦法》), which was effective from April 15, 2007, a futures exchange shall also fulfill the duties as follows:

- To enact and implement the trading rules and implementing regulations of the futures exchange;
- To announce market information;
- To regulate members and their clients, specified settlement houses, futures margin depository banks and the futures businesses of other participants in the futures market; and
- To investigate and punish irregularities.

### **SAC**

SAC is a self-regulatory organization of the securities industry established under the relevant regulations of the PRC Securities Law and the Regulation on Registration and Administration of Social Organization (《社會團體登記管理條例》). It is a non-profit social organization and is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC. The SAC regulates the securities industry through a general meeting of members, which are primarily the securities companies. Its main duties are to formulate the rules for compliance by its members and to monitor and investigate the conduct of its members.

### **China Futures Association (CFA)**

The CFA is a self-regulatory organization of the futures industry and is a non-profit social organization. The CFA is subject to the guidance and supervision of the CSRC and the Ministry of Civil Affairs of the PRC. Its main duties are to formulate self-regulatory rules binding on its members, to supervise and examine the practices of its members and to formulate codes of conduct and business norms for the futures industry.

### **Asset Management Association of China (AMAC)**

The AMAC is a self-regulatory organization of the securities investment fund industry and is a society organization. Its main duties are to formulate and implement self-regulatory rules, to supervise and examine the practices of its members, to maintain the order of the industry and to mediate disputes arising from the business between members or between members and their clients and to formulate standards of practice and business norms.

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### ***Other Industry Authorities***

Other industry authorities primarily include China Securities Depository and Clearing Corporation Limited, China Securities Investor Protection Fund Corporation Limited, China Futures Margin Monitoring Center Co., Ltd. and China Securities Finance Corporation Limited.

### **Industry Entry Requirements**

#### ***Industry Entry Requirements for Securities Companies***

##### ***Establishment***

The PRC Securities Law and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) stipulate the authorized scope of business of securities companies and establish standards required for entry into the industry and other requirements. Establishment of securities companies is approved by the CSRC and the business license can be obtained subject to the following conditions:

- Its articles of association shall comply with the laws and administrative regulations of China;
- The major shareholders shall have sustainable profitability, good reputation and no record of major violation of laws or regulations during the last three years and shall have net assets of not less than RMB200 million;
- It shall have the registered capital required by the PRC Securities Law. For a securities company operating securities brokerage, securities investment consultation and financial advisory business in relation to securities trading and securities investment, the minimum registered capital shall be RMB50 million; for a securities company operating one of the securities underwriting and sponsorship, proprietary securities, securities asset management or other securities businesses, the minimum registered capital shall be RMB100 million; for a securities company operating two or more of the securities underwriting and sponsorship, proprietary securities, securities asset management and other security businesses, the minimum registered capital shall be RMB500 million;
- Its directors, supervisors and senior management should possess the required qualifications while other personnel involved in the securities business should possess proper practitioner qualifications, and no less than three of the senior management officers should have served as senior management officers for not less than two years in the securities industry;
- It should have effective risk management and internal control systems;
- It should have a proper premises and facilities for operation; and
- Other conditions stipulated by laws, administrative regulations and the CSRC.



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According to the Judging Criterion & Guiding Opinions on Controlling Relationship of Securities Companies (《關於證券公司控制關係的認定標準及相關指導意見》), the same unit or individual, or multiple units or individuals who are controlled by the same unit or individual, shall not hold equity interests in more than two securities companies and shall not hold controlling interests in more than one securities company.

The Rules for Establishment of Foreign-invested Securities Companies (外資參股證券公司設立規則) explicitly sets out the conditions and procedures for establishment of foreign-invested securities companies. A foreign-invested securities company shall fulfill the following conditions:

- The aggregate direct holdings and/or indirect control by foreign shareholders or their interests in a foreign-invested securities company shall not exceed 49%;
- Foreign investors who lawfully hold 5% or more of the shares in a listed domestically-funded securities company through securities trading on a security exchange or who jointly hold 5% or more of the shares in a listed domestically-funded securities company with others by agreement and other arrangement shall have to be approved by the CSRC; and
- The direct holdings and/or indirect control in the equity interest of a foreign investor in a listed domestically-funded securities company shall not exceed 20%. The aggregate of direct holdings and/or indirect control in the equity interest of a listed domestically-funded securities company, by all foreign investors shall not exceed 25%.

In addition, according to the Guidelines on Administrative Approval for Securities Companies No.10—Increase and Change in Equity Interest of Securities Companies (《證券公司行政許可審核工作指引第10號—證券公司增資擴股和股權變更》), if an enterprise that is directly or indirectly owned by a foreign investor, invests in a securities company, the indirect equity interest of the foreign investor in the securities company as calculated based on equity penetration should not be more than 5%.

### Business Scopes

According to the PRC Securities Law, a securities company cannot engage in any or all of the following businesses without the approval by the CSRC:

- Securities brokerage;
- Securities investment consultation;
- Financial advisory in relation to securities trading and securities investment activities;
- Securities underwriting and sponsorship;
- Proprietary securities trading;

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- Securities asset management; and
- Other securities businesses.

According to the Tentative Provisions for the Examination and Approval of the Scope of Business of Securities Companies (《證券公司業務範圍審批暫行規定》), securities companies which are under common control of the same entity or individual control or mutual control of each other shall not engage in the same business, unless the relevant companies adopt effective measures to clearly define their respective operating regions or target clients and there shall be no competition between the companies. Unless otherwise provided for by the CSRC, the scope of business of the securities company upon its establishment is subject to the approval of the CSRC in accordance with the statutory provisions and no more than four types of business of such company shall be approved. The securities company shall obtain approval from the CSRC for any change in the scope of business, however, the number of additional types of business applied for shall not exceed two. Subject to the approval by the CSRC, a securities company may operate the business not clearly stated in the PRC Securities Law, the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the rules and regulations of the CSRC.

### *Material Changes*

According to the requirements of the PRC Securities Law and the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》), approval from the State Council’s Securities regulatory authorities shall be obtained for the establishment, acquisition or de-registration of a branch under a securities company, change of the scope of business or registered capital, change of any shareholder holding of more than 5% of the shares or the de facto controller, change of important provisions of the articles of association, any merger, division, change of incorporation, cessation, dissolution and bankruptcy, or the establishment, acquisition or equity participation in securities institutions overseas by securities companies or other material changes.

The CSRC has gradually authorized its local branches to review and approve some kind of applications for material changes by securities companies. In October 2012, according to the Decision of the State Council in Relation to the Cancellation and Adjustment of the Sixth Group of Items Requiring Administrative Approval (《國務院關於第六批取消和調整行政審批項目的決定》), the authority of reviewing and approving the following material changes of securities companies was formally entrusted with the CSRC’s local branches:

- Change of important provisions of the articles of association;
- Establishment, acquisition or de-registration of a branch;
- Some items regarding change of the registered capital, including the review and approval of the qualification of shareholders or the de facto controller, or the change of de facto controller, controlling shareholder or the shareholder with the largest shareholding of an unlisted securities company in connection with an increase in its registered capital, and approval of a decrease of registered capital by an unlisted securities company;

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- A change of shareholder(s) with more than 5% of shareholdings and de facto controller of an unlisted securities company; and
- Increase or decrease in the business of securities brokerage, securities investment consultation and financial advisory in relation to securities trading and securities investment, proprietary securities trading, securities assets management and securities underwriting.

According to the Decision of the State Council on Cancellation and Decentralization of Certain Administrative Examination and Approval Items (《國務院關於取消和下放一批行政審批項目的決定》), the CSRC cancelled three items necessary for administrative approval: approval of subordinated debt borrowed by securities companies, approval of the annual foreign exchange risk exposure for licensed overseas futures companies, and approval of special investment of securities companies.

According to the Decision of the State Council on Cancellation of and Adjustment to Issues including Certain Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》), the CSRC cancelled five items necessary for administrative approval: administrative reorganization approval of securities companies and approval of extension of the administrative reorganization deadline; approval of the administrative measures for fidelity funds traded on refinancing business (轉融通互保基金); approval of rules of refinancing business; approval of monitoring rules for margin financing and securities lending businesses conducted by securities companies; approval of borrowing or issuance, repayment or settlement of subordinated debts by securities companies conducting securities-related businesses.

### *Establishment of Subsidiaries, Branches and Securities Operation Units*

According to the Provisional Regulatory Requirements on Establishment of Subsidiaries of Securities Companies (《證券公司設立子公司試行規定》), subject to the approval of the CSRC, securities companies may establish wholly owned subsidiaries or invest jointly in the establishment of subsidiaries with other investors who meet the requirements for shareholders of securities companies stipulated in the PRC Securities Law. A securities company and its subsidiaries, or subsidiaries under the control of the same securities company shall not operate similar businesses which involve conflict of interest or competition.

The Regulatory Requirements on Branches of Securities Companies (《證券公司分支機構監管規定》), provide that branches of securities companies shall refer to branches and securities operation units established by the securities companies in the PRC for business operation. Approval from securities regulatory bureaus authorized by the CSRC must be obtained for the establishment, acquisition and de-registration of branches of securities companies. Securities companies shall meet the following requirements in order to establish and acquire branches: have a sound governance structure and effective internal management, have the capacity to control the risks of their existing branches and branches to be established, have risk indicators in compliance with relevant rules for the most recent year and those indicators will remain compliant after the additional branches are established, not be subject to administrative or criminal penalties for any material breach of rules or regulations for the most recent two years, have no material regulatory measures imposed for the most

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recent year, no current investigation for any branch-related activities based on any alleged material breach of rules or regulations, have a secure and stable information technology system, no material information technology accident having occurred during the most recent year and existing branches are under good management.

### *Industry Entry Requirements for Futures Companies*

#### *Establishment*

The Regulations of Futures Trading and the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》) set out the industry entry standards for futures companies. Establishment of futures companies shall be approved by the CSRC subject to the following conditions:

- The minimum registered capital is RMB30 million;
- Directors, supervisors and senior management shall be qualified for their positions while practitioners shall have futures practitioner qualifications. The number of staff with futures practitioner qualifications shall not be less than 15 and the number of senior management staff with practitioner qualifications shall not be less than three;
- The articles of association shall comply with the requirements of laws and administrative regulations;
- Major shareholders and the de facto controller shall have sustained profitability, good reputation, and shall not have a record of material violation of law or regulation in the last three years;
- Premises and operation facilities shall be up to standard;
- Risk management and internal control systems shall be satisfactory; and
- Other conditions as stipulated by the CSRC.

According to the Provisions on Issues Relating to the Regulation of Controlling Interests and Equity Interests in Futures Companies (《關於規範控股、參股期貨公司有關問題的規定》), an entity shall not hold controlling interests and equity interests in more than two futures companies and shall not hold controlling interests in more than one futures company.

#### *Material Changes*

According to the Supervisory and Administrative Measures for Futures Companies (《期貨公司監督管理辦法》), approval of the CSRC shall be obtained for change of shareholdings in any of the situations below:

- Change of its controlling shareholder or largest shareholder;

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- Shareholding of an individual shareholder or an associated shareholder to be increased to 100%; and
- Shareholding of an individual shareholder or the aggregate shareholding of an associated shareholder to be increased to 5% or above with a foreign shareholder involved.

Save for the circumstances as provided in the preceding paragraph, if the shareholding of an individual shareholder or the aggregate shareholding of an associated shareholder of a futures company increases to 5% or above, it shall obtain approval from the local branch office of the CSRC at the place where the futures company is located.

According to the Decision of the State Council on Cancellation of and Adjustment to Issues including Certain Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》), the local branch office of the CSRC cancelled the administrative approval of domestic branch offices set up by futures companies.

### ***Industry Entry Requirements for Direct Investment Company***

#### ***Establishment***

According to the Notice on Further Strengthening the Supervision on the Direct Investment Business of Securities Companies (《中國證監會機構部關於進一步完善證券公司直接投資業務監管的通知》), a securities company shall meet the following requirements in order to establish a direct investment subsidiary:

- A sound corporate governance structure, a comprehensive and effective internal control system, good risk management mechanisms and a compliance management system to avoid the transfer of risks and conflict of interests with the direct investment subsidiary;
- Risk indicators in compliance with rules for the most recent year and those indicators including Net Capital will remain compliant after the direct investment subsidiary has been established; and
- Not being subject to criminal or administrative penalties for any material breach of rules or regulations for the most recent two years, no material regulatory measures was imposed for the most recent year, no current investigation by regulatory authorities and the relevant authorities for any alleged material breach of laws or regulations.

If a securities company establishes a direct investment subsidiary, its articles of association shall clearly set out the right to establish a direct investment subsidiary in its major provisions in regard to investment, and it shall apply to the local branch office of the CSRC at the place where it is so relocated according to laws in order to change the major provisions in its articles of association, and it cannot establish a direct investment subsidiary before approval of the major provisions in its articles of association.

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### *Scope of Business*

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), a direct investment subsidiary is restricted to conduct the following business:

- Investment in the shareholdings of enterprises, or investment in debts, or in other investment funds associated with equity and debt investment with its own funds or via establishment of direct investment funds;
- Provision of financial advisory services on equity investment and debt investment to clients; and
- Other businesses as accepted by the CSRC.

A direct investment subsidiary shall not conduct such securities business which shall be operated by a securities company according to laws.

### *Industry entry requirements for fund management companies*

#### *Establishment*

According to the Administrative Measures for Securities Investment Fund Management Companies (《證券投資基金管理公司管理辦法》) (“**Administrative Measures**”), the establishment of a securities investment fund management company shall be subject to the following requirements:

- Its shareholders shall meet the requirements of the Securities Investment Fund Law (《證券投資基金法》) and the Administrative Measures;
- Its articles of association shall comply with the Securities Investment Fund Law (《證券投資基金法》), the PRC Company Law and the provisions of the CSRC;
- Its registered capital shall be no less than RMB100 million, which shall be paid in monetary contributions by shareholders, and foreign shareholders shall make capital contributions in freely convertible currencies;
- It shall have proposed senior management who comply with laws and administrative regulations and the provisions of the CSRC, and staff who engage in research, investment, valuation, marketing and other businesses. The number of the proposed senior management personnel and the business staff shall not be less than 15 and all of them shall obtain the qualifications for funds practice;
- It shall have operating premises, security facilities and other business-related facilities in compliance with requirements;
- Its subordinate departments and working positions shall have reasonable division of labor and well-defined powers and duties;

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- It shall establish a supervision and audit mechanism, a risk management mechanism and other internal control mechanisms in compliance with the provisions of the CSRC; and
- It shall meet all other requirements of the CSRC as approved by the State Council.

According to the Opinions on Putting Great Efforts to the Innovative Development of the Securities Investment Fund Industry (《關於大力推進證券投資基金行業創新發展的意見》) issued by the CSRC, the CSRC will further improve the domestic and foreign openness of the securities investment fund industry, promote various qualifying financial institutions and other market entities to establish securities investment fund management companies, relax the restriction on the shareholding of foreign shareholders in due time and support the development of joint venture securities investment fund management companies.

### *Establishment of subsidiaries and branches*

In accordance with the Administrative Measures and the Tentative Provisions on the Administration of Subsidiaries of Securities Investment Fund Management Companies (《證券投資基金管理公司子公司管理暫行規定》), a securities investment fund management company shall, upon satisfaction of relevant requirements, apply to the CSRC for the establishment of subsidiaries or branches.

### **Regulation on Operations of Securities Companies**

The securities and related business we mainly engage in includes, but is not limited to, securities brokerage, securities investment consultation, financial advisory business in relation to securities trading and securities investment, securities underwriting and sponsorship, securities proprietary trading, margin financing and securities lending, agency sale of securities investment fund, securities investment fund custodian, provision of futures intermediary services for futures companies and agency sale of financial products.

### *Securities Brokerage*

According to the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the Provisions on Strengthening the Management of the Securities Brokerage Business (《關於加強證券經紀業務管理的規定》), a securities company shall meet the following requirements in order to engage in the securities brokerage business:

- A securities company shall establish and improve its management system of the securities brokerage business;
- Where a securities company is engaged in the securities brokerage business, it shall objectively indicate its business qualification, service responsibility and scope, etc.;
- A securities company shall establish and improve the client management system and client service system of the securities brokerage business, also, strengthen the education of investors and protect the legitimate rights and interests of clients;



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- A securities company shall establish and improve the management system and the rational performance appraisal system for securities brokers to regularize their behavior;
- A securities company shall establish and improve the management system for its securities business department to ensure a law-abiding, stable and safe operation for the business department;
- A securities company shall establish and manage the information systems such as client account management, client deposits management, proxy trading, proxy clearing and settlement, securities depository, transaction risk monitoring and the central storage of the above business data;
- If an employee or a practitioner at the branch of a securities company violated laws, administrative regulations, provisions stipulated by regulatory agencies and other administrative departments, self-regulatory rules or regulations stipulated by securities companies for securities brokerage business, the securities company shall hold the employee or practitioner accountable; and
- If a securities company or a branch of a securities violates the Provisions, the CSRC and its resident agencies will take measures such as ordering for rectification regulatory interview, issuance of caution letter, temporarily suspending license-related approvals, punishment of related personnel, suspending approval of new businesses, limiting business activities and other regulatory measures. Any violation of laws and regulations will be punished in accordance with law. If a crime was committed during the event, the company or the branch will be transferred to the proper judicial organization for prosecution.

### ***Securities Underwriting and Sponsoring***

According to the Measures for the Administration of the Sponsorship of the Offering and Listing of Securities (《證券發行上市保薦業務管理辦法》), securities companies shall apply for the sponsoring institution qualification from the CSRC, so as to engage in listing and sponsoring business. Sponsoring institutions shall designate an individual, who has obtained sponsor representative qualification, to be responsible for sponsorship duties, so as to discharge sponsorship responsibilities. Issuers shall employ securities companies which have obtained sponsoring institution qualification to perform the sponsorship duties for the following matters: initial public offering and listing, issuance of new shares and convertible corporate bonds by listing companies and other conditions identified by the CSRC.

Any securities company applying for the sponsoring institution qualification shall be subject to the following requirements:

- Its registered capital shall be no less than RMB100 million and net capital not less than RMB50 million;
- It shall have a system of corporate governance and internal control, the risk indicators shall be in line with relevant regulations;



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- Its sponsor business unit shall have a sound mechanism consists of business procedures, internal risk assessment and internal control system, its internal structure shall be logical, also, proper research capabilities and marketing capabilities is needed to provide necessary support;
- It shall have a fine sponsor business team, with reasonable professional structure, the number of practitioners shall not be less than 35, among which, the number of personnel have been engaging in sponsor-related businesses in the last three years shall not be less than 20;
- The number of its professionals who meet the qualifications of sponsor representative shall not be less than 4;
- Over the last three years, entity has not received any administrative penalties due to major violation of laws and regulations; and
- It shall meet all other requirements of the CSRC.

The Management Measures on Securities Issuance and Underwriting (《證券發行與承銷管理辦法》) regulates the issuance of shares or convertible bonds in China by issuers, or underwriting of securities in China by the securities companies in various aspects including the quotation and pricing, sale of securities, underwriting of securities, and information disclosure. The securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

The Guidance of CSRC on Further Promoting IPO Reform (《中國證監會關於進一步推進新股發行體制改革的意見》) clarified that Securities service institutions including sponsors and accounting firms shall make the following public commitment in the public offering and IPO documents: where the documents they have prepared and/or issued for the IPO of the issuers contain false records, misleading statements or major omissions that have caused losses to investors, they will compensate for such losses pursuant to the law.

The Administrative Measures for Corporate Bonds Issuances and Trading (《公司債券發行與交易管理辦法》) require the issuance of corporate bonds to be underwritten by securities firms qualified to provide underwriting services. They also require issuers to engage trustees for bond holders, which can be assumed by an underwriter for the transaction or other institutions recognized by the CSRC.

The Regulations on Management of Enterprise Bonds (《企業債券管理條例》) stipulated that issuance of enterprise bonds by enterprises shall be underwritten by securities trading institutions, and the securities trading institution which underwrites the enterprise bonds shall conduct verification on the truth, accuracy and completeness of the issue prospectus and other relevant documents of the enterprise issuing bonds.

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## **SUPERVISION AND REGULATION**

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### ***Proprietary Trading***

The Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the Guidelines on Proprietary Business of Securities Companies (《證券公司證券自營業務指引》) state that securities firms engaging in proprietary trading shall be limited to the trading of publicly offered stocks, debentures, warrants, securities investment funds or other securities approved by the securities regulatory authorities of the State Council. A securities firm that engages in proprietary trading business shall be registered under the name of the proprietary trading account. Risk indicators, such as the proportion of the total value of proprietary securities to the Net Capital of the company, the proportion of the value of a single security to the Net Capital of the company, and the proportion of the amount of a single security to the total amount of issued securities, shall comply with the requirements of the CSRC.

Securities firms engaging in proprietary trading shall establish and improve an investment decision-making and authorization mechanism with relative centralization and unification of rights and responsibilities. In principle, the decision-making framework of self-operated businesses shall be established on three progressive levels: proprietary trading department, investment decision-making body, board of directors.

The self-operated business department of securities companies is responsible for the management and operation of self-operated business, other business sectors and branches shall not develop self-operated business in any form.

Pursuant to the Pilot Measures for Administration of Trading of Stock Options (《股票期權交易試點管理辦法》) and the Pilot Guidelines for the Trading of Stocks Options by securities firms and futures companies (《證券期貨經營機構參與股票期權交易試點指引》), securities firms may engage in the trading and market-making of stock options. Futures companies may provide brokerage services for stock option trading as well as brokerage services relating to covered call and exercise of stock options. A market-making system may be implemented for trading of stock options. Securities firms and futures companies shall open a margin account with a depositary bank to deposit premium, fund for exercise of options and margins paid in the form of cash for the trading of stock options.

### ***Securities Asset Management***

In accordance with the Administrative Measures on Client Asset Management of Securities Companies (《證券公司客戶資產管理業務管理辦法》), the Implementation Rules for the Targeted Asset Management Business of Securities Companies (《證券公司定向資產管理業務實施細則》), the Implementation Rules of the CAM Business of Securities Companies (《證券公司集合資產管理業務實施細則》) and the Notice in relation to Strengthening Supervision on Asset Management Business of Securities Companies (《關於加強證券公司資產管理業務監管的通知》), securities companies engaging in client asset management shall comply with relevant conditions and shall apply to the CSRC for approval. Securities companies may undertake targeted asset management businesses for individual clients, CAM businesses for multiple clients and special asset management businesses for selected clients.

## **SUPERVISION AND REGULATION**

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The Administrative Measures on Asset Securitization of Subsidiaries of Securities Companies and Fund Management Companies (《證券公司及基金管理公司子公司資產證券化業務管理規定》) (promulgated on November 19, 2014 with immediate effect) allows subsidiaries of securities companies and fund management companies which are qualified for client asset management to conduct the asset-backed securities business.

### ***Margin Financing and Securities Lending***

According to the Management Measures on Margin Financing and Securities Lending of the Securities Companies (《證券公司融資融券業務管理辦法》), securities companies engaging in margin financing and securities lending businesses should open accounts in their own name at securities registrars, such as a special securities lending account, margin guarantee account, margin settlement account and margin capital settlement account. Such securities companies shall also open accounts at commercial banks, such as a special margin financing account and margin capital guarantee account. Securities companies shall, with reference to third-party custody of the clients' transaction settlement funds, enter into a margin custody agreement with their clients and commercial banks. The capital and securities provided by securities companies to their clients are limited to those capital and securities in the special margin financing account and special securities lending account.

### ***Securities Investment Consulting***

According to the Provisional Measures on Management of Investment Consultations on Securities and Futures (《證券、期貨投資諮詢管理暫行辦法》), a firm which engages in a securities investment consulting business shall obtain the necessary qualifications and a business licence from the CSRC. Practitioners of securities investment consulting shall obtain the relevant qualifications and provide securities investment consulting services under a qualified securities investment consulting institution.

According to the Tentative Provisions on the Securities Investment Advisory Business (《證券投資顧問業務暫行規定》), a securities company and its investment advisors shall provide securities investment advisory services in good faith and shall not jeopardize the interests of clients by acting in favor of the company and its associates, investment advisors and their related parties, and shall not jeopardize the interests of other clients by acting in favor of specific clients.

The Tentative Provisions on the Release of Securities Research Reports (《發佈證券研究報告暫行規定》) stipulates that in issuing securities research reports, securities companies and securities investment advisory agencies shall abide by laws, administrative regulations and other relevant requirements, follow the principles of independence, objectiveness, fairness and prudence, effectively prevent conflicts of interest, and treat objects under issuance in a fair manner. They shall be prohibited from disseminating false, untrue and misleading information, and from engaging in or participating in insider trading or securities market manipulation.

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## **SUPERVISION AND REGULATION**

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### ***Futures Brokerage and Asset Management of Futures Companies***

The Regulations of Futures Trading set out a licensing system that applies to the business of futures companies. The CSRC is responsible for the issuance of licenses according to the types of commodity futures and financial futures. Apart from domestic futures brokerage business, futures companies may also apply to conduct business of overseas futures brokerage, futures investment consulting and other futures business as specified by the CSRC. Futures trading shall strictly comply with the deposits system. The futures company that engages brokerage business shall accept clients' commission and trade futures in its own name for its clients, who shall be solely liable to the transaction results.

### ***Stock Index Futures***

According to the Guidelines on Securities Companies Participating in Stock Index Futures and Treasury Bonds Futures Trading (《證券公司參與股指期貨、國債期貨交易指引》), securities companies engaging in stock index futures shall formulate relative systems, including investment decision procedures, investment purposes, investment scales and risk management, etc. Securities companies engaging in stock index futures shall have professionals who are familiar with stock index futures and treasury bond futures, sound risk management and internal control system, and an effective, dynamic risk monitoring system to ensure that the risks relating to engaging in stock index futures and treasury bond futures trading are measurable, controllable and tolerable.

### ***Provision of Futures Intermediary Introduction (Provision of Intermediary Introduction to Futures Companies by Securities Companies)***

According to the Trial Measures Concerning Intermediary Introduction Business provided by Securities Companies to Futures Companies (《證券公司為期貨公司提供中間介紹業務試行辦法》), a securities company entrusted by futures companies providing futures intermediary business to futures companies shall operate in a due and cautious manner through standardized management of the futures intermediary business of its branches. A securities company may only accept the entrustment of its wholly owned or controlled futures company or a futures company under the control of the same institution to provide the futures intermediary business. The securities company shall not accept the entrustment of other futures companies to carry out futures intermediary business. In addition, Securities companies and futures companies shall be operated independently from each other and have separate accounts, staff and places of business.

### ***Agency Sale of Financial Product***

According to the Administrative Provisions on the Agency Sale of Financial Products by Securities Companies (《證券公司代銷金融產品管理規定》), a securities company shall assess the eligibility of the client before promoting financial products. The information given on the financial products shall be comprehensive, fair and accurate. Staff of a securities company who conduct the agency sale of financial products shall have securities practitioner qualifications.

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## **SUPERVISION AND REGULATION**

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### ***Direct Investment***

Pursuant to the provisions of the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), securities companies which engage in direct investment business shall establish a direct investment subsidiary in accordance with the requirements of relevant regulatory authorities. Securities companies shall not develop business in any other form. A direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy, etc. A direct investment subsidiary and its affiliates may set up and manage direct investment funds including equity funds, debt investment funds, venture capital funds, buyout funds, mezzanine funds, as well as direct investment funds (parent funds) targeted at the aforesaid funds.

### ***Securities Investment Fund***

Pursuant to the Administrative Measures, fund management companies may, based on its needs for professional operation and management, establish subsidiaries, branches or other forms of operation units required by the CSRC. A subsidiary may conduct client-specific asset management, fund sales or other forms of businesses approved by the CSRC. Branches or other forms of operation units prescribed by the CSRC may conduct businesses in fund product development, fund sales or other businesses authorized by the fund management companies. Fund management companies shall establish a scientifically rational, strictly controlled and effectively operated internal control system; a sound internal control mechanism to ensure compliant and legal operation and a sound, effective internal control. In addition, fund management companies shall also set up an investment management system consisting of authorization, research, decision-making, implementation and assessment, so as to guarantee fair treatment to fund assets and client assets under management.

### ***Sales of Securities Investment Fund***

According to the Management Measures on Sales of Securities Investment Funds (《證券投資基金銷售管理辦法》), staff participating in the fund distribution business, such as promoters and maintenance technicians of information management platforms, shall obtain qualification of the fund distribution business. Fund distribution entities shall set up a comprehensive management system of fund holder accounts and capital accounts, an optimal system of fund depository and withdrawal procedures and authorization for fund holders, and a monitoring system for fund distribution.

### ***Securities Investment Fund Custodian***

According to the Administrative Measures on the Custodian Business for Securities Investment Fund (《證券投資基金託管業務管理辦法》) and the Tentative Provisions on the Launch of Securities Investment Fund Custody Business by Non-bank Financial Institutions (《非銀行金融機構開展證券投資基金託管業務暫行規定》), securities companies shall obtain approval from the CSRC and lawfully obtain qualifications for the securities investment fund custodian business before they engage in such business. If a securities company intends to carry on the securities investment fund custodian business, it shall establish an effective internal control system, manage the properties of the custodial fund

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## **SUPERVISION AND REGULATION**

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separately from its inherent properties and various properties entrusted to it for management purpose, abide by professional ethics and code of conduct, act in good faith and diligence and perform the fund custodian duty for the benefit of fund holders in compliance with the provisions of laws and regulations, fund contracts and fund custodian agreements.

### ***Qualified Domestic Institutional Investor (QDII)s’ Qualification***

Pursuant to the Trial Measures for the Administration of Overseas Securities Investment by Qualified Domestic Institutional Investors (《合格境內機構投資者境外證券投資管理試行辦法》), a qualified domestic institutional investor, meaning a securities operation institution (including but not limited to a fund management company or a securities company) within the territory of the PRC, upon approval of the CSRC, raises funds within the territory of the PRC and implement overseas securities investment management in the form of portfolio by using part or all of the raised funds.

The CSRC and SAFE are responsible for supervising the overseas securities investment activities by QDIIs.

### **Corporate Governance and Risk Management**

#### ***Corporate Governance and Risk Management of Securities Companies***

##### ***Corporate Governance***

Securities companies shall comply with the corporate governance requirements regarding the composition, operation, convening and voting procedures of shareholders’ meetings, the board of directors and the supervisory committee as set out in the PRC Company Law, the PRC Securities Law, the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》) and the Rules for Governance of Securities Companies (《證券公司治理準則》).

Securities companies should establish and improve their corporate governance structure. The corporate governance structure of securities companies includes scientific decision-making processes and rules of procedures, a highly efficient and rigorous business operating system, a sound and effective internal control and feedback system, and effective incentive and restraint mechanisms. The supervisory committee and independent directors of securities companies should fully exercise their supervising functions to avert the risks of manipulation by substantial shareholders or control by insiders.

A securities company that engages in two or more businesses in securities brokerage, asset management, margin financing and securities lending, securities underwriting and sponsorship business shall establish a remuneration and nomination committee, an audit committee and a risk management committee under its board of directors to perform the duties and exercise the rights as specified in its articles of association. The persons in charge of the remuneration and nomination committee and the audit committee shall be independent directors.



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## **SUPERVISION AND REGULATION**

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The Regulatory Measures on Qualifications of Directors, Supervisors and Senior Management of Securities Companies (《證券公司董事、監事和高級管理人員任職資格監管辦法》) further specify the regulations on the qualifications of directors, supervisors and senior management. Each shall obtain approval from the securities regulatory authorities to hold the post before taking office.

### *Risk Management*

Pursuant to the Administrative Measures for Risk Indicators of Securities Companies (《證券公司風險控制指標管理辦法》), a securities company shall prepare financial statements of its net capital and risk capital reserve and risk indicators, along with the calculation of the net capital and risk capital reserve. The Administrative Measures for Risk Indicators of Securities Companies stipulates a warning level and a minimum regulatory ratio for risk indicators that securities companies are required to comply with. The CSRC may make appropriate adjustments to the standards for risk indicators and the ratio of risk capital reserves of a particular business according to the governance structure, the internal control and risk management of the securities companies.

In accordance with the Norms for the Comprehensive Risk Management of Securities Companies (《證券公司全面風險管理規範》), securities companies shall implement all-rounded risk management to avoid risks of business operation, such as liquidity risks, market risks, credit risk and operating risks, and shall establish and improve an all-rounded risk management system that is in line with their development strategies, including workable management rules, a sound organizational framework, a reliable information technology system, a quantitative risk indicators system, a team of professionals, an effective risk response mechanism and an advanced risk management culture.

In accordance with the Guidelines for the Liquidity Risk Management of Securities Companies (《證券公司流動性風險管理指引》), securities companies shall strengthen liquidity risk management and establish a sound liquidity risk management system for effective identification, measurement, monitoring and control of liquidity risks.

### *Classified Regulation*

Pursuant to the Regulations on Classification of Securities Companies (《證券公司分類監管規定》), the CSRC classifies the securities companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the evaluation results of risk management capability, competitiveness and ongoing compliance status of securities companies in China. According to the principle of classified regulation, the CSRC sets up different standards on risk indicators and calculating proportions of risk capital reserve for different types of securities companies, and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.

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## **SUPERVISION AND REGULATION**

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### ***Corporate Governance and Risk Management of Futures Companies***

#### ***Corporate Governance***

Pursuant to the Administrative Measures for Futures Companies (《期貨公司管理辦法》), the CSRC implements the qualification management system on the directors, supervisors, senior management and other futures practitioners of the futures companies. The business, personnel, assets, finance and place of business of a futures company shall be strictly separated from those of its controlling shareholders and have independent operations and accounting; futures companies with the qualification for clearing business of a futures exchange under the membership classification and clearing system and wholly owned futures companies, etc., shall have independent directors; a futures company shall have a supervisory committee or supervisors, and a chief risk officer as well.

The Management Measures on Qualifications of Directors, Supervisors and Senior Management of Futures Companies (《期貨公司董事、監事和高級管理人員任職資格管理辦法》) further strengthens the management of qualifications of the directors, supervisors and senior management of futures companies.

#### ***Risk Management***

Pursuant to the Administrative Measures for Futures Companies (《期貨公司管理辦法》), the Regulations of Futures Trading and the Administrative Measures on Risk Supervision Standards of Futures Companies(《期貨公司風險監管指標管理辦法》), a futures company shall establish and effectively implement business systems and procedures on risk management, internal control and futures depositories on the basis of prudent operation for healthy finance and continue to comply with risk supervision standards required by the CSRC for safety of its clients' transactions and assets . A futures company engaging in futures brokerage and other futures business shall strictly implement the systems for separation of business and capital, while mixed operations are prohibited. A futures company shall appoint a chief risk officer to supervise and review the compliance of its operation management and risk management.

#### ***Classified Regulation***

Pursuant to the Regulations on Classification of Futures Companies (《期貨公司分類監管規定》) (made effective from April 12, 2011), the CSRC classifies the futures companies into five types and eleven categories as A (AAA, AA, A), B (BBB, BB, B), C (CCC, CC, C), D and E, based on the requirement of prudent supervision, risk management capability, competitiveness and compliance of futures companies. According to the principle of classified regulation, the CSRC sets up different calculating proportions of contribution to the Futures Investors Protection Fund for different types of futures companies, and treats them differently in respect of regulation resource allocation and the frequency of on-site and off-site inspections.



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## **SUPERVISION AND REGULATION**

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### ***Corporate Governance and Risk Management of Direct Investment Company***

#### ***Corporate Governance***

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), securities companies shall enhance the management of practitioners and prevent moral hazard. A practitioner in a securities company shall not serve as the senior management or direct investment practitioner in its direct investment subsidiary and its affiliates, its direct investment funds or unlawfully engage in direct investment business in other manners. A practitioner who has a conflict of interest with securities companies shall not serve as a director, supervisor, member of investment decision-making committee of the above institutions; for other practitioners who hold the above positions, securities companies shall establish strict and effective internal control systems to prevent a potential conflict of interest and moral hazard. Effective information segregation mechanism shall be established between a securities company and its direct investment companies and its affiliates, its direct investment funds to enhance the segregation, supervision, management of sensitive information so as to prevent inappropriate flow and usage of sensitive information between securities business and direct investment business and to prevent the risk of inside transactions and tunneling.

#### ***Risk Management***

Pursuant to the Rules for Direct Investment Business of Securities Companies (《證券公司直接投資業務規範》), a direct investment subsidiary and its affiliates shall establish a sound investment management system which specifies its investment scope, investment strategy, forms of investment, investment restrictions, decision-making procedures, investment process, post-investment management and exit strategy, etc. A direct investment subsidiary and its affiliates shall establish a specific investment decision-making committee to set up investment decision-making procedures and risk tracking, analysis mechanisms to effectively prevent investment risks. A direct investment subsidiary and its affiliates shall not provide guarantee to any other entity or individual other than themselves and its direct investment funds or become a contributor who assumes the joint liability for the debts of the invested enterprises, but shall enhance the management of the invested enterprises and keep track of, analyze, evaluate the operation status of the invested enterprises to deal with any potential investment risk on a timely manner.

### ***Corporate Governance and Risks of Fund Management Company***

#### ***Corporate Governance***

Pursuant to the Administrative Measures, a fund management company shall establish and organize a governance framework with sound structure, clear delineation of duties and responsibilities, effective check and balance supervision, reasonable incentives and constraints, in accordance with the requirements of laws, such as PRC Company Law, administrative regulations and the CSRC, to maintain regulated operation of the company conforming to the basic principles of conferring priority to the interest of stakeholders of funds and protecting the interest of stakeholders of funds.

## **SUPERVISION AND REGULATION**

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A fund management company shall establish a business and client key information segregation system for its shareholders. Shareholders of a fund management company and their de facto controllers shall exercise their rights in accordance with the laws through the general meetings and shall not by-pass the general meetings and the board of directors to appoint or remove directors, supervisors, senior management officers, or directly interfere in the operational management, investment and operation of fund assets of the fund management company; and shall not request the fund management company to collaborate with them in business activities, such as underwriting of securities and securities investment, causing harm to the legitimate rights of stakeholders and other parties.

A fund management company shall establish sound systems of independent directors and inspector general.

### *Risk Management*

Pursuant to the Administrative Measures, a securities investment fund management company shall adhere to the principles of stable operation, the size of assets under management (“AUM”) shall be commensurate with its own manpower pool, investment research and client service capabilities, capacity of information technology systems, standards of risk management and internal control, and shall establish a logical, strictly controlled and efficiently operating internal control system, formulate a logical and comprehensive internal control rules, maintain legal and compliant operations as well as sound and effective corporate internal controls.

A securities investment fund management company shall establish a comprehensive financial auditing and fund asset valuation system for the funds to timely, accurately and completely reflect the conditions of fund assets. It should maintain sound financial conditions and satisfy the needs for corporate operations, business development and risk avoidance. A contingency plan system should be in place for treatment of emergency events, in the case of the occurrence of any emergency event which would severely affect the interest of stakeholders of the funds, or may cause systematic risk or adversely affect social stability, such event will be handled properly according to the contingency plan, to safeguard the interest of stakeholders of the funds practicably.

### **Other Regulations**

#### *Exchange Control*

The lawful currency of the PRC is Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign currencies. SAFE, under the authority of the PBOC, is responsible for the administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

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## **SUPERVISION AND REGULATION**

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According to the Regulations on the Foreign Exchange System of the PRC (《中華人民共和國外匯管理條例》), international payments and transfers are classified into current account items and capital account items. Current international payments and transfers are not subject to approval from the SAFE, while capital account items are.

According to the Regulations on the Foreign Exchange System of the PRC (《中華人民共和國外匯管理條例》), current account foreign exchange income may, in accordance with relevant provisions of the State, be retained or sold to any financial institution engaged in the foreign exchange settlement and sale business, and where any foreign exchange income on capital account is to be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, an approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions. PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign exchange, may on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, and with the submission of other required supporting documents, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks. Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction and prior approval from SAFE or the relevant branch.

The Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (國家外匯管理局關於境外上市外匯管理有關問題的通知) stipulates that:

- SAFE and its branches (hereafter as “Foreign Exchange Bureaus”) supervise, manage and inspect, among other things, the business registration, account opening and use, cross-border payments and capital exchange involved in the overseas listing of domestic companies.
- A domestic company shall conduct overseas listing registration with Foreign Exchange Bureaus at the place of its incorporation with related materials within 15 working days after the completion of the offering of its overseas listing shares.
- A domestic company may repatriate the proceeds from offshore listing to its domestic account or retain such proceeds at its overseas account. The use of such proceeds shall be consistent with the content of the prospectus or other public disclosure documents such as documents for issuance of corporate bonds, circulars to shareholders and resolutions of board of directors and shareholders’ meetings. Proceeds raised from issuance of convertible bonds by a domestic company and intended to be remitted to its domestic account shall be

## **SUPERVISION AND REGULATION**

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remitted to its specific domestic account for foreign debts and the company shall complete relevant procedures in accordance with relevant regulations on foreign debts administration; and proceeds raised from issuance of other types of securities by a domestic company and intended to be remitted to its domestic account shall be remitted to its special domestic account for offshore listing (foreign exchange) or payment account (RMB).

- A domestic company may use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to repurchase overseas shares. Where the domestic company chooses to remit funds out of the PRC to repurchase overseas shares, it should, by presenting the certificate of overseas listing registration obtained following the registration of the repurchase related information (including change procedures) at the local Foreign Exchange Bureaus (if fail to register the repurchase related information, it is required to conduct the registration within 20 working days before the proposed repurchase and obtain relevant registration certificate) and statements or supporting materials of the repurchase, complete the remittance with deposit bank through domestic account for offshore listing (foreign exchange) or payment account (RMB). Upon completion of the repurchase, any surplus in the funds remitted overseas for such repurchase shall be transferred back to domestic company’s domestic account for offshore listing (foreign exchange) or payment account (RMB).
- A domestic shareholder may, in accordance with applicable regulations, use overseas funds as stipulated by relevant provisions or remit funds out of the PRC to increase his/her overseas shares of a domestic company. Where the domestic shareholder chooses to remit funds out of the PRC to increase his/her shareholding, he/she should, by presenting his/her overseas shareholding registration certificate and statements or supporting materials of the shareholding increase, complete the transfer with deposit bank through domestic shareholder’s domestic account for offshore holding. Upon completion of the shareholding increase, any surplus in the funds remitted overseas for such increase shall be transferred back to the said account. The domestic shareholder may, by presenting the overseas shareholding registration certificate, complete such funds transfer or settlement procedures with the bank.
- A domestic shareholder’s income raised from reduction or transaction of overseas shares of a domestic company or raised from the shares delisted from overseas stock exchange on the capital account may be deposited at the shareholder’s overseas account or remitted to the domestic account for offshore shareholding. Where the domestic shareholder chooses to remit the income to its domestic account, the domestic shareholders may, by presenting the overseas shareholding registration certificate, complete the transfer or settlement procedures with the bank.

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## **SUPERVISION AND REGULATION**

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According to the Decision of the State Council on Cancellation of and Adjustment to Issues including Certain Administrative Examination and Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》), the SAFE and its branches abolished the approval procedure of remittance and exchange settlement of proceeds raised overseas from the overseas-listed foreign shares of domestic companies.

The Provisions on Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors (《合格境外機構投資者境內證券投資外匯管理規定》), provide that the Chinese government shall adopt a quota management system on the investments in domestic securities by the qualified foreign investors. SAFE approves the investment quota of the individual qualified investors and such quota may be adjusted. A qualified investor is not allowed to apply for a further increase in the investment quota within one year after approval of the investment quota.

### ***Information Disclosure***

The Notice on the Relevant Issues Regarding the Information Disclosure of Securities Companies (《關於證券公司信息公示有關事項的通知》) sets forth the requirements on the information disclosure by securities companies, including different ways to disclose information.

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》) makes further disclosure requirements to the regular reports and ad hoc reports by listed securities companies and require listed companies to establish a sound information management system in accordance with the characteristics of the securities industry in China, their practices and general regulations regarding information disclosure by listed companies.

### ***Anti-money Laundering***

Securities companies shall comply with the requirements related to anti-money laundering stipulated in the Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》), the Provisions on Anti-money Laundering of Financial Institutions (《金融機構反洗錢規定》) on Administration of Identification of Clients and Preservation of Client Identities Information and Trading Records of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》).

The Implementation Measures on the Anti-money Laundering by Securities and Futures Industry (《證券期貨業反洗錢工作實施辦法》) of the CSRC, further regulate the anti-money laundering regulations for the securities and futures industry, as well as the anti-money laundering responsibilities of the institutions engaging in sales of funds in their business operation. Securities and futures entities shall also establish and enhance internal control systems for anti-money laundering.

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### ***Financial Action Task Force on Money Laundering (FATF)***

The FATF is an inter-governmental body established in 1989 with the objective to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF monitors the progress of its members in implementing necessary measures, reviewing money laundering and terrorist financing techniques and counter-measures, and promoting the adoption and implementation of appropriate measures globally. The PRC became a member of the FATF in 2007 and the first mutual evaluation report was adopted in June 2007 with a follow-up report was published in March 2012.

### ***International Convention for the Suppression of the Financing of Terrorism***

The International Convention for the Suppression of the Financing of Terrorism was adopted by Resolution 54/109 of December 9, 1999 at the 54th session of the General Assembly of the United Nations. This convention aims to prevent, prosecute and punish the financing of terrorist activities and to promote inter-governmental co-operation to achieve this purpose. As of the Latest Practicable Date, this convention has been ratified by 186 parties, including the government of the PRC which ratified this convention on April 19, 2006 with several reservations.

### ***The United Nations Convention against Corruption***

The PRC is a party to the United Nations Convention against Corruption, a multilateral convention adopted by the General Assembly of the United Nations on October 31, 2003. This convention requires parties to implement anti-corruption measures affecting their laws, institutions and practices, and the measures aim to promote the prevention, detection and sanctioning of corruption, as well as the cooperation between ratifying parties on these matters. As of the Latest Practicable Date, the United Nations Convention against Corruption has been ratified by 174 parties. The PRC ratified this convention on October 27, 2005, with reservation on paragraph 2 of Article 66.

### ***Regulatory Reforms and Innovations***

On November 12, 2013, the third session of the 18th Central Committee of the Communist Party of China (the “CCCPC”) passed the Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform (中共中央關於全面深化改革若干重大問題的決定) to make strategic planning for the PRC government to comprehensively deepen reforms, which includes further simplifying political system and delegating authority, expanding the domestic and overseas opening of the financial service sector, establishing a sound multiple-tier capital market system, implementing share offer system reform for transition into registration system, facilitating equity financings through diversified channels, developing and regulating bond market, increasing the proportion of direct financing, encouraging financial innovations, and enriching the level and products of the financial market.



## **SUPERVISION AND REGULATION**

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On May 9, 2014, the State Council issued the Opinions of the State Council on Further Promoting the Healthy Development of Capital Markets (國務院關於進一步促進資本市場健康發展的若干意見), pursuant to which the State Council will promote the coordinated development of direct and indirect financings and increase the proportion of direct financings. It will actively and steadily promote the share offer system reform for transition into registration system, speed up the establishment of a multiple-tier equity market, encourage market-driven M&As and restructurings, actively develop bond market, expand the inter-connection of various bond markets, establish a sound private equity offering system, and develop private equity investment funds. It will implement an open and transparent securities and futures business licensing system with proper entry and exit procedures, study the feasibility of cross licenses for securities companies, fund management companies, futures companies and securities investment consultancy companies, support securities and futures operation institutions and other financial institutions in exploring comprehensive operations through mutual controlling or holding. It will support qualified Internet companies in participating in the capital market, promote the healthy development and Internet financial services, and expand the coverage of capital market services. It will encourage domestic securities and futures operation institutions to implement “going out” strategies. It will facilitate the connection of domestic and overseas stock exchanges and study and promote the mutual recognition of domestic and overseas funds and stock exchange products, and steadily explore the reform of B share market. It will strengthen the building of a unified national securities and futures regulation system, regulate the operation of regulatory power in accordance with the law, reduce the scope of matters requiring approval, authorization or filings, reinforce regulation during and after the transaction, improve the capability and transparency of regulation, support self-regulatory organizations in performing duties and deepening cooperation with the regulators of Hong Kong, Macau and Taiwan. It will enhance cooperation with international securities and futures regulatory bodies and actively participate in the formulation of international securities and futures rules.

On May 13, 2014, the CSRC issued the Opinions on Further Promoting the Innovative Development of Securities Operation Institutions (關於進一步推進證券經營機構創新發展的意見), pursuant to which the CSRC will improve its regulatory mechanism, deepen approval system reform, relax industry access system, and implement business license administration. It will support securities operation institutions in self-operating business and product innovation in accordance with the law. It will support securities operation institutions in further deepening and improving business. It will support securities operation institutions in participating in the trading in domestic futures markets and trading of derivatives such as credit risk mitigation instruments, interest rate swaps and options, and further improve master agreements and related ancillary documents for derivative trading. It will support securities operation institutions in equity and debt financings, and encourage them to explore new financing channels and new financing tools. It will facilitate the building of modern investment banks with international competitiveness, brand influence and systematic importance.

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## **SUPERVISION AND REGULATION**

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### **OVERVIEW OF REGULATORY ENVIRONMENT IN HONG KONG**

#### **Introduction**

The SFO (including its subsidiary legislation) is the principal legislation to regulate the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, the offering of investments to the public in Hong Kong, and intermediaries and any regulated activities conducted by them in such capacity. Part V of the SFO particularly deals with licensing and registration matters.

The SFO is administered by the SFC, which is an independent statutory body in Hong Kong set up to regulate the securities and futures markets and the non-bank retail leveraged foreign exchange market in Hong Kong.

In addition to the SFO, Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance (including its subsidiary legislation) provides that the SFC approves the prospectuses for offerings of shares and debentures and/or grants the relevant waivers.

#### ***Types of Regulated Activities***

The SFO promulgates a single licensing regime where a person only needs one license or registration to carry on different types of regulated activities as defined in Schedule 5 to the SFO for which it is licensed. The regulated activities defined in the SFO are as follows:

<b>License</b>	<b>Regulated activity</b>
Type 1:	dealing in securities
Type 2:	dealing in futures contracts
Type 3:	leveraged foreign exchange trading
Type 4:	advising on securities
Type 5:	advising on futures contracts
Type 6:	advising on corporate finance
Type 7:	providing automated trading services
Type 8:	securities margin financing
Type 9:	asset management
Type 10:	providing credit rating services



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## **SUPERVISION AND REGULATION**

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As of the Latest Practicable Date, the following members of our Group were licensed under the SFO to carry on the following regulated activities:

<b>Group company</b>	<b>Type of license</b>
GF Securities (Hong Kong) Brokerage	Type 1 Type 4
GF Futures (Hong Kong)	Type 2
GF Capital (Hong Kong)	Type 6 <sup>(1)</sup>
GF Asset Management (Hong Kong)	Type 4 <sup>(2)</sup> Type 9 <sup>(2)</sup>
GF International Investment Management	Type 1 <sup>(3)</sup> Type 4 Type 9

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(1) The condition is that licensee shall not hold assets of its clients

(2) The condition is that licensee shall not hold assets of its clients

(3) The condition is that licensee may conduct trading under collective investment schemes only

In addition to the licenses above granted to the members of our Group by the SFC, GF Investments (Hong Kong) also holds a money lender license issued by the licensing court under the Money Lenders Ordinance, which allows it to provide loans to its clients in its ordinary course of business.

### **Overview of Licensing Requirements under the SFO**

Under the SFO, any person who:

- (a) carries on a business in a regulated activity; or
- (b) holds itself out as carrying on a business in a regulated activity,

must be licensed under the relevant provisions of the SFO to carry on that regulated activity, unless one of the exemptions under the SFO applies. It is a serious offense for a person to conduct any regulated activity without the appropriate license issued by the SFC.

In order for a licensed corporation to carry on regulated activities, it must designate no less than two persons, one of which must be its executive director, to oversee the regulated activities. An “executive director” of a licensed corporation is defined as a director of the corporation who (a) actively participates in; or (b) is responsible for directly supervising, any business of the regulated activities for which the corporation is licensed. Each such executive director who is an individual must be approved by the SFC to serve as the responsible officer of such regulated activities of the corporation.

## **SUPERVISION AND REGULATION**

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If a person actively markets (whether by itself or another person on its behalf and whether in Hong Kong or from a place outside Hong Kong) to the public in Hong Kong any services that it provides and such services, if provided in Hong Kong, would constitute a regulated activity, then that person will also be subject to the licensing requirements under the SFO.

In addition to the licensing requirements on corporations that carry on regulated activities, any individual who:

- (a) performs any regulated function for his principal which is a licensed corporation in relation to a regulated activity carried on as a business; or
- (b) holds himself out as performing such regulated function,

must separately be licensed under the SFO as a licensed representative accredited to his principal.

Persons applying for licenses under the SFO must satisfy and continue to satisfy after the grant of such licenses by the SFC that they are fit and proper persons to be so licensed. The Fit and Proper Guidelines together with its Appendix I, which sets out the Additional Fit and Proper Guidelines for Corporations applying or continuing to act as Sponsors and Compliance Advisers, issued by the SFC, summarize certain issues generally to be considered by the SFC in determining the fitness and properness of an applicant to grant relevant licenses to such applicant in accordance with the SFO. In addition to any other issues as it may consider to be relevant, the SFC will consider:

- (a) the financial status or solvency of the applicant;
- (b) the educational or other qualifications or experience of the applicant having regard to the nature of the functions to be performed;
- (c) the ability of the applicant to carry on the regulated activities competently, honestly and fairly; and
- (d) the reputation, character, reliability and financial integrity of the applicant or (if the applicant is a corporation) corporation and any of its officer.

In addition to the above, the SFC will also take into account of the following factors:

- (a) any decisions made by the Monetary Authority, the Insurance Authority, the Mandatory Provident Fund Schemes Authority or any other authorities or organizations performing similar functions as those of SFC whether in Hong Kong or elsewhere in respect of the applicant;

## **SUPERVISION AND REGULATION**

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- (b) any information in the possession of the SFC relating to:
- (i) any person who is or is to be employed by, or associated with, the applicant for the purposes of the regulated activity in question;
  - (ii) any person who will be acting for or on behalf of the applicant in relation to the regulated activity in question; and
  - (iii) if the applicant is a corporation in a group of companies, any other corporation in the same group of companies or any substantial shareholder or officer of any such inter-group company.
- (c) whether the applicant has established effective internal control procedures and risk management systems to ensure compliance with all applicable regulatory requirements under any of the relevant provisions; and
- (d) the state of affairs of any other business which the person carries on or proposes to carry on.

### **Continuing Obligations of Licensed Corporations**

Licensed corporations, licensed representatives and responsible persons must remain fit and proper at all times. They are required to comply with all applicable provisions of the SFO and its subsidiary rules and regulations, as well as the codes and guidelines issued by SFC.

Outlined below are some of the key continuing obligations of our licensed subsidiaries in Hong Kong:

- maintenance of minimum paid-up share capital and liquid capital, and submission of financial returns to the SFC in accordance with the requirements under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong);
- maintenance of segregated account(s), and custody and handling of client securities in accordance with the requirements under the Securities and Futures (Client Securities) Rules (Chapter 571H of the Laws of Hong Kong);
- maintenance of segregated account(s), and holding and payment of client money in accordance with the requirements under the Securities and Futures (Client Money) Rules (Chapter 571I of the Laws of Hong Kong);
- issue of contract notes, statements of account and receipts in accordance with the requirements under the Securities and Futures (Contract Notes, Statements of Account and Receipts) Rules (Chapter 571Q of the Laws of Hong Kong);
- maintenance of proper records in accordance with the requirements prescribed under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the Laws of Hong Kong);

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- submission of audited accounts and other required documents in accordance with the requirements under the Securities and Futures (Accounts and Audit) Rules (Chapter 571P of the Laws of Hong Kong);
- maintenance of insurance against specific risks for specified amounts in accordance with the requirements under the Securities and Futures (Insurance) Rules (Chapter 571AI of the Laws of Hong Kong);
- payment of annual fees and submission of annual returns to the SFC within one month after each anniversary date of the license;
- notification to the SFC of certain changes and events in accordance with the requirements under Securities and Futures (Licensing and Registration) (Information) Rules (Chapter 571S of the Laws of Hong Kong);
- complying with the continuous professional training requirements under the Guidelines on Continuous Professional Training issued by the SFC;
- implementation of appropriate policies and procedures relating to client acceptance, client due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training in accordance with the requirements under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing issued by the SFC in July 2012 (the “AMLCTF Guideline”);
- complying with the business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Code of Conduct for Fund Managers, the Code of Conduct for Corporate Finance Advisers and other applicable codes issued by the SFC; and
- complying with the business conduct requirements under the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC, the Advertising Guidelines Applicable to Collective Investment Schemes Authorized under the Product Codes, the Guidelines on Disclosure of Fees and Charges Relating to Securities Services and other applicable guidelines issued by the SFC.

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**SUPERVISION AND REGULATION**

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**The Securities and Futures (Financial Resources) Rules (“FRR”)**

Subject to certain exemptions described below, a licensed corporation is required to maintain minimum paid-up share capital. The following table sets out a summary of those rules which regulate the minimum paid-up share capital and are applicable to our licensed subsidiaries in Hong Kong:

<b>Minimum amount of paid-up capital</b>	<b>Regulated activity</b>	<b>Applicable to our licensed subsidiaries</b>
HK\$5,000,000	A corporation licensed for Type 2 regulated activity	GF Futures (Hong Kong)
HK\$5,000,000	A corporation licensed for Type 1, Type 4 and Type 9 regulated activities that is not subject to the licensing condition that it shall not hold client assets	GF International Investment Management
HK\$10,000,000	A corporation licensed for Type 1 and Type 4 regulated activities that provides securities margin financing	GF Securities (Hong Kong) Brokerage
HK\$10,000,000	A corporation licensed for Type 6 regulated activity that acts as a sponsor	GF Capital (Hong Kong)
Minimum paid-up share capital requirement not applicable	A corporation licensed for Type 4 and Type 9 regulated activities that is subject to the licensing condition that it shall not hold client assets	GF Asset Management (Hong Kong)

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## **SUPERVISION AND REGULATION**

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Other than minimum paid-up share capital requirements, the FRR also stipulates that, the licensed corporation is required to maintain minimum liquidity, which is an excess of assets over liabilities with the same level in a licensed corporation. Pursuant to the FRR, the minimum liquidity applicable to our licensed subsidiaries in Hong Kong shall be the higher of the amount of (a) and (b) below:

- (a) The below amount of:

<b>Minimum amount of liquid capital required</b>	<b>Regulated activities</b>
HK\$100,000	A corporation licensed for Type 4 and Type 9 regulated activities that is subject to the licensing condition that it shall not hold client assets
HK\$3,000,000	A corporation licensed for Type 1 and Type 4 regulated activities that provides securities margin financing
HK\$3,000,000	A corporation licensed for Type 2 regulated activity that is not an approved introducing agent, a futures non-clearing dealer or a trader
HK\$3,000,000	A corporation licensed for Type 1, Type 4 and Type 9 regulated activities that is not subject to the licensing condition that it shall not hold client assets
HK\$3,000,000	A corporation licensed for Type 6 regulated activity that acts as a sponsor

- (b) In the case of a corporation licensed for any regulated activities other than Type 3 regulated activity, its variable required liquidity means 5% of the aggregate of (i) its adjusted liabilities; (ii) the aggregate of the initial margin requirements in respect of outstanding futures contracts or outstanding options contracts held by it on behalf of its clients; and (iii) the aggregate of the amounts of margin required to be deposited in respect of outstanding futures contracts or outstanding options contracts held by it on behalf of its clients, to the extent that such contracts are not subject to the requirement of payment of initial margin.

### **Anti-money Laundering and Counter-terrorist Financing**

Licensed corporations are required to comply with the applicable anti-money laundering and counter-terrorist financing laws and regulations in Hong Kong as well as the AMLCTF Guideline and the Prevention of Money Laundering and Terrorist Financing Guideline issued by the SFC for Associated Entities published by the SFC in April 2012.

## **SUPERVISION AND REGULATION**

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The AMLCTF Guideline assists licensed corporations and their senior management in formulating and implementing appropriate and effective policies, procedures and controls in order to meet applicable legal and regulatory requirements. Under the AMLCTF Guideline, licensed corporations must, among other things:

- assess the risks of any new products and services before they are launched and ensure that appropriate additional measures and controls are implemented to mitigate and manage the risks associated with money laundering and terrorist financing;
- identify the client and verify the client’s identity by reference to any documents, information or data from reliable and independent sources, and take steps from time to time to ensure that the client information obtained is up-to-date and relevant;
- conduct on-going monitoring of activities of the clients to ensure that they are consistent with the nature of business, the risk profile and source of funds, as well as identify transactions that are complicated, large or unusual, or patterns of transactions that have no apparent economic or lawful purpose and may indicate money laundering and terrorists financing;
- maintain a database of names and particulars of terrorist suspects and designated parties which consolidates the information from various lists that have been made known to them, as well as conduct comprehensive on-going screening of the client database; and
- conduct on-going monitoring for identification of suspicious transactions and ensure compliance with their legal obligations of reporting funds or property known or suspected to be proceeds of crime or terrorist property to the Joint Financial Intelligence Unit, a unit jointly run by the Hong Kong Police Force and the Hong Kong Customs & Excise Department to monitor and investigate suspected money laundering.

We set out below a brief summary of the principal legislation in Hong Kong that is concerned with the regulatory system of anti-money laundering and counter-terrorist financing.

### ***Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong) (“AMLO”)***

Among other things, the AMLO imposes requirements relating to client due diligence and maintenance of records of specific financial institutions and empowers competent authorities to supervise compliance with the requirements under the AMLO. In addition, the competent authorities are empowered to (1) ensure that proper safeguards exist to prevent contravention of specified provisions in the AMLO and (2) mitigate money laundering and terrorist financing risks.

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### ***Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) (“DTROP”)***

Among other things, the DTROP empowers competent authorities to investigate assets suspected to be derived from drug trafficking activities, the freezing of assets on arrest and the confiscation of the proceeds from drug trafficking activities. It is an offense under the DTROP if a person deals with any property knowing or having reasonable grounds to believe it to be the proceeds from drug trafficking. The DTROP requires a person to report to an authorized officer if he/she knows or suspects that any property (directly or indirectly) is the proceeds from drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offense under the DTROP.

### ***Organized and Serious Crimes Ordinance (Chapter 455 of the Laws of Hong Kong) (“OSCO”)***

Among other things, the OSCO empowers officers of the Hong Kong Police Force and the Hong Kong Customs & Excise Department to investigate organized crime and triad activities, and gives the courts jurisdiction to confiscate the proceeds of organized and serious crimes, to issue restraint orders and charging orders in relation to the property of defendants of specified offences. The OSCO extends the money laundering offense to cover the proceeds from all indictable offences in addition to drug trafficking.

### ***United Nations (Anti-terrorism Measures) Ordinance (Chapter 575 of the Laws of Hong Kong) (“UNATMO”)***

Among other things, the UNATMO provides that it would be a criminal offense to: (1) provide or collect funds (by any means, directly or indirectly) with the intention or knowledge that the funds will be used to commit, in whole or in part, one or more terrorist acts; or (2) make any funds or financial (or related) services available, directly or indirectly, to or for the benefit of a person knowing that, or being reckless as to whether, such person is a terrorist or terrorist associate. The UNATMO also requires a person to report his knowledge or suspicion of terrorist property to an authorized officer, and failure to make such disclosure constitutes an offense under the UNATMO.

### **THE U.S. FOREIGN ACCOUNT TAX COMPLIANCE ACT (“FATCA”)**

U.S. Treasury Regulations commonly referred to as FATCA target non-compliance by U.S. taxpayers using foreign accounts. FATCA seeks to obtain information on accounts held by U.S. taxpayers in other countries by requiring foreign financial institutions (“FFIs”) to report to the U.S. Internal Revenue Service (“IRS”) information about financial accounts held by U.S. taxpayers, or by foreign entities in which U.S. taxpayers hold a minimum ownership interest. Governments have the option of permitting their FFIs to enter into agreements directly with the IRS to comply with FATCA under U.S. Treasury Regulations or to implement FATCA by entering into one of two alternative model intergovernmental agreements (“IGAs”) with the United States.



## **SUPERVISION AND REGULATION**

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The governments of the United States and Hong Kong have entered into a Model 2 IGA. Under this agreement, Hong Kong will direct and legally enable FFIs in Hong Kong to register with the IRS and report the information required by FATCA about consenting U.S. accounts directly to the IRS. This requirement is supplemented by government-to-government exchange of information regarding certain pre-existing non-consenting accounts on request.

The governments of the United States and the PRC have in substance agreed to a Model 1 IGA. Under a Model 1 IGA, FFIs will report the information required under FATCA about U.S. accounts to their home governments, which in turn will report the information to the IRS. These agreements are reciprocal, meaning that the United States will also provide similar tax information to these governments regarding individuals and entities from their jurisdictions with accounts in the United States.

A withholding tax of 30% may be imposed under FATCA on certain payments made to us and our subsidiaries that are treated as FFIs, including payments of United States source interest and dividends, as well as the gross proceeds of the disposition of assets that can produce United States source interest or dividends, unless we and our subsidiaries that are treated as FFIs (a) enter into an agreement with the United States Treasury to collect and provide to the U.S. tax authorities information regarding United States persons (or foreign entities in which United States persons hold a minimum ownership interest) that directly or indirectly maintain accounts with the FFI (including, in certain circumstances, owning equity or debt issued by the FFI) or (b) comply with legislation that implemented an IGA between the applicable FFI’s jurisdiction and the United States. The Company and each of its subsidiaries intend to comply with FATCA.

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## **OUR HISTORY AND OPERATIONAL REFORM**

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### **OUR HISTORY**

With the approval of the PBOC, Guangdong Development Bank (廣東發展銀行) (now known as China Guangfa Bank) established a securities department on April 9, 1991. With the approval of the Guangdong Administration for Industry and Commerce, we were duly established as the Securities Department of Guangdong Development Bank (廣東發展銀行證券業務部) on May 21, 1993. On January 25, 1994, we converted into Guangdong Guangfa Securities Company (廣東廣發証券公司) whose capital was contributed by Guangdong Development Bank with its own funds.

On December 26, 1996, we converted into a limited liability company and changed our name to Guangfa Securities Limited Liability Company (廣發証券有限責任公司). On August 26, 1999, we were spun off from Guangdong Development Bank as required by the sectorial regulation of the financial industries under the PRC laws. On July 25, 2001, we converted into a joint stock company and changed our name to GF Securities Co., Ltd. (廣發証券股份有限公司) (the “**Original Guangfa**”).

On February 12, 2010, we became listed on the Shenzhen Stock Exchange by completing a reverse takeover of Yan Bian Road Construction Co., Ltd. (延邊公路建設股份有限公司) (“**Yan Bian Road**”) (the “**Reverse Takeover**”), a company then listed on the Shenzhen Stock Exchange with the stock code 000776. The key steps of the Reverse Takeover were as follows:

- the repurchase by Yan Bian Road of 84,977,833 shares from one of its then shareholders, Jilin Aodong Pharmaceutical Group Co., Ltd. (吉林敖東藥業集團股份有限公司);
- the issuance of 2,409,638,554 shares by Yan Bian Road to shareholders of the Original Guangfa in exchange for all the then existing shares of the Original Guangfa; and
- as a result of the Reverse Takeover, the Original Guangfa transferred all its assets and employees to Yan Bian Road and was deregistered on February 10, 2010.

As part of the Reverse Takeover, the name of Yan Bian Road was changed to “GF Securities Co., Ltd.”.

### **MAJOR INCREASE IN SHARE CAPITAL**

Upon our establishment on May 21, 1993, our registered capital was RMB10,000,000.

On January 25, 1994, we increased our registered share capital to RMB150,000,000.

On November 1, 1995, we increased our registered share capital to RMB200,000,000.

On December 26, 1996, we increased our registered share capital to RMB800,000,000.

On December 14, 1999, we increased our registered share capital to RMB1,600,000,000.

On July 25, 2001, we increased our registered share capital to RMB2,000,000,000.

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## **OUR HISTORY AND OPERATIONAL REFORM**

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On February 10, 2010, as a result of the Reverse Takeover, we increased our registered share capital to RMB2,507,045,732.

On August 17, 2011, we issued 452,600,000 A Shares to ten investors by way of private placement. As a result, on December 15, 2011, we increased our registered share capital to RMB2,959,645,732.

On September 17, 2012, we increased our share capital from RMB2,959,645,732 to RMB5,919,291,464 through the capitalization of our capital reserves.

### **MILESTONES**

During the past 20 years, we have greatly expanded the scope and scale of our products and services. The following table sets forth major milestones in our corporate development:

<b>Year</b>	<b>Milestones</b>
1992	In September, we became a member of the Shanghai Stock Exchange.
1999	In September, we were licensed with inter-bank lending qualification (conducting inter-bank lending, sales and trading of bonds, spot bonds transaction and bond repurchase businesses).  In November, we became a member of the national inter-bank lending market.
2001	In February, we obtained qualification for online entrusted securities trading business.
2002	In August, we obtained qualification for open-end securities investment fund distribution business.  In September, we obtained qualification for entrusted investment management business.
2004	In December, we became a pilot securities firm to carry on relevant innovative activities.
2005	In March, we became the first PRC securities firm to set up a securities company CAM scheme.  In September, we obtained qualification to underwrite short-term financing bills.  In December, we launched Dongguan-Shenzhen Highway Toll Right Economic Interest SAM Scheme, the first securitization product through SAM scheme listed on the Shenzhen Stock Exchange.
2006	In January, we obtained qualification for quotation transfer business.  In June, we embarked on overseas expansion through the establishment of GFHK.
2007	In July, we obtained the qualification of level one dealer on the Shanghai Stock Exchange Integrated Electronic Platform for Fixed Income Securities.

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## **OUR HISTORY AND OPERATIONAL REFORM**

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<b>Year</b>	<b>Milestones</b>
2008	<p>In June, we obtained qualification of qualified investor of block trade system.</p> <p>In October, we were licensed to engage in private equity investment under the pilot direct investment business scheme in the PRC.</p>
2009	<p>In October, we acted as the sponsor and lead underwriter of Qingdao Tgood Electric Co., Ltd., the first company listed on ChiNext Board of the Shenzhen Stock Exchange (stock code: 300001).</p>
2010	<p>In March, we obtained qualification for margin financing and securities lending.</p>
2011	<p>In November, we obtained the QDII qualification for overseas securities investment management business.</p> <p>In December, we obtained RQFII qualification through GFHK.</p>
2012	<p>In January, we were permitted to lease trading seats to insurance institutional investors, as well as the approval for setting up subsidiaries to carry on alternative investment.</p> <p>In June, we were licensed to underwrite SME private placement bonds under a pilot scheme in the PRC.</p> <p>In October, our Company and GF Fund obtained qualification of investment managers of insurance funds.</p> <p>In November, we were licensed to carry on lead underwriting business for non-financial enterprises debt financing instruments.</p> <p>In December, we were licensed to carry on OTC trading business.</p>
2013	<p>In January, we obtained qualification for total return swap business; and obtained trading permission for repurchase agreements.</p> <p>In February, we were licensed to carry on refinancing securities lending.</p> <p>In May, we were licensed to distribute financial products.</p> <p>In July, we further expanded our overseas business by acquiring 100% share interest in Natixis Commodity Markets Limited.</p> <p>In November, we became a member of the Guangdong High Tech Service Zone for Financial Institution Equity Trading Centre.</p> <p>In December, we were licensed to carry on client securities capital consuming payment services under the pilot scheme in the PRC; and obtained certificate of concurrent-business insurance agency (for our Company and 15 brokerage branches of its Guangzhou branch office).</p>

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## **OUR HISTORY AND OPERATIONAL REFORM**

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<b>Year</b>	<b>Milestones</b>
2014	<p>In January, we were licensed to carry on private equity fund integrated custody under a pilot scheme in the PRC.</p> <p>In March, we expanded our presence geographically to North America by setting up GF Securities (Canada) and obtaining relevant business license.</p> <p>In May, we were licensed to carry on the custodian services of securities investment funds; and were licensed to carry on OTC market structured notes business under a pilot scheme in the PRC.</p> <p>In June, we were licensed to carry on innovative business of Internet securities business under the pilot scheme in the PRC.</p> <p>In July, we began providing market-making business on the NEEQ.</p> <p>In November, we became a member of Asset Management Association of China.</p>
2015	<p>In February, we were licensed to provide liquidity to ETF options.</p>

### **OUR MAJOR SUBSIDIARIES**

GF Futures was established as a limited liability company in Guangzhou on March 23, 1993. As of the Latest Practicable Date, GF Futures had a registered capital of RMB1,100,000,000. It commenced business on March 23, 1993 with its principal business as commodity and financial futures brokerage, futures investment consultation and asset management.

GF Fund was established as a limited liability company in Zhuhai on August 5, 2003. As of the Latest Practicable Date, GF Fund had a registered capital of RMB126,880,000. It commenced business on August 5, 2003 with its principal business as fund raising, fund sales and asset management.

GFHK was incorporated as a limited liability company in Hong Kong on June 14, 2006. As of the Latest Practicable Date, GFHK had a registered capital of HK\$1,440,000,000. It commenced business on July 24, 2006 with its principal business as investment holding.

GF Securities (Hong Kong) Brokerage was incorporated as a limited liability company in Hong Kong on July 14, 2006. As of the Latest Practicable Date, GF Securities (Hong Kong) Brokerage had a registered capital of HK\$800,000,000. It commenced business on January 31, 2007 with its principal business as dealing in securities and advising on securities.

GF Capital (Hong Kong) was incorporated as a limited liability company in Hong Kong on July 14, 2006. As of the Latest Practicable Date, GF Capital (Hong Kong) had a registered capital of HK\$70,000,000. It commenced business on January 31, 2007 with its principal business as advising on corporate finance.

## **OUR HISTORY AND OPERATIONAL REFORM**

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GF Asset Management (Hong Kong) was incorporated as a limited liability company in Hong Kong on July 14, 2006. As of the Latest Practicable Date, GF Asset Management (Hong Kong) had a registered capital of HK\$175,000,000. It commenced business on November 8, 2007 with its principal business as asset management and advising on securities.

GF Xinde was established as a limited liability company in Guangzhou (the place of incorporation of which was changed to Urumqi in April 2012 for operational needs) on December 3, 2008. As of the Latest Practicable Date, GF Xinde had a registered capital of RMB2,300,000,000. It commenced business on December 3, 2008 with its principal business as equity investment and the provision of investment advisory services.

GF Investments (Hong Kong) was incorporated as a limited liability company in Hong Kong on September 21, 2011. As of the Latest Practicable Date, GF Investments (Hong Kong) had a registered capital of HK\$5,000,000. It commenced business on September 21, 2011 with its principal business as investment holding and money lending.

GF Qianhe was established as a limited liability company in Beijing on May 11, 2012. As of the Latest Practicable Date, GF Qianhe had a registered capital of RMB2,000,000,000. It commenced business on May 11, 2012 with its principal business as project investment, investment management and investment consultation.

GF Asset Management was established as a limited liability company in Zhuhai on January 2, 2014. As of the Latest Practicable Date, GF Asset Management had a registered capital of RMB500,000,000. It commenced business in April 2014 with its principal business as asset management with the approval of CSRC.

## **STRATEGIC MERGERS AND MAJOR ACQUISITIONS**

During the past 20 years, we have successfully completed and integrated 13 domestic and overseas acquisitions and have grown from a regional securities firm to a leading national provider of comprehensive capital market services.

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## **OUR HISTORY AND OPERATIONAL REFORM**

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### ***Strategic acquisitions prior to the Track Record Period***

The following table sets forth our strategic acquisitions prior to the Track Record Period:

1994	We acquired 19 brokerage branches from Guangdong Development Bank.
1995	We acquired six brokerage branches located in Haikou, Wuhan, Chengdu, Fuzhou, Shenyang and Dalian respectively.
1996	We acquired five brokerage branches from Bank of China Trust Investment Company (中銀信託投資公司).
1998 - 2001	We acquired nine brokerage branches and the fund department from Guangdong International Trust Investment Company (廣東國際信託投資公司).
1999	In November, we acquired 11 brokerage branches from six trust and investment companies.
2001	In July, we restructured and acquired a controlling interest in the former Jinzhou Securities Co., Ltd (錦州證券有限責任公司), increased its registered capital to RMB100 million, and renamed it as GF North Securities & Brokerage Co., Ltd. (廣發北方證券經紀有限責任公司), which was subsequently merged into our Company.
2003	In April, we acquired a controlling interest in the former Fujian Huafu Securities Corp. (福建省華福證券公司), renamed it as GF Huafu Securities Co., Ltd. (廣發華福證券有限責任公司), and subsequently sold it to an independent third party because of regulatory requirements in 2010.
2005	In December, we acquired 25 brokerage branches from Wuhan Securities Co., Ltd (武漢證券有限責任公司).
2006	In January, we took over the management of 38 brokerage branches and 31 service branches of Hebei Securities Co., Ltd (河北證券有限責任公司).  In June, we acquired 16 brokerage branches and five service branches from First Securities Co., Ltd (第一證券有限責任公司) and took over the management of five branches from Zhuhai International Trust & Investment Corp. (珠海國際信託投資公司) and Zhuhai Special Economic Zone Trust & Investment Co., Ltd. (珠海經濟特區信託投資公司).  In September, we acquired two brokerage branches and one service branch from Changcai Securities Co., Ltd (長財證券有限責任公司).
2007	We acquired nine brokerage branches and five service branches from Hebei Securities Co., Ltd (河北證券有限責任公司) and seven brokerage branches from Zhuhai International Trust & Investment Corp. and Zhuhai Special Economic Zone Trust & Investment Co., Ltd.



## **OUR HISTORY AND OPERATIONAL REFORM**

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### ***Significant acquisition during Track Record Period***

On July 23, 2013, GF Futures (Hong Kong) acquired the entire shareholding interest in Natixis Commodity Markets Limited, a London based futures brokerage company from Natixis S.A., an independent third party, for a consideration of USD36,416,015, which was determined by reference to the audited net asset value of Natixis Commodity Market Limited as of July 23, 2013. The acquisition complied with all applicable laws and all requisite approvals, permits and licenses, as applicable, have been obtained. We renamed Natixis Commodity Markets Limited as GF Financial Markets (UK) Limited on July 26, 2013. GF Financial Markets (UK) Limited accounted for 0.05% of our total revenues in 2014 and 0.19% of our total assets as of December 31, 2014.

### **LABOR UNION COMMITTEE TRUST**

We do not have any share option scheme regulated by the Hong Kong Listing Rules.

The labor union committee of our Company set up Chuanxin — Guangfa Tuqiang Long-term Scheme Single Capital Trust (“**Chuanxin Trust**”) in December 2013. After the establishment of Chuanxin Trust, it acquired all the beneficial rights of Guangdong Finance Trust Co., Ltd. - GF Securities Stock Incentive Collective Trust (“**Guangdong Finance Trust**”) for a consideration of approximately RMB1,308 million. Guangdong Finance Trust is a long-term employees scheme set up by 15 original shareholders of the Original Guangfa in December 2006 with 99,980,000 original shares of the Original Guangfa as the underlying assets. To the extent permitted by the relevant laws, regulations and rules, such long-term employee scheme may be implemented pursuant to the related agreements or covenants signed by the 15 original shareholders of the Original Guangfa or legal entities such as the labor union committee of our Company. As of the Latest Practicable Date, Guangdong Finance Trust had disposed of all the Shares held by it in open market and held no Shares in our Company. As we are neither a party to the Chuanxin Trust nor the Guangdong Finance Trust, such arrangements have no direct material impact on our operations and financial results.

### **OUR SHAREHOLDING AND GROUP STRUCTURE**

As of December 31, 2014, we had 160,335 Shareholders, including 1,562 corporate Shareholders in aggregate holding 87.97% of our A Shares and 158,773 individual Shareholders in aggregate holding 12.03% of our A Shares.



## OUR HISTORY AND OPERATIONAL REFORM

The following table sets out the shareholding of our top ten Shareholders as of December 31, 2014:

Shareholders <sup>(1)</sup>	Number of Shares held	Approximate Shareholding percentage
1. Liaoning Cheng Da Co., Ltd. (遼寧成大股份有限公司)	1,250,154,088	21.12%
2. Jilin Aodong Pharmaceutical Group Co., Ltd. (吉林敖東藥業集團股份有限公司)	1,244,652,926	21.03%
3. Zhongshan Public Utilities Group Co., Ltd. (中山公用事業集團股份有限公司)	686,754,216	11.60%
4. Jiayu Guan Hongcheng Electric Energy Limited (嘉峪關宏晟電熱有限責任公司)	263,073,796	4.44%
5. Heungkong Group Limited (香江集團有限公司)	234,999,685	3.97%
6. Puning Xinhong Industrial Investment Co., Ltd. (普寧市信宏實業投資有限公司)	145,936,358	2.47%
7. Jieyang Xinhong Asset Management Center (揭陽市信宏資產管理中心(有限合夥))	133,737,449	2.26%
8. Industrial and Commercial Bank of China Limited — Shenwan Lingxin Shenyin Wanguo Securities Industry Index Rating Securities Investment Funds (中國工商銀行股份有限公司—申萬菱信申銀萬國證券行業 指數分級證券投資基金)	65,098,296	1.10%
9. Anhui Huamao Textile Co. Ltd. (安徽華茂紡織股份有限公司)	60,000,000	1.01%
10. CITIC Securities Co., Ltd. Margin Clients’ Securities Collateral Accounts (中信證券股份有限公司客戶信用交易擔保證券賬戶)	51,513,794	0.87%

*Note (1):* Excluding shareholding through margin clients’ securities collateral accounts, our tenth largest Shareholder would be Hengtong Group Limited (亨通集團有限公司). As of December 31, 2014, Hengtong Group Limited held 26,950,000 of our Shares, representing approximately 0.46% equity interest in us. So far as our Directors are aware, Hengtong Group Limited is not connected with our Company.

Heungkong Group Limited (“Heungkong”) is controlled by our former Supervisor Ms. Chak Mei Hing, and is therefore deemed as our “core connected person” during the relevant times under the Listing Rules. From March 6, 2015 through March 18, 2015, Heungkong sold 63,693,799 A Shares at a volume weighted average price of RMB22.98 per share, which constituted a breach of Rule 9.09(b) of the Listing Rules. Ms. Chak Mei Hing resigned as our Supervisor on March 20, 2015.

## OUR HISTORY AND OPERATIONAL REFORM

Heungkong has undertaken to donate RMB18,123,923.44 to us prior to the Listing Date. The amount represents the notional profits gained by Heungkong from selling our A Shares between March 6 and March 18, 2015. March 6, 2015 is the commencement date of the restricted period during which our core connected persons are prohibited from trading our securities under Rule 9.09 of the Listing Rules. The amount is calculated by aggregating, for each day and for each share sold during that period, the difference between (1) the average selling price at which Heungkong sold A Shares on that day and (2) our A Share closing price on March 5, 2015, but only to the extent this average selling price is higher than the March 5 closing price.

So far as our Directors are aware, except as disclosed in this [Redacted], our top ten shareholders are not otherwise connected with our Company.

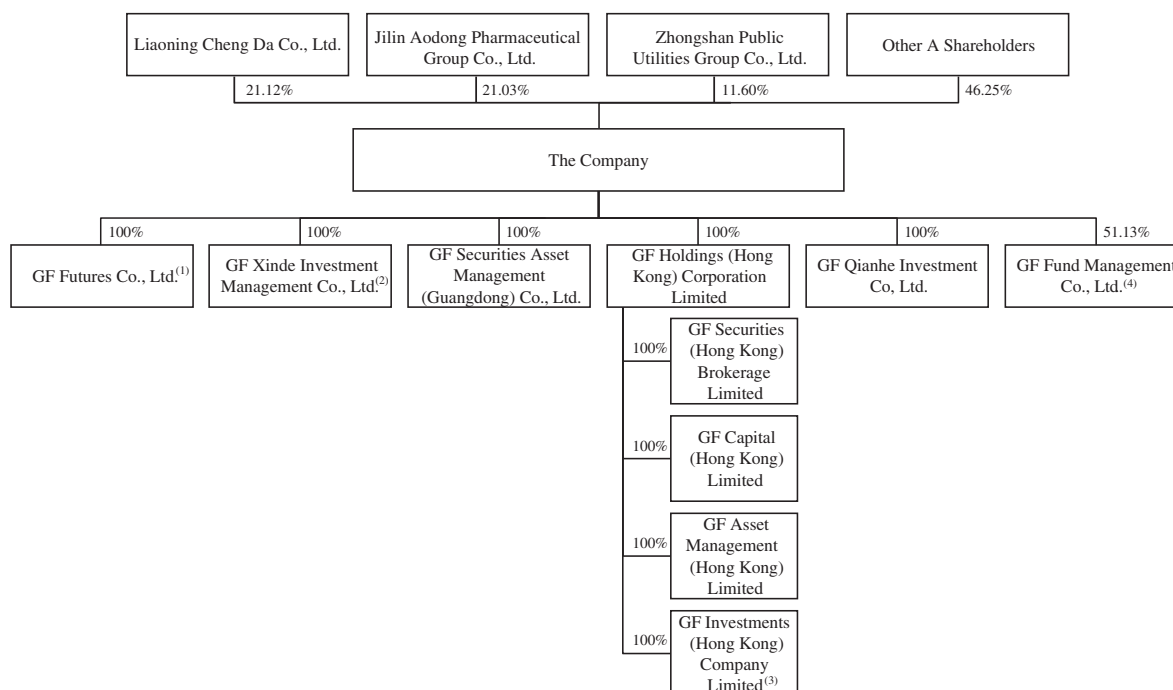
As of the Latest Practicable Date, all of our A Shares were traded on the Shenzhen Stock Exchange. We have been in compliance with the applicable rules of the Shenzhen Stock Exchange since the listing of our A Shares.

### REASONS FOR THE LISTING

We intend to continue to expand the scope of our operations, as described in more detail in the sections headed “Business — Business Strategies” and “Future Plans and Use of Proceeds” in this [Redacted]. Our Directors believe that the Listing will provide us with additional capital for our domestic and overseas business expansion and increase our international brand-awareness.

### SHAREHOLDING STRUCTURE PRIOR TO THE [REDACTED]

The following chart sets out our shareholding structure immediately prior to the [Redacted]



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## OUR HISTORY AND OPERATIONAL REFORM

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- (1) GF Futures holds a 100% equity interest in GF Commodity Markets Co., Ltd. and GF Futures (Hong Kong), respectively.
- (2) GF Xinde holds a 100% equity interest in Xinjiang GF Xinde Wensheng and a 55% equity interest in GF Xinde Healthcare Capital Management. Chen Haishan (陳海山) and Bridge Trust Co., Ltd. (百瑞信託有限責任公司), each an independent third party, hold 40% and 5% equity interest in GF Xinde Healthcare Capital Management, respectively.
- (3) GF Investments (Hong Kong) holds a 100% equity interest in GF Financial Holdings (Shenzhen) Investment Management Co., Ltd. (廣發金控(深圳)投資管理有限公司), GF Securities (Canada), GF Wealth Management (Hong Kong) Limited, GF Xinde Capital Management Limited and GF Investments (Cayman) Company Limited, and directly holds a 39% equity interest in GF Tarena Ltd. and a 4% equity interest in GF Bright Investment Limited. GF Investments (Cayman) Company Limited holds a 100% equity interest in GF Investment Management (Hong Kong) Company Limited, 50% interest in GFHS Capital Limited and 51% equity interest in GF Partners Ltd. The remaining 49% interest in GF Partners Ltd. and the remaining 50% interest in GFHS Capital Limited are respectively held by an independent third party. The minority shareholders are independent from each other.

The remaining 61% equity interest of GF Tarena Ltd. is held as to 42% by GF China Advantage Fund L.P., as to approximately 2.77% by JSGP Investment Limited and as to 16.23% by six other investors. JSGP Investment Limited is wholly owned by Mr. Sha Jianyuan, a director of GF Investments (Hong Kong). All other corporate investors and individual investors are independent third parties, each holding no more than 6% interest in GF Tarena Ltd.

GF Investments (Hong Kong) and GF Partners Ltd. directly hold 56.9% and 0.43% interest in GF China Advantage Fund L.P., respectively. The remaining 42.67% interest in GF China Advantage Fund L.P. is held as to approximately 4.74% by JSGP Investment Limited and 37.93% by five other corporate investors in aggregate. Save for JSGP Investment Limited, all other corporate investors were independent third parties, each holding no more than 15% interest in GF China Advantage Fund L.P.

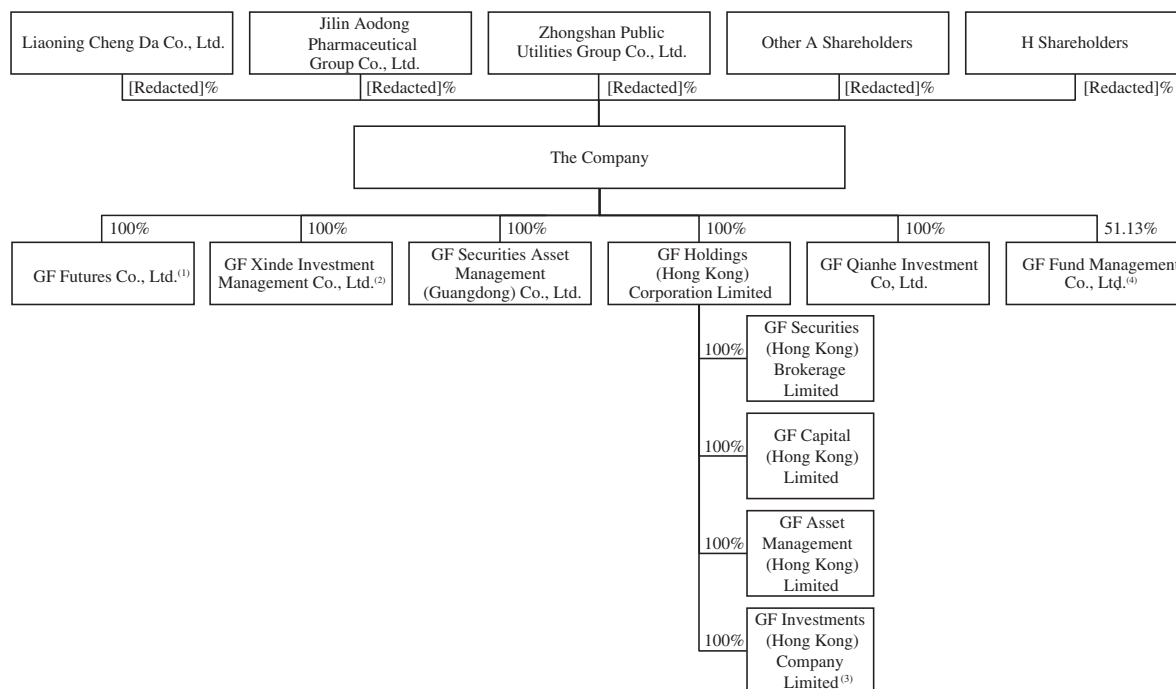
The remaining 96% equity interest of GF Bright Investment Limited is held by GF China Advantage Fund L.P.

- (4) Fiberhome Telecommunication Technologies Co., Ltd. (烽火通信科技股份有限公司), Shenzhen Qianhai Heungkong Finance Holding Group Co., Ltd. (深圳市前海香江金融控股集團有限公司) (shareholding of which is held by our substantial shareholder, Heungkong Group Limited (香江集團有限公司), as to 99%), Kangmei Pharmaceutical Co., Ltd. (康美藥業股份有限公司) and Canton Venture Capital Ltd., each an independent third party, hold approximately 15.76%, 15.76%, 9.46% and 7.88% equity interest in GF Fund, respectively. GF Fund holds a 100% equity interest in GF International Investment Management and 55% equity interest in Ruiyuan Capital Management Co., Ltd. (瑞元資本管理有限公司). Puning Xinhong Industrial Investment Co., Ltd. (普寧市信宏實業投資有限公司), Zhuhai Hengqin New District Fumeng Investment Management Partnership Enterprise (LLP) (珠海橫琴新區富盟投資管理合夥企業(有限合夥)), Zhuhai Hengqin New District Zhiqin Investment Management Partnership Enterprise (LLP) (珠海橫琴新區志勤投資管理合夥企業(有限合夥)), Zhuhai Hengqin New District Nanxing Investment Management Partnership Enterprise (LLP) (珠海橫琴新區南星投資管理合夥企業(有限合夥)), Zhuhai Hengqin New District Zhaohui Investment Management Partnership Enterprise (LLP) (珠海橫琴新區朝暉投資管理合夥企業(有限合夥)) and Zhuhai Hengqin New District Haichuan Investment Management Partnership Enterprise (LLP) (珠海橫琴新區海川投資管理合夥企業(有限合夥)), each an independent third party, hold the remaining 15%, 12.55%, 12.36%, 2.45%, 1.35% and 1.29% equity interest in Ruiyuan Capital Management Co., Ltd., respectively.

## OUR HISTORY AND OPERATIONAL REFORM

### SHAREHOLDING STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE [REDACTED]

The following chart sets out our shareholding structure immediately after the completion of the [Redacted] (assuming no exercise of the [Redacted]):



- (1) GF Futures holds a 100% equity interest in GF Commodity Markets Co., Ltd. and GF Futures (Hong Kong), respectively.
- (2) GF Xinde holds a 100% equity interest in Xinjiang GF Xinde Wensheng and a 55% equity interest in GF Xinde Healthcare Capital Management. Chan Haishan (陳海山) and Bridge Trust Co., Ltd. (百瑞信託有限責任公司), each an independent third party, hold 40% and 5% equity interest in GF Xinde Healthcare Capital Management, respectively.
- (3) GF Investments (Hong Kong) holds a 100% equity interest in GF Financial Holdings (Shenzhen) Investment Management Co., Ltd. (廣發金控(深圳)投資管理有限公司), GF Securities (Canada), GF Wealth Management (Hong Kong) Limited, GF Xinde Capital Management Limited and GF Investments (Cayman) Company Limited, and directly holds a 39% equity interest in GF Tarena Ltd. and a 4% equity interest in GF Bright Investment Limited. GF Investments (Cayman) Company Limited holds a 100% equity interest in GF Investment Management (Hong Kong) Company Limited, 50% interest in GFHS Capital Limited and 51% equity interest in GF Partners Ltd. The remaining 49% interest in GF Partners Ltd. and the remaining 50% interest in GFHS Capital Limited are respectively held by an independent third party. The minority shareholders are independent from each other.

The remaining 61% equity interest of GF Tarena Ltd. is held as to 42% by GF China Advantage Fund L.P., as to approximately 2.77% by JSGP Investment Limited, and as to 16.23% by six other investors. JSGP Investment Limited is wholly owned by Mr. Sha Jianyuan, a director of GF Investments (Hong Kong). All other corporate investors and individual investors are independent third parties, each holding no more than 6% interest in GF Tarena Ltd.

GF Investments (Hong Kong) and GF Partners Ltd. directly hold 56.9% and 0.43% interest in GF China Advantage Fund L.P., respectively. The remaining 42.67% interest in GF China Advantage Fund L.P. is held as to approximately 4.74% by JSGP Investment Limited and 37.93% by five other corporate investors in aggregate. Save for JSGP Investment Limited, all other corporate investors were independent third parties, each holding no more than 15% interest in GF China Advantage Fund L.P.

The remaining 96% equity interest of GF Bright Investment Limited is held by GF China Advantage Fund L.P.

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## **OUR HISTORY AND OPERATIONAL REFORM**

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- (4) Fiberhome Telecommunication Technologies Co., Ltd. (烽火通信科技股份有限公司), Shenzhen Qianhai Heungkong Finance Holding Group Co., Ltd. (深圳市前海香江金融控股集團有限公司) (shareholding of which is held by our substantial shareholder, Heungkong Group Limited (香江集團有限公司), as to 99%), Kangmei Pharmaceutical Co., Ltd. (康美藥業股份有限公司) and Canton Venture Capital Ltd., each an independent third party, hold approximately 15.76%, 15.76%, 9.46% and 7.88% equity interest in GF Fund, respectively. GF Fund holds a 100% equity interest in GF International Investment Management and 55% equity interest in Ruiyuan Capital Management Co., Ltd. (瑞元資本管理有限公司). Puning Xinhong Industrial Investment Co., Ltd. (普寧市信宏實業投資有限公司), Zhuhai Hengqin New District Fumeng Investment Management Partnership Enterprise (LLP) (珠海橫琴新區富盟投資管理合夥企業(有限合夥)), Zhuhai Hengqin New District Zhiqin Investment Management Partnership Enterprise (LLP) (珠海橫琴新區志勤投資管理合夥企業(有限合夥)), Zhuhai Hengqin New District Nanxing Investment Management Partnership Enterprise (LLP) (珠海橫琴新區南星投資管理合夥企業(有限合夥)), Zhuhai Hengqin New District Zhaohui Investment Management Partnership Enterprise (LLP) (珠海橫琴新區朝暉投資管理合夥企業(有限合夥)) and Zhuhai Hengqin New District Haichuan Investment Management Partnership Enterprise (LLP) (珠海橫琴新區海川投資管理合夥企業(有限合夥)), each an independent third party, holds the remaining 15%, 12.55%, 12.36%, 2.45%, 1.35% and 1.29% equity interest in Ruiyuan Capital Management Co., Ltd., respectively.

## **OUR ORGANIZATIONAL AND MANAGEMENT STRUCTURE**

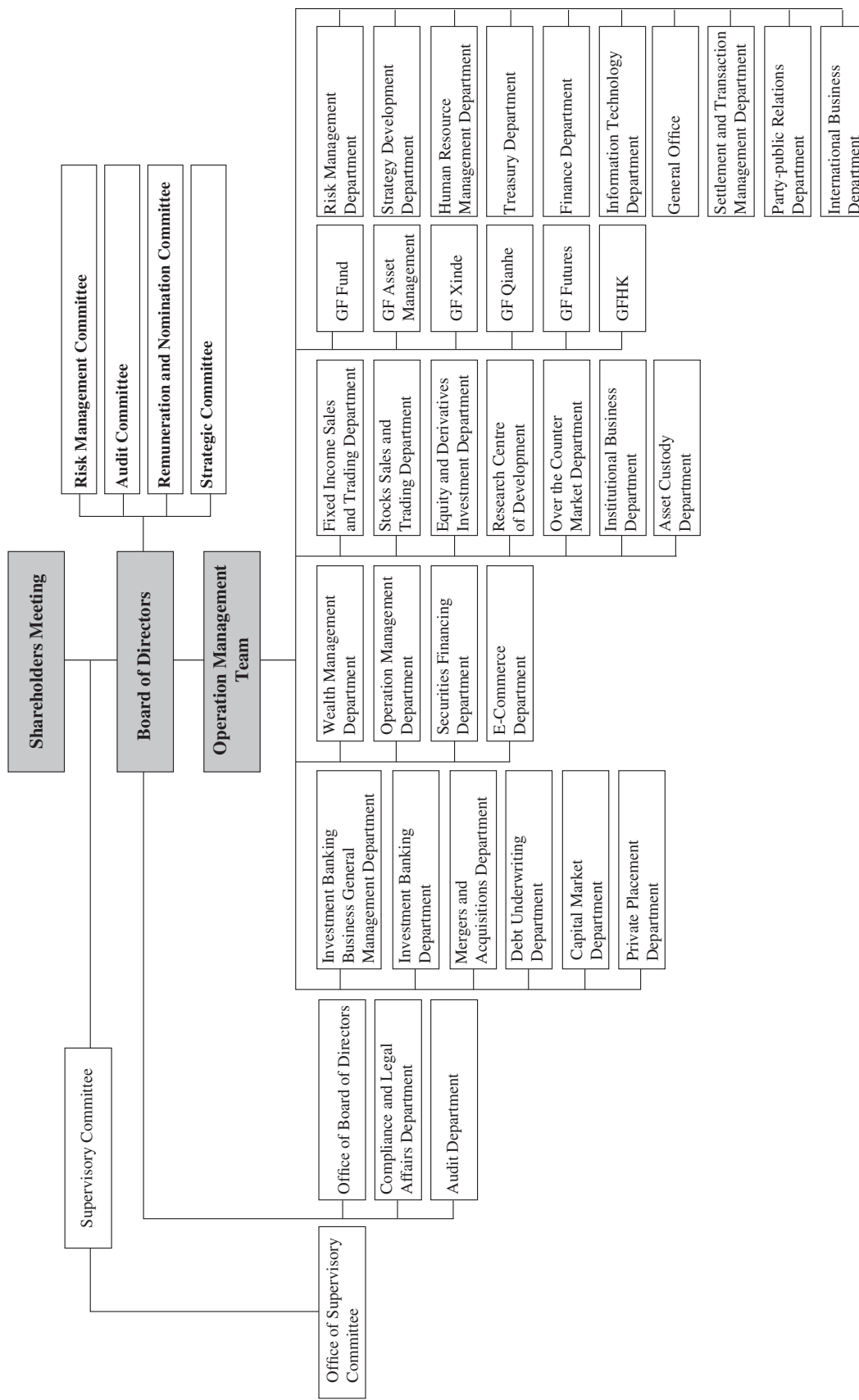
We have implemented a series of initiatives to optimize our management structure and to enhance our internal control system, including:

- establishing a modern corporate governance structure;
- establishing comprehensive risk management and internal control systems;
- channeling operational resources from traditional network businesses to strategic business, capital-based intermediary business (such as innovative business), institutional client services business and intermediary business;
- implementing a comprehensive reform on capital and financial management;
- enhancing the utilization of information technology; and
- promoting human resources development.

The following chart sets forth our principal organizational and management structure as of the Latest Practicable Date:

**OUR HISTORY AND OPERATIONAL REFORM**

**The Principal Management Structure of the Business of Our Group**



## **OUR HISTORY AND OPERATIONAL REFORM**

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### **ESTABLISHMENT OF A MODERN CORPORATE GOVERNANCE STRUCTURE**

We have established a modern corporate governance structure in line with the requirements of our Articles of Association, PRC laws and regulations and the Hong Kong Listing Rules. Our Board is accountable to our Shareholders in general and is responsible for, among others, determining our business and development strategy, business plans and investment proposals, appointing or removing senior management such as our chairman, general manager and secretary to the Board, and deciding matters such as internal management structure. Our Board has established committees to perform specified functions consisting of the strategic committee, the remuneration and nomination committee, the risk management committee and the audit committee. Our Supervisory Committee is accountable to our Shareholders in general and has the responsibility and power to supervise our Board and senior management and inspect our financial activities, risk management and internal control.

## **BUSINESS**

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### **OVERVIEW**

We are a provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China’s quality SMEs and affluent individuals. According to the SAC, we ranked No. 3 among securities firms in China by net assets and No. 4 by total assets, net capital, revenue and net profit as of and for the year ended December 31, 2013, each on an unconsolidated basis.

We have built a diversified business serving the varying needs of corporations (especially SMEs), individuals (especially affluent individuals), institutional investors, financial institutions and government clients. Our principal business activities are:

- **Investment banking:** we provide equity and debt underwriting and financial advisory services to corporate clients;
- **Wealth management:** we provide brokerage services for the trading of equities, bonds, funds, futures and other tradable securities, and offer investment advisory services and financial products such as asset management products, structured notes and securitization products, and provide margin financing and securities lending and repurchase transaction services;
- **Trading and institutional client services:** we engage in market-making and proprietary trading of equity, fixed-income and derivative products, and provide trading advisory and execution, investment research and prime brokerage services for institutional clients; and
- **Investment management:** we provide asset management and fund management services, and engage in private equity and alternative investments.

We are an industry leader in all of our core activities:

Our investment banking business holds a leading position in the industry. In 2014, we underwrote A share IPOs with an aggregate amount issued of RMB14.6 billion, ranking us No. 1 among PRC securities firms. As of December 31, 2014, we had 38 A share IPO projects pending CSRC approval, ranking us No. 1 among PRC securities firms. Our debt underwriting business grew rapidly. From 2009 to 2014, we underwrote approximately RMB194.3 billion aggregate principal amount of bond issuances, an increase at a CAGR of 85.7% from 2009 to 2014. In 2014, we ranked No. 5 by total number and No. 7 by total amount underwritten among PRC securities firms for enterprise bond and corporate bond issuances.



## **BUSINESS**

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We have industry-leading service capability to meet the needs of our affluent clients. As of December 31, 2014, our investment advisory team consisted of more than 1,600 professionals, the largest in the PRC securities industry. We have a 78-member team of professionals with Certified International Wealth Manager qualification awarded by the AIWM. In September 2014, we became the first securities firm to offer customized fund products managed by renowned fund managers in various fields actively selected based on client demand.

Our FICC business is on the leading edge of industry development. We were one of the 13 PRC securities firms licensed to provide market-making services on China’s interbank bond market on a probationary basis. We ranked No. 4 among the 71 market makers and probationary market makers in China, or No. 1 among PRC securities firms, in terms of market-making volume published by the CFETS for November and December 2014. We continually launch innovative products for institutional clients. As of December 31, 2014, our number of OTC-registered products was the highest in the industry. We completed our acquisition of Natixis Commodity Markets Limited in 2013, making us the only PRC securities firm among the ring dealing members of the LME. We also became members of several other international futures exchanges in December 2014, including the CME, CBOT, NYMEX and COMEX. We did not conduct any trading activities on these futures exchanges during the Track Record Period.

We have strong research capabilities. We were voted one of the “Best Domestic Research Teams” and “Most Influential Research Institutions” for three consecutive years from 2012 to 2014 in the best analyst survey organized by New Fortune.

We have a comprehensive asset management platform that enjoys economies of scale. Our mutual funds, asset management company, private equity investment company and alternative investment company enable us to meet the diverse investment needs of individual and institutional clients. As of December 31, 2014, we ranked No. 1 in the PRC securities industry in terms of the total AUM of mutual funds and CAM schemes. The combined AUM of GF Fund, E Fund and GF Asset Management was RMB536.4 billion. As of December 31, 2014, we completed 68 equity investment projects through our private equity subsidiary, of which 16 projects had been listed in the A<sub>2</sub> share market with a total return on investment of 392.3%. As of December 31, 2014, we completed 27 investment projects through our alternative investment subsidiary, GF Qianhe, of which 13 projects generated a total exit investment return of 52.5%.

We focus on striking a balance between business development and risk management. We continually enhance our level of risk management under a sound framework through implementing comprehensive risk management systems that involve all staff covering business, market, credit, liquidity, compliance and operational risks. As of December 31, 2014, the CSRC rated us “Class A Grade AA” for four consecutive years, the highest rating awarded to PRC securities firms.

**BUSINESS**

Our core values are inquisitiveness, integrity, client focus, and teamwork. Our management philosophy focuses on stable growth, continual innovation, performance-driven culture and business synergies. We have won numerous accolades and awards recognizing our strong results of operations and outstanding service quality, including the following:

<b>Year</b>	<b>Awards</b>	<b>Events/Organizers/Media</b>
<b>2014</b>	Best Full-Service Investment Bank (最佳全能投行)	Securities Times (證券時報)
	Top-rank Service Provider for Small and Medium Enterprises in China (中國中小企業首選服務商)	China International Cooperation Association of Small and Medium Enterprises (中國中小企業國際合作協會)
	Best Wealth Management Institution in China (中國最佳財富管理機構)	Securities Times (證券時報)
	Best Private Equity Fund Services Provider in China (中國最佳私募基金服務券商)	The 8th China (Shenzhen) Private Equity Fund Summit (第八屆(中國)深圳私募基金高峰論壇)
	Outstanding Internet Securities Company (年度卓越互聯網證券公司)	Economic Observer (經濟觀察報)
	Gold Award of Outstanding Member (GF Futures) (優秀會員金獎(廣發期貨))	China Financial Futures Exchange (中國金融期貨交易所)
	The Asset Manager of the Year (GF Fund) (優秀資產管理機構(廣發基金))	China Government Securities Depository Trust & Clearing Co., Ltd. (中央國債登記結算有限公司)
	Most Popular Internet Finance Product (中國最受歡迎互聯網金融產品)	Securities Times (證券時報)
<b>2013</b>	Best Market-Maker and Best Securities Firm (最佳做市機構和最佳證券公司)	CFETS (全國銀行間同業拆借中心)
	Best Securities Firm Brand (最佳品牌證券公司)	China’s Tenth Annual Financial Champion Awards (第十屆中國財經風雲榜)
	Best SME Private Placement Bond Underwriter (最佳中小企業私募債承銷商)	Securities Times (證券時報)
	Best Securities Firm for Wealth Management Business (最佳財富管理證券公司)	2013 China “Golden Figure” Selection of Best Wealth Management Service Provider (2013年度中國財富管理「金手指獎」評選活動)
	Best Margin Financing and Securities Lending Service Provider (中國最佳融資融券券商)	Securities Times (證券時報)

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Year	Awards	Events/Organizers/Media
	Most Innovative PRC Securities Brokerage Firm (中國最具創新服務證券經紀商)	The Sixth Election of China’s Best Securities Brokerage Firm (第六屆中國最佳證券經紀商評選)
	Golden Fund Outstanding Company in the Decade of Golden Fund Companies Awards (GF Fund) (金基金公司獎、金基金十年—卓越公司獎(廣發基金))	Shanghai Securities News (上海證券報)
<b>2012</b>	Best Investment Bank (最佳投行)	Chinese Business News (第一財經)
	Best PRC Securities Firm for Asset Management Business (中國最佳資產管理類券商)	Securities Times (證券時報)
	The First Prize for Financial Innovation in Guangdong Province (廣東省金融創新一等獎)	The People’s Government of Guangdong Province (廣東省人民政府)

In 2012, 2013 and 2014, our revenue and other income was RMB7,280.5 million, RMB9,331.8 million and RMB16,163.5 million, respectively. Our profit attributable to owners of the company during the same period was RMB2,191.5 million, RMB2,812.5 million and RMB5,022.6 million, respectively. As of December 31, 2012, 2013 and 2014, our total assets were RMB89,855.8 million, RMB117,292.2 million and RMB240,099.8 million, respectively, and total equity attributable to owners of the company was RMB32,942.6 million, RMB34,604.7 million and RMB39,610.9 million, respectively.

**COMPETITIVE STRENGTHS**

We are a provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China’s quality SMEs and affluent individuals. We believe that by always putting our clients first and leveraging a market-oriented business mechanism that drives our sustained competitiveness, together with the competitive strengths described below, we are well positioned to capitalize on the market opportunities presented by the transformation of the PRC economy and securities industry, and to maintain and enhance our leadership across various market segments.

**China’s fourth largest securities firm with market-oriented business mechanism**

As China’s fourth largest securities firm, we believe our core competitive edge is our market-oriented business mechanism developed over the years. Our major shareholders comprise established private and non-state-owned enterprises, none of which holds a controlling interest in us. Our balanced and diversified ownership structure forms the firm foundation for sound corporate governance. Our board of directors fully respects our management and entrusts them with the greatest flexibility and discretion, resulting in more commercial and efficient decision-making.

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We have achieved sustained growth under the leadership of our senior management. Their business acumen, strategic vision and astute insight into industry and regulatory changes, together with our market-oriented business mechanism, have enabled us to capitalize on new market opportunities by adopting visionary, innovative business models. During the past two decades, we have grown from a regional securities firm to become a leading full-service capital markets firm in China by successfully completing 13 domestic and overseas M&As.

Our market orientation has enabled us to develop a highly competitive employee incentive structure to attract and retain top talented professionals. Our senior management have an average of 16 years' management experience in securities and finance, and have been with us for more than 15 years on average. Over 90% of our mid-level managers were promoted internally, the majority of whom have rotated through our investment banking and other business lines. They have acquired a deep understanding and big-picture vision of our business and have proven effective coordination and execution capability. Our cohesive employees fully subscribe to our corporate culture, which emphasizes innovation, professionalism and teamwork. Over the past three years, the voluntary attrition rate of our mid-level and senior management team and employees was approximately 1% and 2%, respectively. In addition, we have been able to attract a large number of talented professionals with international backgrounds; as of the Latest Practicable Date, approximately 15% of our employees at our headquarters had studied or worked overseas.

### **China's leading SME-focused investment bank with strong, comprehensive corporate client service capabilities**

As a leading SME-focused investment bank in China, we are committed to helping quality clients become market leaders by raising capital to fund their growth. As of December 31, 2014, over 20% of the companies whose listings we sponsored had achieved at least a 300% growth in their market capitalization since their IPOs. As the trend of financial disintermediation continues, we expect that demand for direct financing by China's SMEs, particularly high-growth SMEs in emerging industries, will increase rapidly and present new growth opportunities for our investment banking business. Our focus on SMEs enables us to build a strong client base and achieve market leadership in our investment banking business.

- In 2014, we underwrote A shares IPOs with an aggregate amount issued of RMB14.6 billion, ranking us No. 1 among PRC securities firms.
- As of December 31, 2014, we had 38 A shares IPO projects pending approval by the CSRC, ranking us No. 1 among PRC securities firms.
- In 2014, we underwrote ChiNext Board IPOs with an aggregate amount underwritten of RMB2.4 billion, representing a market share of 10.9% and ranking us No. 1 among PRC securities firms.
- As of December 31, 2014, we had sponsored the listing of 53 companies on China's SME Board since its inception in 2004, ranking us No. 3 among PRC securities firms.

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- As of December 31, 2014, we had sponsored the listing of 21 companies on the ChiNext Board since its inception in 2009, ranking us No. 3 among PRC securities firms. We were the sole sponsor for the listing of Qingdao TGOOD Electric Co Ltd. (300001), the first company listed on the ChiNext Board.

As of December 31, 2014, we had a team of 126 sponsor representatives, one of the largest among investment banks in China, which provides us the bandwidth to serve our large SME client base. In addition, we dedicate industry coverage groups to focus on key industries that we identify based on market trends and have established market leadership in TMT. In 2014, we underwrote IPOs in the TMT industry with an aggregate underwritten amount of RMB3.1 billion, representing a market share of 16.3% and ranking us No. 1 among PRC securities firms. In addition, we have extended our underwriting services to overseas listings for SMEs. In 2014, we acted as lead underwriter for eight IPOs in Hong Kong, ranking us No. 6 among Hong Kong subsidiaries of PRC securities firms.

We are committed to value creation for our clients so that both our clients and our company will prosper. Using investment banking as the entry point to a long-term relationship, we leverage our comprehensive financial service platform, strong product innovation and distribution capability to provide our clients a systematic, one-stop professional service offering that meets their needs at each stage of their development. We screen our corporate clients to identify their needs and tailor our service offerings accordingly. For example, we offer NEEQ quotation, private equity investment and SME private placement bond services for companies with growth potential in their early stage of development; sponsor and underwrite domestic and overseas listings of companies in their growth stage; and provide comprehensive market-value management services for listed enterprises, such as structuring and executing bond and follow-on offerings, and assisting them identify quality domestic and overseas targets for strategic M&As to expand their business. In 2014, we ranked No. 5 by total number and No. 7 by total amount underwritten among PRC securities firms for enterprise bond and corporate bond issuances. In the same year, we were awarded the “Best Bond Financing and Underwriting Team” by Securities Times. We also extend our services to successful entrepreneurs and corporate management by providing them with wealth management services. Capitalizing on client contacts originated by our investment banking business, we cultivate and deepen those relationships through multi-pronged business development efforts. We have become the long-term partner of choice to our corporate clients and generated significant business and revenue for our other business lines.

### **Market-leading wealth management business with a large affluent client base and the industry’s largest investment advisory team**

We are a leading provider of wealth management services among PRC securities firms. We believe that as commissions from the brokerage business decline in line with the broad market trend, our wealth management business represents a significant engine of revenue growth, enables us to compete effectively against other PRC securities firms, and mitigates the impact of the slowing growth of our traditional brokerage business. As a pioneer in wealth management services in China, we were the first securities firm to establish wealth management centers in China when we began upgrading brokerage branches into wealth management centers in 2010. We strategically locate brokerage branches in areas with large number of affluent individuals. As of December 31, 2014, approximately

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76.6% of our 249 brokerage branches were located in China’s most economically developed areas of the Pearl River Delta, Yangtze River Delta and Bohai Rim. Our targeted network deployment has enabled us to build a large affluent client base in China. We offer tailored products and services to clients whom we classify into categories based on their net worth. As of December 31, 2014, we had over 14,500 high-net-worth clients, and over 193,000 wealth management clients. Our high-net-worth and wealth management clients enjoy personalized attention from individually assigned investment advisors and client managers, a privilege not available to our mass-market clients, and have access to customized wealth management products and services.

We have market-leading service capability to meet the needs of affluent clients in China. As of December 31, 2014, our investment advisory team of over 1,600 professionals was the largest among PRC securities firms. In addition, we are the only PRC securities firm with a professional team of 78 advisors with Certified International Wealth Manager qualifications administered by the AIWM. Our investment advisors have an average of eight years’ experience in advising clients on portfolio allocation and product selection. We also have over 3,800 account managers and securities brokerage agents, who together with our investment advisors, form an effective customer management matrix. We support our wealth management business by deploying full resources to meet the diverse needs of our clients. As of December 31, 2014, the closing balance of our margin financing and securities lending business amounted to RMB64.4 billion, ranking us No. 4 among PRC securities firms. Capitalizing on our strong relationships with fund managers and our leading innovation capability, in September 2014, we became the first PRC securities firm to offer customized fund products managed by renowned fund managers in various fields actively selected based on client demand. In 2012, 2013 and 2014, we derived revenue of RMB791 million, RMB1,654 million and RMB3,099 million, respectively, from affluent clients, representing 22.9%, 30.6% and 35.6% of total wealth management revenue.

### **Strong product innovation and research capabilities resulting in rapid growth of our institutional client services business**

Institutional clients have become increasingly important to PRC securities firms over the years. As institutional clients become more sophisticated, their increasing need for tailor-made products and services will drive the demand for capital-based intermediary services. We believe our ability to offer innovative products and services will give us a competitive edge in capitalizing on the business opportunities brought about by China’s growing institutional client base. Our comprehensive product offering include market-making services for bonds, ETFs, ETF options and securities traded on the OTC market. We were one of the 13 PRC securities firms licensed to provide market-making services on China’s interbank bond market on a probationary basis. We ranked No. 4 among the 71 market makers and probationary market makers in China, or No. 1 among PRC securities firms, in terms of market making volume published by the CFETS for November and December 2014. In February 2015, we became one of the first eight PRC securities firms licensed to provide liquidity to ETF options.



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We have been continually introducing innovative products targeted at institutional clients, and have achieved a leading position in China’s OTC market:

- In 2012, we were among the first securities firms licensed to engage in OTC trading. We provide liquidity for non-standardized products held by our clients and sell our own products through the OTC trading platform.
- In June 2014, we launched the first structured notes traded on securities firms OTC market, “Shouyi Bao (收益寶)”.
- As of December 31, 2014, we ranked No. 1 in the PRC securities industry by the number of OTC registered products.

To meet the increased demand for commodity trading from institutional clients, we acquired Natixis Commodity Markets Limited in 2013, making us the only PRC securities firm among the ring dealing members of the London Metal Exchange. We have also become members of several other international futures exchanges.

Our research team provides leading research and analytical services to institutional clients. We were voted one of the “Best Domestic Research Teams” and “Most Influential Research Institutions” for three consecutive years from 2012 to 2014 in the best analyst survey by New Fortune. We continually explore new models of collaboration with fund managers, and have adopted the trailing commission model for selling fund products to clients. In contrast to the traditional one-off sales commission model, we share in the management fees of fund managers based on our clients’ size and holding period of fund products. This new model better aligns the interests of fund managers with ours and increases our revenue from this business. The number of our trading seats leased by fund managers increased rapidly in the past few years. We leased out 159, 195 and 244 trading seats as of December 31, 2012, 2013 and 2014, respectively, which generated income of RMB176.0 million, RMB234.2 million and RMB272.0 million in 2012, 2013 and 2014, respectively.

### **The largest asset management platform the PRC securities industry, offering comprehensive investment management services**

PRC securities regulators have introduced various policies to encourage the development of asset management business in the securities industry, which have significantly enhanced the competitiveness of securities firms and their share of the wealth management market. We believe the scale of our asset management business and our investment capability have enabled us to achieve a market leading position as the asset management business of securities firms enters a high-growth phase. We have the largest asset management platform among PRC securities firms as measured by the combined AUM of mutual funds and CAM schemes as of December 31, 2014. We provide mutual fund services to mass-market clients through our subsidiary GF Fund and our affiliate E Fund, and provide private asset management services to affluent individuals and institutional clients in China through our

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subsidiary GF Asset Management. GF Fund, E Fund and GF Asset Management have grown rapidly: their total AUM increased from RMB394.4 billion as of December 31, 2012 to RMB536.4 billion as of December 31, 2014, representing a CAGR of 36.7%. GF Fund and E Fund together ranked No. 1 among the fund managers with PRC securities firm background as measured by the total mutual fund AUM of RMB339.8 billion as of December 31, 2014, and No. 1 as measured by the total AUM of active equity investment funds managed by them as of December 31, 2014.

Our asset management platform offers a full spectrum of products, including equity, fixed-income, derivative, QDII and securitization products, which are marketed at different target clients through public offerings and private placements. In addition to traditional products, we are well-known for our industry-leading product innovation capability.

- In 2013, we launched the first exchange-listed finance-lease CAM scheme in China using the “double SPV” structure.
- In 2013, we launched the first structured CAM scheme with short-selling mechanisms.
- In 2014, in cooperation with China’s largest Internet search engine, Baidu.com, we launched the first index fund based on analysis of Internet big data.

We are also transforming our private equity and alternative investment subsidiaries into asset management companies, and invest our own funds as seed money in our asset management products to share risk and returns with clients. Leveraging the client coverage and the expertise of our investment banking team in different market segments, our investment management business can better screen and select investment projects, and assess investment risks and returns, thereby ensuring that our investments are in high-growth quality companies. As of December 31, 2014, we had invested in 68 projects through our private equity subsidiaries, of which 16 investee companies had been listed on China’s A share market, and our total investment return was 392.3%. As of December 31, 2014, we had also invested in 27 projects through our alternative investment subsidiaries and exited from 13 investments with a total exit investment return of 52.5%.

### **At the forefront of the PRC securities industry, in the innovative use of Internet finance, expanding client base by offering enhanced user experience**

We emphasize the use of the Internet in our businesses, and have been consistently at the forefront of Internet finance innovation in our industry. Since we adopted our Internet finance strategy in 2012, we have built an industry-leading Internet platform to expand our mass-market customer base. In addition to our official website, which serves as our information portal, we also operate five Internet finance channels: Mobile Securities, Online Trading Finance Terminal, Web-Based Trading Platform, Official WeChat and E-Taojin website.

- Mobile Securities offers mobile access to professional trading and self-service wealth management.
- Online Trading Finance Terminal and Web-Based Trading Platform offer PC access to professional trading services.



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- WeChat provides real-time information and interactive consultation.
- E-Taojin website is a self-service Internet platform offering wealth management products developed by us and third parties.

All of our Internet finance channels are linked to a 24/7 interactive inquiry system (必答系統), through which we effectively integrate our customer managers and investment advisors based nationwide as an online resource to provide investment advisory services to clients more conveniently and efficiently. The advanced technology and innovative service mechanism employed have enabled our five-channel platform to lead the industry in terms of its level of interactivity.

We had approximately 4.0 million Mobile Securities users, more than approximately 2.7 million users of Online Trading Finance Terminal and Web-Based Trading Platform and approximately 1.1 million WeChat subscribers as of December 31, 2014 and had approximately 1.2 million E-Taojin daily website visitors in December 2014. All of our five Internet finance channels operate on an open platform and by enhancing the user experience, we believe we can grow our customer base through the conversion of users into customers. Our subsidiary GF Fund has established cooperative partnerships with large domestic Internet platforms such as WeChat and Baidu.com, GF Fund has been accumulating a large customer base through channeling of Internet traffic and cooperating on product structuring, and experiencing rapid growth in AUM for online customers. As of December 31, 2014, GF Fund accumulated over 4.5 million customers through online transactions and maintained RMB29.7 billion of AUM.

Our Internet finance platform has effectively supported the development of our wealth management business. We were among the first securities firms to launch a comprehensive online wealth management business chain comprising platform, account, payment, product, trading and round-the-clock customer service, which offers clients an integrated online wealth management solution.

We have entered into strategic cooperation with sina.com (新浪網), a major Internet portal in China, through which we expect to attract more customer traffic and promote Internet marketing and client data gathering. Through data mining and analyzing user statistics on our Internet platform, we are able to keep abreast of the latest developments in user behavior. We were among the first PRC securities firms to implement the financial big data strategy and establish a big data analysis cluster. These measures and our leading data processing capabilities effectively support our Internet finance operations.

### **Clearly defined organizational structure and corporate governance, and time-proven and effective risk management capabilities**

In the 1990s, our principal founder Dr. Chen Yunxian proposed a business philosophy based on “standardization”. The philosophy has guided our risk management, enabling us to achieve strong financial results while avoiding major operational crises. We emphasize prudence in our operations. Our core management philosophy of balancing risks and returns enables us to effectively manage risks while maintaining our leading positions across various business segments. We have established an

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effective risk management framework, organization, systems, indicators, staff and culture that actively support the implementation of risk management system for developing new businesses and to support the growth of our innovative businesses.

One of the challenges faced by securities firms is effectively managing the risks associated with innovative business. We focus on managing risks while pursuing returns through proper risk tolerance, effective risk management and independent risk monitoring in order to support the growth of our business. We integrate risk management into the strategizing and execution of business plans. Our risk management system is comprehensive, involves all levels of staff, and covers our exposure to various business, market, credit, liquidity, compliance and operational risks. With sound risk management systems in place and comprehensively managing all types of risks, we are able to steadily enhance our standard of risk management. We actively and effectively identify, assess and monitor various types of risks to enhance their transparency. We take timely and effective risk management measures through a scientific management of all kinds of risks. We have established multi-tiered risk limit control systems to align our risk exposure with risk preference by allocating risk capital, measuring and monitoring risk indicators and performing periodic stress tests. We follow a thorough review and approval process to ensure that we have comprehensive systems and procedures, and risk management personnel in place before launching a new business. This is to ensure that we do not introduce an innovation that is too risky for us to manage. We have a clearly defined organizational structure with distinct delineation of responsibilities between business lines. Our comprehensive Chinese walls and conflict management systems enable us to effectively prevent potential conflicts of interest while ensuring operational efficiency.

We have solid asset quality, our major risk indicators exceed regulatory requirements and our risk absorption capacity is strong. We value our reputation among regulators and in the industry, and firmly believe our reputation will benefit our front-desk business. Accordingly, we require our employees to observe high business standards, and regularly conduct compliance training for our employees. We are one of the first securities firms designated by the CSRC under its pilot compliance management program, and are also one of the first securities firms in China to implement comprehensive risk management strategies. The CSRC rated us “Class A Grade AA”, the highest rating received by PRC securities firms, for four consecutive years from 2011.

Our industry-leading risk management capabilities have proven effective throughout our history. Among the earliest PRC securities firms incorporated between the late 1980s to early 1990s, we are only one of four major securities firms that have not received capital injection or restructured due to operational losses. Our leading risk management and internal control systems have also enabled us to achieve good operating results during all previous market downturns.

### **BUSINESS STRATEGIES**

We aim to become the first-choice provider of comprehensive capital market services in China and abroad to China’s quality SMEs and affluent individuals, especially high-net-worth individuals. To achieve this goal, we plan to enhance our human resources and strategic investments in areas such

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as investment banking, wealth management, institutional client services, investment management, Internet finance and the globalization of our operations, and adopt the following specific business strategies:

**Solidify our strength in serving China’s quality SMEs by expanding our industry coverage, diversifying our service offerings, enhancing our client service capabilities and growing with our clients**

We intend to solidify our leading position in the quality SME market segment by implementing the following initiatives to expand the product offerings and sources of revenue of our investment banking business, in order to transform our business model towards industry specialization and profit-model diversification:

- Form dedicated client service teams, we seek to grow with our customers, strengthen our competitive advantage in the SME segment and gradually expand our client base of medium-to-large enterprises and stock option incentive advisory. We plan to provide more market value management, follow-on offerings, M&A advisory and share incentive consulting services to listed companies with whom we have established good relationships. We plan to further integrate internal resources and improve service quality through comprehensive service offerings.
- Form additional industry coverage groups to grow quality client base. We plan to improve the setup of the industry coverage groups to enhance our ability to more deeply penetrate the relevant industries and win clients, proactively targeting leading companies in various niche industry segments to market our investment banking services.
- Increase the revenue contribution of our M&A business to capitalize on the market opportunities arising from industry transformation and consolidation. We will devote more resources to our M&A team to assist companies in the expansion phase identify domestic and overseas M&A targets and set up M&A funds and provide acquisition financing.
- Devote greater efforts in developing our securitization business by leveraging a superior client base that includes corporate and bank clients, and our competitive edge in securitization product innovation so as to capture market opportunities and pursue a leading market position. We will also further enhance our leading market position in debt capital markets by expending greater efforts at client development and improving our product innovation, pricing and distribution capabilities.
- Expand our sources of revenue by responding to client demand for innovative products in multiple areas through enhancing the promotion of new financing instruments such as NEEQ private placement, securitization, preferred shares and structured debt securities, and structuring and launching customized product solutions and other innovative products.

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- Capitalize on the market opportunities arising from the CSRC’s lowering of the policy barrier to encourage Chinese companies to list and issue shares in Hong Kong and the robust growth in overseas IPOs of Chinese TMT and healthcare companies. Facilitate a breakthrough in the growth of our cross-border operations by extending the effectiveness of our brand as a leading investment bank in China to the global marketplace;
- Improve our sales network to enhance our ability to sell various financial instruments;
- Enhance the capability of our IT system to acquire information for our investment banking business and identify business opportunities.

### **Achieve sustainable growth in revenue by enhancing service capability with respect to affluent clients, especially high-net-worth individuals, and expanding coverage of and deepening product penetration among affluent clients**

We plan to further transform our brokerage business into a wealth management business and enhance our service level and capability by expanding our investment advisory team, product offerings and investment portfolio, upgrading our brokerage branches, and offering family wealth management products and services. We will seek to increase the number of affluent clients, especially high-net-worth individuals, and grow overall revenue from the wealth management business:

- Continue to expand our investment advisory team to maintain its No. 1 industry position. We plan to enhance the professionalism of our client managers and investment advisors, further improve our client service management matrix, and shift the focus of marketing efforts from short-term, intermittent product sales to long-term portfolio allocation planning. The goal is to enhance the stability and sustainability of revenue.
- Explore business cooperation opportunities with other financial service providers to enhance our wealth management product portfolio and establish product platforms. We seek to offer clients greater product choices and meet different investment preferences of clients by expanding our current portfolio of mutual funds, private equity funds, trust products and asset management schemes to include wealth management products of insurance companies and commercial banks, securitization products and client-focused customized wealth management products.
- Strategically develop our margin financing and securities lending and collateralized stock repurchase businesses to bring additional value to wealth management clients and increase client penetration.
- Broaden the geographic coverage of our brokerage network in the Pearl River Delta, Yangtze River Delta and Bohai Rim, upgrade more wealth management centers and enhance the density and breadth of our coverage of the affluent individuals.
- Expand our family wealth management business and grow our high-net-worth client base and AUM by leveraging our capability in offering customized products and serving affluent clients.

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**Solidify our position as a leading market-maker by enhancing our capability to offer comprehensive financial solutions so as to capitalize on the business opportunities from our growing institutional client services business**

We plan to gradually transform ourselves from a product provider into a comprehensive financial solutions provider. We seek to meet the various needs of our institutional clients and diversify our revenue sources by expanding our market-making and capital-based intermediary businesses and further enhancing our leading research capabilities:

- Expand and deepen our cooperation with more professional investment institutions, such as mutual funds, private equity funds, hedge funds, banks, insurance and trust companies to grow our institutional client base and increase the revenue contribution of our prime broker services.
- Establish an international-standard FICC platform to enlarge the scale of trading in financial assets driven by our market-making activities and become the primary market-maker for our institutional clients in their trading of various financial products, such as equity, interest rate, credit, foreign exchange and commodity products and their derivatives.
- Establish an integrated OTC trading platform to expand our capital-based intermediary businesses, such as block trades and structured notes, and become our clients’ primary provider of options and structured products by offering customized solutions to meet the investing, financing, liquidity, risk management and hedging needs of institutional clients.
- Further enhance our research capabilities in macroeconomics and various industries and product markets to become an influential research institution in China and overseas. We plan to increase our investment in our research department, expand our research coverage to more overseas stocks and cultivate and recruit top analysts for key research areas to broaden our coverage of overseas institutional investors.

**Establish a comprehensive investment management platform, strengthen and expand product advantage to create an industry-leading investment management brand**

We will continually optimize our comprehensive, unified asset management platform, comprising mutual funds, asset management companies, private equity investment funds and alternative investment funds, to consolidate our client resources. We strive to enhance our investment management brand by leveraging the synergies of our large collaborative platform to meet the diverse investment needs of clients. Our specific initiatives include:

- Enhance GF Fund’s leadership among mutual funds. Specifically, cultivate and strengthen its active investment scale through means such as seed investment to consolidate and enhance its industry leadership in active equity fund by AUM. Create an all-round, integrated mutual-fund management brand built on strong performance in areas such as quantitative hedging, fixed income investment and QDII.

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- Intensify cross-selling efforts targeted at fund accounts, asset management scheme clients, private equity and alternative investment clients to enhance our asset management brand among high-net-worth clients and institutions.
- Enhance the functionality of our product development center and share experience in successful product innovation. Devote greater effort in developing non-standardized innovative products such as securitization, public-private-partnership (PPP) project financing, mezzanine financing and acquisition financing, so as to meet clients’ diverse financing needs.
- Building upon the proven track record of GF Xinde and GF Qianhe in principal investments, further increase seed investment to grow the AUM of our private equity and alternative investment funds. Enhance our investment in key industries, such as healthcare, consumer and TMT. We plan to establish a diversified product offering of private equity funds, M&A funds, and mezzanine funds to invest in entities in different stages of development.
- Collaborate with more financial institutions, such as securities firms, banks, insurance companies, fund companies and trust companies, and make them our most important partners in enhancing our fund raising and distribution capabilities and brand recognition.

### **Devote major efforts in developing Internet finance services and establish a comprehensive Internet finance service platform**

We will continue to increase investment in Internet finance to achieve full interconnectivity among our Internet finance channels. We will cooperate with third-party Internet companies to enhance our Internet marketing efforts and build a comprehensive Internet financial services platform that will strategically transform our business. Our specific strategies are as follows:

- Consolidate our product and service offerings to build a comprehensive Internet financial services platform. We will offer sales, trading, investment advisory and investor education services to meet our clients’ need for investment and financing services. We will support the operation of a personalized service model on the platform to enhance client loyalty by offering clearing, settlement, trading and data mining services. We will expand the categories of clients participating in the platform to increase the channels of identifying potential clients and client service opportunities.
- Cooperate with Internet companies in various ways such as client referral, platform connectivity and joint product development, to attract more customer traffic from their more mature Internet platform and utilizing their expertise in big data mining and analysis to differentiate the positioning and demand of different clients. Combining our respective strengths and our marketing experience, we will jointly develop products to extract client value and exploit our strength in distributing products through precision marketing.
- Increase the use of big data and form a dedicated data analysis team to predict client behavior using a multi-dimensional model and promote precision marketing of wealth management products by client managers.

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### **Internationalize our business to capitalize on the globalization of China’s economy**

As the internationalization of the RMB accelerates and Chinese enterprises and individuals invest in assets globally, internationalization has become an integral part of our strategy. In response to client demand for cross-border services, we will pursue a comprehensive international deployment of our various businesses revolving around a PRC theme, so as to enhance our international brand influence and establish a leading international market position among PRC securities firms:

- We will continue to develop GFHK into a strategic center for product design, talent development and international business development. We will focus on enhancing its capabilities in cross-border financing, M&A transaction execution, debt underwriting, trading and market-making, and global asset allocation. We will also enhance its offshore research, product innovation and institutional client sales and trading service capabilities.
- Using Hong Kong as our hub, we seek to become the first-choice PRC securities firm to PRC clients for overseas wealth management. We plan to gradually establish a one-stop trading platform for various currencies, asset classes and trading markets. The platform will be the springboard for our expansion into the wealth management markets in countries and territories with large PRC immigrant population, such as North America, Europe and Australia. We plan to actively identify and establish strategic alliance with internationally renowned third-party wealth management platforms.
- Building upon our existing futures platforms in the PRC, Hong Kong and London, we plan to establish a global large commodity futures and derivatives platform to serve PRC clients. We strive to become a leading intermediary between PRC clients and international commodity futures markets by gaining memberships at the world’s major commodity futures exchanges, establishing a system that connects the global commodity and derivatives markets, and adopting international best-practice risk management philosophy.

### **Optimize our capital structure and reasonably increase leverage while managing liquidity risk, thereby improving return on capital**

As our balance-sheet businesses expand, we seek to optimize our capital structure by diversifying our financing channels, and increasing our overall leverage while controlling liquidity risk, thereby improving return on capital:

- We seek to increase leverage and enhance return on capital by issuing corporate bonds, subordinated bonds, securities-firm short-term corporate bonds, short-term financing bills and structured notes.
- We seek to improve our liquidity and increase our business scale by issuing securitization products and structured notes.



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### **Further enhance our performance evaluation system and employee long-term incentive scheme to attract top talent in China and overseas**

Capitalizing on the internationalization of China’s securities industry and actively responding to the latest regulatory guidance, we will further enhance our employee incentive mechanism to better align the interests of our employees and shareholders and improve the career development prospects of our employees:

- We plan to enhance our performance evaluation system to support a business model based on a comprehensive finance platform that encourages more effective cross-selling.
- Building upon an existing incentive scheme that is already market-leading, adopt measures in response to changes in the market environment to effectively support the implementation of our business strategies.
- We plan to adopt incentive methods to the extent permitted by law, to actively respond to the latest regulatory guidance and align the long-term interests of our employees, in particular our senior and mid-level management members, with our shareholders.
- We plan to further enhance our employee training and career development programs to better align our employees’ personal development with our corporate strategy and vision. While raising the professionalism of employees, we seek to reinforce their commitment to our culture and promote cohesiveness.

### **Continue to emphasize sound risk management principles and enhance our overall risk management capabilities**

We will enhance the effectiveness and preemptiveness of our risk management to support the steady growth of our businesses by continually improving our risk management system covering business, market, credit, liquidity, compliance and operational risks according to the latest developments in our business and our growth strategies. We will adopt innovative risk management methodology and tools and increase the use of information technology:

- Enhance our overall risk management, optimize the risk-adjusted return evaluation and capital management systems and continually develop and improve the risk management systems that support our various innovative businesses.
- Broaden the application of digital information technology to risk management, set up an integrated investment management system across markets and asset classes, strive for comprehensive and timely risk management, continue to improve the risk limit system and access management, and strictly control the exposure to losses incurred by a single investment or employee.



## BUSINESS

- Improve our internal credit rating system, risk-concentration management, credit portfolio risk quantification and mitigation measures to ensure our asset quality and contain our overall risks within tolerable loss-absorption levels.
- Improve dynamic monitoring of various regulatory risk indicators to enhance control over liquidity risk and ensure stable liquidity.

### OUR PRINCIPAL BUSINESS LINES

Our business lines consist of various products and services set forth in the following table:

Investment Banking	Wealth Management	Trading and Institutional Client Services	Investment Management
<ul style="list-style-type: none"> <li>• Equity finance</li> </ul>	<ul style="list-style-type: none"> <li>• Retail brokerage and wealth management</li> </ul>	<ul style="list-style-type: none"> <li>• Equity sales and trading</li> </ul>	<ul style="list-style-type: none"> <li>• Asset management</li> <li>• Fund management</li> <li>• Private equity investment</li> </ul>
<ul style="list-style-type: none"> <li>• Debt finance</li> </ul>	<ul style="list-style-type: none"> <li>• Margin financing and securities lending</li> </ul>	<ul style="list-style-type: none"> <li>• Fixed income sales and trading</li> <li>• OTC sales and trading</li> </ul>	<ul style="list-style-type: none"> <li>• Alternative investment</li> </ul>
<ul style="list-style-type: none"> <li>• Financial advisory</li> </ul>	<ul style="list-style-type: none"> <li>• Repurchase agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Investment research</li> <li>• Prime brokerage</li> </ul>	

The table below presents the revenue and other income from each of our principal lines of business and their respective contribution to revenue for the periods indicated. For additional information concerning the operating profit contribution of our businesses, please see “Financial Information — Segment Operating Results.”

	Year ended December 31,					
	2012		2013		2014	
	(RMB in millions, except percentages)					
Investment banking .....	1,119.1	15.4%	376.6	4.0%	1,785.9	11.1%
Wealth management .....	3,460.7	47.5%	5,396.9	57.8%	8,703.3	53.8%
Trading and institutional client services.....	1,649.6	22.7%	2,242.5	24.0%	3,414.7	21.1%
Investment management .....	548.6	7.5%	910.2	9.8%	1,808.0	11.2%
Others .....	502.5	6.9%	405.6	4.4%	451.6	2.8%
<b>Total.....</b>	<b><u>7,280.5</u></b>	<b><u>100%</u></b>	<b><u>9,331.8</u></b>	<b><u>100%</u></b>	<b><u>16,163.5</u></b>	<b><u>100%</u></b>

## **BUSINESS**

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### **Investment Banking**

Our investment banking business consists of:

- Equity finance: we help corporates raise equity in China’s multi-tiered capital markets and overseas capital markets;
- Debt finance: we underwrite offerings of a variety of fixed-income products; and
- Financial advisory: we provide M&A services to clients and recommend the quotation of non-listed companies on the NEEQ.

We provide capital-raising and financial advisory services to a diverse group of corporate, government and other institutional clients. In the course of our investment banking business, we acquaint ourselves with our clients’ various needs for financial services to generate business opportunities for other business lines, including introducing corporate and high-net-worth individual clients to our wealth management business and potential investment targets to our private equity investment management business. We were named the “Best Investment Bank in the PRC — Best Domestic Investment Banking Team” by New Fortune for three consecutive years from 2011 to 2013.

We foster a philosophy of “Investment Banking Creates Value”, and seek to grow with our corporate clients, focusing on developing and maintaining long-term client relationships by closely monitoring their financial needs and offering tailored financial solutions. We have gradually built a large private corporate client base by offering long-term value-added services. For example, we assisted many clients (such as Kangmei Pharmaceutical Co., Ltd., Yantai Jereh Oilfield Services Group Co., Ltd., Kingfa Scientific and Technological Co., Ltd. and Guangdong Alpha Animation and Culture Co., Ltd.) in their IPOs and/or subsequent financing transactions or provide them with financial advisory services. We also proactively pursue new clients by maintaining contact with a large number of clients and potential clients, as well as with their legal advisors and auditors, on an ongoing basis. We have gained a significant number of new clients each year through our business development initiatives and referrals from third parties.

Based on our core corporate and affluent individual client base, we have established a comprehensive distribution network comprising institutional investors such as banks, insurance companies, fund managers, trust companies, finance companies, QFII and securities firms. We have established a capital market department to coordinate equity sales, which forms an extensive distribution network together with our equity sales and trading department and brokerage branches to ensure the successful consummation of our projects. We have also established strategic cooperative relationships with investors, including listed companies, venture capital companies and high-net-worth individuals, which helps provide pricing inputs that are more reflective of the market trends for our projects.

## **BUSINESS**

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Capitalizing on the strength of our Hong Kong platform in diversified businesses, we are capable of meeting clients’ varying needs for domestic and overseas financing services. We actively assist our clients in raising capital on the Hong Kong capital markets. Since the commencement of our Hong Kong investment banking business in 2007 and up to December 31, 2014, we participated in 28 IPOs and other equity offerings and four bond issuances in Hong Kong, raising over HK\$48.0 billion in aggregate proceeds.

In 2012, 2013 and 2014, revenue and other income from our investment banking business amounted to RMB1,119.1 million, RMB376.6 million and RMB1,785.9 million, respectively, accounting for 15.4%, 4.0% and 11.1% of our total revenue and other income, respectively.

### ***Equity Finance***

We sponsor and underwrite IPOs, follow-on offerings, private placements, rights issues, and offerings of equity-linked products. Our equity underwriting clients cover SMEs and medium to large state-owned enterprises, among which we focus on SME clients with strong growth potential (particularly private corporate clients). We are committed to assisting quality clients access the capital markets to fund their growth to become leaders in their respective industries. We have a strong team of professionals to serve our clients. As of December 31, 2014, our team of 126 sponsor representatives was one of the largest in the industry. Our investment banking team in Hong Kong and domestic team work closely to help clients tap financing opportunities in Hong Kong capital markets.

We organize our domestic equity underwriting professionals into 14 geographic coverage groups (covering all major cities in China) and three industry groups: TMT, medical and healthcare, and consumer/retail. Members of the industry groups are knowledgeable about our clients’ industries so they can better communicate with clients and use their industry knowledge and capital markets expertise to meet our clients’ needs or objectives.

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According to Wind Info, from 1993 to 2014, we acted as lead underwriter for 255 equity and equity-linked financing transactions in China with an aggregate amount issued of approximately RMB 168.3 billion. In 2014, we underwrote A shares IPOs with an aggregate amount issued of approximately RMB14.6 billion, ranking us No. 1 among PRC securities firms. As of December 31, 2014, we had 38 A share IPO projects pending approval, ranking us No. 1 among PRC securities firms. The following table sets forth certain information on the equity and equity-linked offerings in China in which we acted as a lead underwriter for the periods indicated:

		Year ended December 31,		
		2012	2013	2014
<b>As a lead underwriter</b>				
IPO .....	Number of transactions	9	—	14
	Amount underwritten (RMB in millions)	6,592.6	—	14,360.9
	Underwriting fees <sup>(1)</sup> (RMB in millions)	330.5 <sup>(3)</sup>	—	524.0
	Average commission rate	5.0%	—	3.6%
Follow-on offerings.....	Number of transactions	1	—	—
	Amount underwritten (RMB in millions)	3,157.5	—	—
	Underwriting fees <sup>(1)</sup> (RMB in millions)	192.0	—	—
	Average commission rate	6.1%	—	—
Rights issues .....	Number of transactions	—	1	3
	Amount underwritten (RMB in millions)	—	717.2	5,303.6
	Underwriting fees <sup>(1)</sup> (RMB in millions)	(0.1) <sup>(2)</sup>	19.5	93.3
	Average commission rate	—	2.7%	1.8% <sup>(4)</sup>
Private placements..	Number of transactions	6	5	14
	Amount underwritten (RMB in millions)	7,919.4	2,450.6	14,359.4
	Underwriting fees <sup>(1)</sup> (RMB in millions)	155.0	61.5	231.3
	Average commission rate	2.0%	2.5%	1.6% <sup>(4)</sup>

(1) Include only underwriting fees for acting as lead underwriters and exclude sponsor fees.

(2) We paid distribution fees of RMB100,000 in 2013 for a rights issue in December 2012.

(3) Include prepaid underwriting fees of RMB1.0 million for IPO projects.

(4) Average commission rate decreased because we underwrote more large-sized transactions for strategic clients for which we charged lower commission rates.

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**BUSINESS**

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We are well-recognized by our clients for our equity sales capabilities, drawing on our expansive brokerage network, coordination among our various business lines and our strategic relationship with investors. Our industry-specific expertise and strong equity sales capabilities enable us to help clients close various types of large and complex projects. The following table sets forth some of the high-profile transactions we have participated in as sponsor and lead underwriter:

<u>Issuers</u>	<u>Offering Type</u>	<u>Amount Underwritten</u>	<u>Year</u>
		(RMB in millions)	
Wuhan Iron and Steel Company Limited .....	Rights issue	8,345.8	2011
	Convertible bonds with detachable warrants	7,500.0	2007
Guosen Securities Co. Ltd. ....	IPO	6,996.0	2014
China Yangtze Power Co., Ltd. ....	Warrants	6,754.1	2006
Yunnan Copper Co., Ltd. ....	Private placement	4,351.0	2007
Tebian Electric Apparatus Stock Co., Ltd.....	Rights issue	3,659.4	2014
Hubei Energy Group Co., Ltd. ....	Private placement	3,154.2	2012
Goertek Inc.....	Private placement	2,381.0	2012
Fujian Expressway Development Company Limited..	Follow-on offerings	2,250.5	2009

We are dedicated to meeting the varying financing needs of SMEs, and have a strong track record in assisting SMEs raise capital from the equity markets in China and Hong Kong. In 2009, we acted as the sole sponsor and lead underwriter in the IPO of Qingdao TGOOD Electric Co., Ltd., which was the first company to be listed on China’s ChiNext Board. According to Wind Info, since the launch of the SME Board in 2004 and the ChiNext Board in 2009 and up to December 31, 2014, we assisted 53 SMEs in their listings on the SME Board with an aggregate amount underwritten of approximately RMB40.4 billion, and 21 SMEs in their listings on the ChiNext Board with an aggregate amount underwritten of approximately RMB12.2 billion, ranking us No. 3 among PRC securities firms in terms of the number of listed enterprises, respectively. In 2014, we underwrote the listings of five enterprises on the ChiNext Board, with an aggregated amount underwritten of RMB2.4 billion, ranking us No. 1 among PRC securities firms. During the same period, we acted as the lead underwriter for eight IPO projects in Hong Kong, ranking us No. 6 among the Hong Kong subsidiaries of PRC domestic securities firms. Leveraging our in-depth knowledge of the capital markets, our corporate clients and the industries in which they operate, we are adept at identifying value propositions, and have sponsored the IPOs of many enterprises that are the leaders or the first companies in their respective industries to become listed. Many of these enterprises have experienced strong growth in their market capitalization and financial results since their listings. We have maintained strong relationships with these clients and have partnered them in their growth, participating in their most important corporate transactions as illustrated in the table below.

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**BUSINESS**

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Issuer	Offering Type	Description
Kangmei Pharmaceutical Co., Ltd. <sup>(1)</sup> .....	IPO (2001), follow-on offerings (2006, 2007), rights issue (2010), private placement of preference shares (2014)	Leader and the first listed company in the prepared Chinese medicine industry
Kingfa Scientific and Technology Co., Ltd. <sup>(2)</sup> .....	IPO (2004), follow-on offerings (2007, 2012)	Leader in the modified plastic industry
Guangdong Haid Group Co., Ltd. <sup>(3)</sup> .....	IPO (2009), private placement (2013)	Leader in the feed industry
Guangdong Alpha Animation and Culture Co., Ltd. <sup>(4)</sup> ....	IPO (2009), M&A and private placement (2014)	Leader and the first listed company in the animation and culture industry
By-health Co., Ltd .....	IPO(2010)	Leader and the first listed company in the dietary supplement industry
Yantai Jereh Oilfield Services Group Co., Ltd. ...	IPO(2010), private placement(2014)	Leader in the oilfield equipment and service industry
Pubang Landscape Architecture Co., Ltd. <sup>(5)</sup> ...	IPO (2012), private placement (2014)	Leader in the landscaping industry

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- (1) We also assisted Kangmei Pharmaceutical Co., Ltd. in issuing convertible bonds in 2008 and corporate bonds in 2011.
- (2) We also assisted Kingfa Scientific and Technology Co., Ltd. in issuing corporate bonds in 2008.
- (3) We also assisted Guangdong Haid Group Co., Ltd. in issuing corporate bonds in 2011 and acted as joint underwriter of its short-term financing bill in 2014.
- (4) We also assisted Guangdong Alpha Animation and Culture Co., Ltd. in issuing corporate bonds in 2013, and co-founded Zhuhai GF Xinde Alpha Capital Management Co., Ltd., and Zhuhai GF Xinde Alpha Industry Investment Fund Phase I L.P. (a private equity fund focused on investments in China’s mobile, Internet and cultural industries).
- (5) We also assisted Pubang Landscape Architecture Co., Ltd. in issuing corporate bonds in 2013. GFHK (via its subsidiaries) sponsored and underwrote the IPO of Earthasia International Holdings Limited (an affiliate of Pubang Landscape Architecture Co., Ltd.) on the Main Board of the Hong Kong Stock Exchange in 2014.

Benefiting from the professionalism of our industry group, we are a market leader in the TMT industry. In February 2014, we established a TMT industry team to capture the business opportunities brought by China’s fast growing TMT industry. In 2014, we underwrote IPOs in the TMT industry with an aggregate underwritten amount of over RMB3.1 billion, ranking us No. 1 in the PRC securities industry, and representing a market share of 16.3%.

**BUSINESS**

***Debt Finance***

We underwrite a full range of fixed-income products offerings, including enterprise bonds, corporate bonds, medium-term notes, short-term financing bills, securitization products, non-financial enterprise private placement debt instrument and SME private placement bonds. We have full licenses for underwriting debt financing instruments in China. The following table sets forth certain information on bond issuances in China in which we acted as lead underwriter for the periods indicated:

		<b>Year ended December 31,</b>		
		<b>2012</b>	<b>2013</b>	<b>2014</b>
Enterprise bonds <sup>(1)</sup> .....	Number of transactions	15	10	35
	Amount underwritten (RMB in millions)	14,050.0	10,200.0	34,915.0
	Underwriting fees (RMB in millions)	121.6	101.7	284.6
	Average commission rate	0.9%	1.0%	0.8%
Corporate bonds <sup>(1)</sup> .....	Number of transactions	8	10	1
	Amount underwritten (RMB in millions)	11,630.0	19,740.0	800.0
	Underwriting fees (RMB in millions)	99.0	73.3	7.1
	Average commission rate	0.9%	0.4% <sup>(2)</sup>	0.9%
Medium-term notes.....	Number of transactions	—	—	4
	Amount underwritten (RMB in millions)	—	—	1,940.0
	Underwriting fees (RMB in millions)	—	—	10.9
	Average commission rate	—	—	0.6%
Short-term financing bills <sup>(1)</sup> .....	Number of transactions	—	—	3
	Amount underwritten (RMB in millions)	—	—	520.0
	Underwriting fees (RMB in millions)	—	—	1.3
	Average commission rate	—	—	0.3%
Non-financial enterprise private placement debt instrument.....	Number of transactions	—	—	5
	Amount underwritten (RMB in millions)	—	—	3,866.7
	Underwriting fees (RMB in millions)	—	—	30.7
	Average commission rate	—	—	0.8%
SME private placement bonds .....	Number of transactions	5	9	2
	Amount underwritten (RMB in millions)	320.0	1,029.1	140.0
	Underwriting fees (RMB in millions)	5.7	14.1	1.7
	Average commission rate	1.8%	1.4%	1.2%
Commercial bank Tier 2 capital instruments .....	Number of transactions	—	—	6
	Amount underwritten (RMB in millions)	—	—	20,883.3
	Underwriting fees (RMB in millions)	—	—	18.1
	Average commission rate	—	—	0.09%

<sup>(1)</sup> Exclude bonds that we issued and underwrote for the periods indicated.

<sup>(2)</sup> Average commission rate decreased because we underwrote more large-sized transactions for strategic clients for which we charged lower commission rates.

## BUSINESS

We established a debt business department in 2005 to focus on the debt underwriting business. Our debt underwriting business has grown significantly in recent years. According to Wind Info, from 2009 to 2014, we underwrote approximately RMB194.3 billion aggregate principal amount of bond issuances, representing a CAGR of 85.7% from 2009 to 2014. In 2014, we ranked No. 5 by total number and No. 7 by total amount underwritten among PRC securities firms for enterprise bond and corporate bond issuances. The table below sets forth certain high-profile bond issuances in which we acted as either lead underwriter or co-lead underwriter:

Issuer	Offering Type	Amount Issued	Year
		(RMB in millions)	
Huatai Securities Co., Ltd.....	Corporate bond	10,000	2013
Shandong Gold Mining Co., Ltd. ....	Corporate bond	2,000	2013
State Grid Corporation of China .....	Enterprise bond	5,000	2012
	Enterprise bond	5,000	2012
	Enterprise bond	10,000	2011
	Enterprise bond	5,000	2011
China Datang Corporation Renewable Power Company Limited .....	Corporate bond	4,200	2011
Wuhan Iron and Steel Company Limited <sup>(1)</sup> .....	Corporate bond	7,500	2007

(1) We assisted Wuhan Iron and Steel Company Limited in issuing convertible bonds with detachable warrants of RMB7.5 billion in 2007 and in its rights issue of RMB8.3 billion in 2011.

We began to underwrite the debt financing instrument issuances of non-financial enterprises on the NAFMII in November 2012 as one of the ten PRC securities firms licensed by the NAFMII to do so. In 2014, we had underwritten 12 issuances of debt financing instruments by non-financial enterprises, including four medium-term note issuances, three short-term financing bill issuances and five non-financial enterprise private placement debt instrument issuances with total amount issued of RMB125 billion.

We have established strong client-stickiness and had underwritten multiple debt instruments issuances by many quality issuers. As of December 31, 2014, we had acted as lead underwriter in seven enterprise bond issuances by Guangdong Provincial Communication Group Company Limited (and its subsidiaries) with a total amount issued of RMB12.0 billion. From 2012 to December 31, 2014, we had underwritten two enterprise bond issuances and one non-financial enterprise private placement debt instrument issuance by Chongqing City Real Estate Group Company Limited with a total amount issued of RMB9.8 billion. We have also achieved a leading position in underwriting debt offerings by issuers in China’s railway transportation industry. For example, we underwrote two tranches of enterprise bond issuances by Shenzhen Metro Group Co., Ltd. with a total amount issued of RMB8.0 billion, one of the largest enterprise bond issuances in the national rail transit industry. In addition, we had underwritten three tranches of enterprise bond issuances by Guangzhou Metro Corporation with a total amount issued of RMB8 billion.



## **BUSINESS**

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### ***Financial Advisory***

Our financial advisory services include M&A and NEEQ quotation services.

We provide financial advisory services on various types of transactions, including M&As, joint ventures, disposal or acquisition of corporate assets, and strategic alliances. Our financial advisory clients include public and private companies, government entities and private equity investors in China and overseas. From 2012 to 2014, we advised on transactions with a total value of RMB22,450.5 million, including transactions in the TMT industry with a total value of RMB7,238.8 million. In 2014, we acted as financial advisor for 16 major asset restructurings in China that were approved by the relevant regulatory authorities, ranking us No. 3 among PRC securities firms. In 2011, we advised Xinjiang Huitong (Group) Co., Ltd. on its listing through a reverse takeover, the first leasing company to do so on China’s A share market.

Drawing upon our extensive experience in the TMT industry, we have been actively assisting our TMT clients in achieving rapid growth through M&A. For example, in 2013, we assisted Rastar Group, a toy car producer in China, in successfully transforming into a conglomerate focused on the interactive entertainment industry through M&A. In addition, we have been actively assisting Guangdong Alpha Animation and Culture Co., Ltd. in its strategic deployment in the cultural industry since its listing on the Shenzhen Stock Exchange, enabling it to expand laterally through M&As and integrations.

We also help SMEs that do not meet listing criteria address their financing needs by recommending their quotations on the NEEQ or referring them to venture capital funds or strategic investors. This process also helps us build a pipeline of potential clients for our equity finance business. Since the establishment of the NEEQ in 2006 and up to December 31, 2014, we acted as chief agency broker for the quotation of 73 companies on the NEEQ, ranking us No.3 among PRC securities firms. In 2014, we recommended the quotation of 55 companies on the NEEQ.

### **Wealth Management**

Our wealth management business primarily consists of:

- Retail brokerage and wealth management: we provide brokerage services to retail clients for their trading of equities, bonds, funds, futures and other tradable securities, and offer wealth management clients customized investment advisory services to meet their varying risk and return preferences. We also sell wealth management products developed by us or third parties through our brokerage network;
- Margin financing and securities lending: we offer margin financing and securities lending services to provide leverage to clients’ transactions; and
- Repurchase agreements: we enter into repurchase agreements and collateralized stock repurchase agreements.

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**BUSINESS**

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In 2012, 2013 and 2014, revenue and other income from our wealth management business was RMB3,460.7 million, RMB5,396.9 million and RMB8,703.3 million, representing 47.5%, 57.8% and 53.8% of our total revenue and other income, respectively.

***Retail Brokerage and Wealth Management***

*Overview*

We provide brokerage services to retail clients for their trading of equities, bonds, funds, futures and other tradable securities. We ranked No. 4 among PRC securities firms as measured by the number of brokerage accounts as of December 31, 2014. The average commission rate we charge for stock and fund brokerage services in the PRC was 0.881‰, 0.854‰ and 0.692‰ in 2012 and 2013 and 2014, respectively.

The following table sets forth the trading volume of our brokerage accounts by asset class for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Trading turnover	Market share	Trading turnover	Market share	Trading turnover	Market share
	(RMB in billions, except percentages)					
Stocks.....	2,545.3	4.1%	3,774.7	4.0%	6,605.3	4.5%
Funds.....	41.1	2.5%	71.3	2.4%	128.2	1.4%
Bonds .....	2,905.9	3.8%	4,953.0	3.8%	7,092.9	3.9%
<b>Total.....</b>	<b>5,492.2</b>	<b>3.9%</b>	<b>8,799.0</b>	<b>3.9%</b>	<b>13,826.5</b>	<b>4.1%</b>
Futures.....	13,712.9	4.0%	20,858.8	3.9%	17,858.9	3.1%

Source: SAC

Outside China, we provide brokerage services through GF Securities (Hong Kong) Brokerage to high-net-worth individuals and retail clients in Hong Kong, covering stocks listed on the Hong Kong Stock Exchange and other foreign exchanges. We also provide clients with trading and settlement services on the world’s major commodity markets through GF Futures (Hong Kong), a wholly owned subsidiary of GF Futures, and GF Financial Markets (UK) Limited, a wholly owned subsidiary of GF Futures (Hong Kong).

*Clients*

We have a large and loyal brokerage client base. As of December 31, 2014, we had over 4.18 million brokerage clients, over 92% of which are active clients. Approximately 83% of our brokerage clients had maintained accounts with us for over three years, and approximately 23% of our brokerage clients had maintained accounts with us for over ten years.

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## BUSINESS

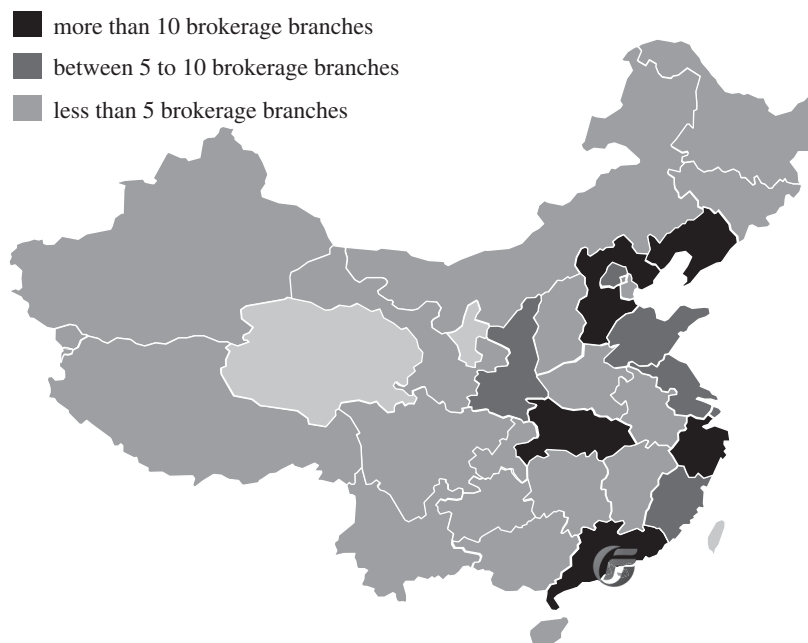
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We offer a broad range of products and services to retail brokerage clients to address their varying investment and financial needs. We categorize our retail brokerage clients into mass market, wealth management and high-net-worth clients based on their net worth, and tailor our products and services to suit their needs. We also target dormant accounts with special promotional events to encourage them to use our services. As of December 31, 2014, we had over 14,500 high-net-worth individual clients with total assets of over RMB5.0 million in their accounts with us, and more than 193,000 wealth management clients with total assets of over RMB500,000 to RMB5.0 million in their accounts with us. We intend to expand our high-net-worth client base by increasing the variety of personalized products and services.

### *Branch Network and Trading System*

As of December 31, 2014, we had 249 securities brokerage branches in the PRC, approximately 76.6% of which are located in the Pearl River Delta, Yangtze River Delta and Bohai Rim, China’s most economically developed regions. As of the same date, we had 26 futures brokerage branches located in 16 provinces and municipalities in China. In addition, 152 of our securities brokerage branches have obtained qualification to provide IB services and refer clients to GF Futures.

The following map sets forth the provinces and municipalities in the PRC covered by our securities brokerage branch network as of December 31, 2014:



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▲ We do not have any securities brokerage branches in Qinghai and Ningxia.

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## BUSINESS

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In March 2013, the CSRC relaxed the requirements for establishing new brokerage branches in terms of scale, region and on-site trading facilities, and allowed brokerage accounts to be opened remotely. We began to establish C-type brokerage branches that do not offer on-site trading services in China in 2013. As of December 31, 2014, we had 61 C-type brokerage branches in China. As compared with conventional brokerage branches, C-type branches occupy less space, employ less staff, and are equipped with more flexible facilities, thereby requiring lower capital expenditures and operating expenses. We intend to establish more C-type brokerage branches to expand the geographic coverage of our brokerage network, and to better serve clients’ needs for off-site trading and wealth management services.

We have established five Internet finance channels to make trading more convenient for clients and to provide them with real-time advisory services. These five Internet finance channels include:

- **Mobile Securities:** to provide clients with professional trading and self-help wealth management services on mobile devices. The number of our mobile accounts grew by 36.2% from approximately 3.0 million as of December 31, 2013 to approximately 4.0 million as of December 31, 2014.
- **Online trading finance channels and web-based trading platform:** to provide clients with professional trading services on PC terminals. The number of users of our online trading finance channels and web-based trading platform grew by 7.9% from approximately 2.5 million as of December 31, 2013 to approximately 2.7 million as of December 31, 2014.
- **WeChat:** to provide clients with real-time information and interactive consulting services. The number of our WeChat users grew by 798.5% from approximately 120,000 as of December 31, 2013 to approximately 1.1 million as of December 31, 2014; and
- **“E-Taojin (易淘金)”:** We launched e-commerce service platform in November 2013, which is a website that our clients can access to open and manage brokerage accounts, place trades, purchase and sell wealth management and fund products, and access a variety of investment analytical tools and real-time investment advisory services. The daily traffic of E-Taojin grew by 22,823.0% from approximately 5,000 in December 31, 2013 to approximately 1.2 million in December 2014.

These trading platforms have enabled us to expand our client reach beyond the physical boundaries of traditional brokerage branches. In the past three years, over 90% of the transactions by our retail brokerage clients were executed through these trading platforms. In addition, we launched online self-help account opening services in 2013, making us one of the few securities companies that offer such services in China. In December 2014, the number of accounts opened online accounted for 74.1% of the total number of accounts opened for the same period, as compared to 0.45% in January 2014.

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### *Wealth Management Services*

In 2011, we became eligible to provide investment advisory services to our brokerage clients, presenting an opportunity to increase our commission rates and expand our brokerage revenue. As of December 31, 2014, we had built a professional team of over 1,600 investment advisors, the largest among PRC securities firms. Our investment advisors have an average of over eight years' experience in the financial service industry. In addition, we have a 78-member team of professionals with Certified Wealth Manager qualification awarded by the AIWM.

We classify our wealth management clients based on their net worth and transaction volume, tailor our wealth management products and services to suit their investment needs. We offer customized mobile SMS and MMS packages to provide subscribers with information relevant to their investment decision-making, such as market updates, investment strategies and information and analysis on selected companies and industries. In 2012, we launched our “Rui (睿)” multimedia messaging investment portfolio services. We design investment portfolios for a broad range of investor investment preferences and risk appetites, and deliver information on the portfolios to subscribers via multimedia messaging tools. Our investment advisors maintain regular contact with the subscribers to monitor their asset allocation and answer their investment inquiries, and provide personalized investment advice to our clients.

We sell a variety of financial products developed by us and third-party financial institutions through our brokerage network, including fund products, asset management schemes and trust products. We carefully select financial products and only recommend or sell financial products to suitable clients based on their financial sophistication and risk-return profile. We have been continually exploring new cooperation models with fund managers. In 2014, in cooperation with our custodian business, we launched the trailing commission cooperation model to provide one-stop research, custodian, sales and trading services for fund managers. In contrast to the traditional one-off sales commission model, we share in the management fee of fund managers based on the size and holding period of fund products. This new model better aligns our interests with those of the fund managers and enhances the returns from such business.

### *Futures Brokerage*

We conduct futures brokerage business through our wholly owned subsidiary, GF Futures. GF Futures is a member of all of the commodity and financial futures exchanges in China, and provides brokerage services for all types of futures products available in China, including 44 commodity futures, CSI 300 Index Futures and treasury bond futures. In addition, through GF Futures (Hong Kong), its wholly owned subsidiary, and GF Financial Markets (UK) Limited, the wholly owned subsidiary of GF Futures (Hong Kong), GF Futures provides futures brokerage services to clients on various foreign exchanges, including Hong Kong Futures Exchange, Singapore Exchange, Chicago Mercantile Exchange, CBOT, NYMEX, COMEX, London Metal Exchange (LME) and EUREX. GF Financial Markets (UK) Limited is the only ring dealing members owned by a PRC company that can engage in floor trading on the LME, which had a total brokerage trading volume on the LME of US\$90.6 billion in 2014.

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As of December 31, 2014, GF Futures had a total of over 55,000 clients, approximately 5,500 of whom were referred by our securities brokerage branches. The following table sets forth the trading volumes of our futures brokerage accounts and our market share in China by futures product type for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Trading amount	Market share	Trading amount	Market share	Trading amount	Market share
	(RMB in billions, except percentages)					
Commodity futures.....	5,110.8	2.7%	8,638.9	3.4%	7,833.6	3.1%
CSI 300 Index Futures .....	8,602.1	5.7%	12,195.0	4.3%	9,971.5	3.1%
Treasury bond futures <sup>(1)</sup> .....	— <sup>(1)</sup>	—	24.9	4.1%	53.8	3.1%
<b>Total.....</b>	<b><u>13,712.9</u></b>	<b><u>4.0%</u></b>	<b><u>20,858.8</u></b>	<b><u>3.9%</u></b>	<b><u>17,858.9</u></b>	<b><u>3.1%</u></b>

(1) The treasury bond futures market was reopened in September 2013.

We anticipate that the PRC regulatory authorities will approve the listing and trading of new types of futures products in China in the near future, such as foreign exchange futures and options. We believe this development will drive the growth of China’s futures market and the increase in the scale and profitability of our futures brokerage business.

*Marketing and Client Services*

Our sales and marketing team consists primarily of our own client managers and securities brokerage agents. As of December 31, 2014, we had over 3,400 client managers and over 480 securities brokerage agents. We incentivize our client managers and securities brokerage agents with performance-based remuneration. We develop brokerage clients primarily through our online and mobile platforms, phone calls, in-person visits and investor education events. Our other business lines also refer brokerage clients to us.

We strive to ensure client satisfaction through high-quality client services. We provide 24/7 real-time assistance through our client hotlines and online support, including answering inquiries about products, trading rules, account status and trading software. In addition, we have launched the 24/7 real time interactive inquiry system, which makes available online the collective resources of our client managers and investment advisors across the country, enabling us to offer clients real-time investment and business advisory services conveniently and efficiently.

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***Margin Financing and Securities Lending***

We began offering margin financing and securities lending services in March 2010 as one of the first six securities firms licensed to do so. Our margin financing services include provisions of financing to our clients for their purchases of publicly traded stocks, which are collateralized by securities or cash. We also offer securities lending services that involve lending securities held in our own account to our clients.

Our margin financing and securities lending business has grown significantly, benefiting from our strong capital resources and broad brokerage network. As of December 31, 2014, 247 of our 249 securities brokerage branches were qualified to provide margin financing and securities lending services. As of December 31, 2014, the closing balance of margin financing and securities lent amounted to RMB64,356.2 million, ranking us No. 4 among PRC securities firms and representing a 1,141.7% increase from the closing balance of RMB5,183.0 million as of December 31, 2012.

We require new margin financing and securities lending clients to satisfy certain minimum balance requirements in their brokerage accounts with us as set forth in the table below.

<b>Period</b>	<b>Minimum account balance</b>
March 1, 2010 to March 28, 2013.....	RMB500,000
March 29, 2013 to December 10, 2014.....	RMB200,000
December 11, 2014 to January 18, 2015.....	RMB300,000
From January 19, 2015 .....	RMB500,000

As of December 31, 2014, we had approximately 64,000 margin financing and securities lending clients with asset value of over RMB500,000, representing 35.5% of the total number of qualified brokerage clients. We believe that our margin financing and securities lending business has significant growth potential. We seek to expand our margin financing and security lending client base by offering value-added wealth management services, including personalized investment solutions to high-net-worth clients.

As of December 31, 2014, 899 stocks and 15 ETFs were eligible for margin financing and securities lending in China, and we offered margin financing for 870 stocks and 15 ETFs and securities lending for 292 stocks and 9 ETFs. We typically charge our margin financing and securities lending clients annualized interest rates that are 3.0 percentage points higher than the benchmark lending rate for six-month loans set by the PBOC.

We permit the use of securities quoted on the Shanghai Stock Exchange and Shenzhen Stock Exchange as collateral for our margin financing and securities lending. We apply different discount rates when determining the value of the securities as collateral. As of December 31, 2012, 2013 and 2014, the total value of collaterals from our margin financing and securities lending clients were RMB18,476.6 million, RMB52,672.2 million and RMB171,057.8 million, respectively.



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The following table sets forth the applicable maximum discount rates as required by the Shanghai Stock Exchange and Shenzhen Stock Exchange for various types of collaterals for our margin financing and securities lending business:

Type of securities	Maximum discount rate
Treasury bonds.....	95.0%
ETFs.....	90.0%
Non-ETF listed securities investment funds and non-MOF bonds .....	80.0%
Shanghai Stock Exchange 180 Index and Shenzhen Stock Exchange 100 Index constituent stocks .....	70.0%
Non-ST stocks (excluding Shanghai Stock Exchange 180 Index and Shenzhen Stock Exchange 100 Index constituent stocks) .....	65.0%
ST stocks .....	0%

The following table sets forth the closing balance, trading turnover and respective market share of our margin financing and securities lending business for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Amount	Market share	Amount	Market share	Amount	Market share
(RMB in millions, except percentages)						
Closing balance of margin financing and securities lending .....	5,183.0	5.8%	19,945.1	5.8%	64,356.2	6.3%
Trading turnover of margin financing and securities lending <sup>(1)</sup> .....	42,160.9	5.8%	181,753.5	5.5%	554,564.9	5.8%

(1) Trading turnover of margin financing and securities lending represents clients' aggregate financed purchases.

We were among the first PRC securities firms licensed to provide margin refinancing and securities refinancing in August 2012, which enables us to lend funds and securities owned by third parties to provide our clients with financing and securities lending services.

We anticipate that the PRC securities regulators will increase the types and number of securities eligible for margin financing and securities lending, lower the eligibility threshold for opening margin financing and securities lending accounts, and allow more types of investors to engage in margin financing and securities lending activities in the near future. We believe these developments will further drive the growth of our margin financing and securities lending business.



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We have implemented comprehensive risk management measures to mitigate the market and credit risks that we are exposed in our margin financing and securities lending business. Please see “Business — Risk Management — Implementation of Risk Management and Internal Control Policies” for details.

### ***Repurchase Agreements***

We enter into repurchase transactions with clients such as repurchase agreements and collateralized stock repurchase agreements. In repurchase transactions, we purchase securities from clients and agree to resell the same securities in the future at the initial price of the underlying securities plus financing interest. The interest rates charged to counterparties of repurchase transactions ranged between 7.00% to 10.33% during the Track Record Period. Since 2013, we have been entering into collateralized stock repurchase agreements as one of the first nine PRC securities firms licensed to do so. Under these agreements, the counterparties pledge stock as collateral to secure the amount they borrowed. As of December 31, 2014, the outstanding principal amount under our repurchase agreements and collateralized stock repurchase agreements amounted to RMB864.6 million and RMB5,712.1 million, respectively.

### **Trading and Institutional Client Services**

We have a large and diverse institutional client base. As of the Latest Practicable Date, we had over 1,900 institutional clients, among whom approximately 94.7% are private funds and institutional investors, approximately 3.7% are mutual funds and approximately 1.6% are insurance companies. Our trading and institutional client services business consist of the following activities:

- Equity sales and trading: we sell the equity securities that we underwrite to institutional clients, and engage in market-making and proprietary trading of equity and equity-linked financial products and equity derivatives;
- Fixed-income sales and trading: we sell the bonds that we underwrite to institutional clients, and engage in market-making and proprietary trading of fixed-income financial products and interest rate derivatives;
- OTC sales and trading: we structure and distribute a variety of OTC products, including non-standard products and structured notes;
- Investment research: we provide investment research services in respect of various sectors (including macro economy and strategy, industries and listed companies, fixed income and financial engineering) to our institutional clients; and
- Prime brokerage: we offer a wide variety of prime brokerage services, including trading | seat leasing and custodian services, to institutional investors.

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### ***Equity Sales and Trading***

We provide trading advisory and execution services for our institutional clients and sell the equity securities that we underwrite. Our institutional clients primarily include professional investors such as NCSSF, insurance companies, commercial banks, finance companies, fund managers, trust companies and QFIIs approved by the CSRC to invest in China’s capital markets.

We also engage in market-making and proprietary trading of equity and equity-linked products and equity derivatives, including providing liquidity to ETFs and ETF options and executing block trades. We have traded in stock index futures since the stock index futures market was first opened in China in 2010. We also use stock index futures to hedge our equity portfolio exposure. As one of the first participants on the stock index futures market, we have been granted a large quota by CFFEX to trade in futures based on the CSI 300 index. Furthermore, we provide liquidity to eight ETFs of various varieties, including single-market ETF, cross-market ETF, cross-border ETF, bond ETF and gold ETF. For example, we are one of the three liquidity providers for Huaan Yifu Gold ETF, one of the first two gold ETFs launched by the Shanghai Stock Exchange in July 2013. In addition, we were one of the first eight PRC securities firms licensed to provide liquidity to ETF options in February 2015.

We have adopted multi-pronged investment strategies with respect to our equity trading activities, including arbitrage trading and quantitative strategies, which have allowed us to achieve stable returns while limiting our exposure to market risks. We engage in arbitrage trading in stock index futures and ETFs to take advantage of the temporary difference in their prices from those of their underlying assets. We adjust our investment strategies from time to time based on market conditions, and we do not separately track the scale of our arbitrage activities.

We provide our domestic institutional clients access to the international capital markets and have also developed a broad range of international institutional clients in the Hong Kong market. We assist our international clients in investing in China’s capital markets under the QFII and RQFII schemes.

### ***Fixed income sales and trading***

We provide trading advisory and execution services for our institutional clients and sell them bonds that we underwrite. We also act as a member of underwriting syndicates for the issuance of fixed-income products by governmental issuers in the open market. For example, we are a category A member designated by China Development Bank in the underwriting syndicate for policy financial bonds issuances.

We also engage in market-making and proprietary trading of a broad range of fixed income and derivatives products on China’s interbank bond market and exchanges, such as treasury bonds, policy financial bonds, central bank bills, medium-term notes, short-term financing bills, enterprise bonds, corporate bonds, treasury bond futures and interest rate swaps. We were one of the 13 PRC securities firms licensed to provide market-making services on China’s interbank bond market on a probationary basis. We ranked No. 4 among the 71 market makers and probationary market makers in China, or No.1 among PRC securities firms in terms of market volume published by the CFETS for November and

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December 2014. We also enter into fixed income derivatives, such as interest rate swaps and treasury bond futures, to hedge the interest rate exposure that arises from our trading and market-making activities. In addition, we are applying for license to trade precious metals on the spot market. We also plan to apply for qualification to trade other commodities and foreign currencies.

We have adopted proactive investment, buy and hold, and market neutral strategies with respect to our fixed-income trading activities to achieve greater long-term returns while ensuring the associated risks are measurable, manageable and within our risk tolerance level. We adjust our fixed-income product portfolio from time to time in light of changes in macroeconomics and monetary policies.

### ***OTC Sales and Trading***

As one of the first PRC securities firms eligible to participate in China’s OTC market in 2012, we structure and distribute a variety of OTC products, including non-standard products and structured notes. For example, we introduced the first structured notes traded on China’s OTC market in June 2014. As of December 31, 2014, according to the China Securities Capital Market Development Monitoring Center, we ranked No. 1 in the PRC securities industry in terms of our registered OTC products.

### ***Investment Research***

We provide research reports and customized investment research services to NCSSF, insurance companies, fund managers, private equity funds, finance companies, securities firms and other institutional investors in China and Hong Kong. Our equity research covers 24 industries and over 580 listed companies in China, and over 70 listed companies in Hong Kong. As of December 31, 2014, we had 82 research analysts based in China and Hong Kong, approximately 92.7% of which possessed at least a master’s degree. We are renowned for our outstanding research capability in the industry. In 2014, our research team ranked No. 4 in New Fortune’s “Best Domestic Research Team” survey. In addition, out of New Fortune’s 30 sector-specific surveys in 2014, we achieved No. 1 ranking in three sectors, No. 2 ranking in three sectors and No. 3 ranking in six sectors.

### ***Prime Brokerage***

We offer a wide variety of brokerage services, including trading seat leasing and custodian services, to institutional investors.

In accordance with applicable PRC laws and regulations, we lease trading seats to fund companies (which are not eligible to be trading members) to enable them to trade securities in their investment portfolios on the stock exchanges in China. We enter into leasing contracts with fund companies that set forth the commission rates and trading unit numbers. We will then notify the relevant stock exchanges about the lease arrangements. We typically charge the fund companies commissions based on the level of trading activities through the leased trading seats. We leased out

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159, 195 and 244 trading seats as of December 31, 2012, 2013 and 2014, respectively, which generated income of RMB176.0 million, RMB234.2 million and RMB272.0 million in 2012, 2013 and 2014, respectively, accounting for 2.4%, 2.5% and 1.7% of our total revenue and other income during the same periods.

We obtained the securities and investment funds custodian qualification and began to provide asset custodian services, including safekeeping, account management, clearing and settlement, fund accounting, asset valuation, fund compliance monitoring, performance measurement and fund investment risk analysis, to institutional investors and asset management schemes managed by asset managers in 2014. In addition, in 2014, we began to provide one-stop custodian, sales and trading and research services for fund companies and share the management fee of fund companies based on the size and holding period of fund products. This new model better aligns our interests with those of the fund managers and enhances the returns from such business. As of December 31, 2014, we had total assets under custody of RMB7,882.0 million.

### **Investment Management**

Our investment management services include:

- Asset management: we provide asset management services for domestic and overseas investors through GF Asset Management, GF Futures and GF Asset Management (Hong Kong);
- Fund management: we raise and manage funds in China and Hong Kong through GF Fund and E Fund;
- Private equity investment: we conduct equity investments in China and overseas through GF Xinde and overseas special purpose vehicles under GF Investments (Hong Kong), and establish and manage private equity investment funds through GF Xinde; and
- Alternative investment: we invest in private placements, non-standard fixed-income products and make venture capital investments through GF Qianhe.

### **Asset Management**

We provide asset management services to help clients preserve and grow their financial assets. We were among the first PRC securities firms to engage in asset management business in 2002. Our clients include individuals, corporations and institutional investors. We conduct our asset management business through our subsidiaries GF Asset Management, GF Futures and GF Asset Management (Hong Kong).

#### *GF Asset Management*

Through GF Asset Management, we manage client assets across a broad range of asset classes and investment strategies, including equity, fixed income and quantitative investments. We manage investments under three schemes, including CAM schemes, TAM schemes and SAM schemes. In addition, we actively conduct overseas asset management business through the QDII scheme.

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- CAM: we manage a broad range of investment schemes with varying risk and return profiles to suit the investment needs of different types of investors;
- TAM: we manage tailored investment portfolios for institutional investors and high-net-worth individuals through separately managed accounts; and
- SAM: we offer investment schemes to meet clients’ specific investment needs.

As of December 31, 2014, the total AUM of the accounts managed by GF Asset Management amounted to RMB196,777.0 million. In 2014, the total management fees generated by GF Asset Management amounted to approximately RMB425.8 million, or No. 6 among PRC securities firms.

The following table sets forth a breakdown of our AUM and management fees by the type of accounts managed by GF Asset Management for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	AUM	Management fees	AUM	Management fees	AUM	Management fees
	(RMB in millions)					
CAM.....	9,508	107.0	15,560	143.6	48,083	314.7
TAM.....	12,171	5.0	120,224	62.5	145,288	110.5
SAM <sup>(1)</sup> .....	—	—	—	—	3,406	0.6
<b>Total.....</b>	<b>21,678</b>	<b>112.0</b>	<b>135,784</b>	<b>206.1</b>	<b>196,777</b>	<b>425.8</b>

(1) We mainly charge underwriting fees for our SAM schemes.

Through GF Asset Management, we managed 65 CAM schemes with total AUM of RMB48,083 million as of December 31, 2014, including equity schemes, FOF schemes, fixed-income investment schemes, money market schemes and quantitative investment schemes. We managed the first CAM scheme in China, and ranked No. 3 among PRC securities firms in terms of the total AUM of our CAM schemes as of December 31, 2014. The AUM of our fixed-income CAM schemes has grown significantly to RMB36,802.0 million as of December 31, 2014, representing an increase of 981.5% from the AUM of RMB3,403.0 million as of December 31, 2012. In addition, we were licensed in 2011 to manage overseas investments for QDIIs. We believe we are well positioned to capture the opportunities as the asset management market for QDIIs develops.

Through GF Asset Management, we managed 166 TAM schemes as of December 31, 2014 that invest in a broad range of asset classes, including equity, fixed income and alternative investments, such as trust products, entrusted loans and bills. Our clients primarily include PRC commercial banks, trust companies, other institutional investors and high-net-worth individuals. The total AUM of TAM schemes managed by us increased from RMB12,171 million as of December 31, 2012 to RMB120,224 million as of December 31, 2013 and further increased to RMB145,288 million as of December 31,

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2014, primarily as a result of the relaxation of the regulatory restrictions on the permitted scope of investment for the TAM schemes of securities firms. We launched TAM schemes that invest in collateralized stock repurchase agreements in March 2013 with a total AUM of RMB3,712.0 million as of December 31, 2014.

We also offer securitization products through SAM schemes. We established the first SAM scheme that trades on the Shenzhen Stock Exchange, “Dongguan-Shenzhen Expressway Toll Usufruct-Based SAM Scheme”, back in 2005. The CSRC slowed down its approval of SAM schemes between 2006 and 2012. In 2014, in cooperation with our investment banking business, we launched “Jilin City Construction BT Project Asset-based SAM Scheme” and “AVIC Leasing SAM Scheme”, with total AUM of RMB2,970 million and RMB455 million, respectively, which were then listed and traded on the Shanghai Stock Exchange. In 2014, the CSRC abolished the pre-launch approval system for SAM scheme and changed it to a post-launch filing system with the fund industry association, which we believe will drive the rapid development of this business.

*GF Futures*

GF Futures was approved by the CSRC to conduct asset management business in November 2012. As of December 31, 2014, GF Futures managed 62 single client asset management schemes with total AUM of RMB3,614.0 million. The following table sets forth the AUM and management fees of single client asset management schemes managed by GF Futures for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	AUM	Management fees	AUM	Management fees	AUM	Management fees
	(RMB in millions)					
Single client asset management schemes .....	—	—	96.2	0.2	3,614.0	13.3

*GF Asset Management (Hong Kong)*

We advise and manage a variety of investment vehicles through GFHK’s wholly owned subsidiary, GF Asset Management (Hong Kong). GFHK was among the first securities firms in Hong Kong to obtain the RQFII qualification, which enables it to invest RMB funds raised in Hong Kong in the PRC securities markets through GF Asset Management (Hong Kong). As of December 31, 2014, GF Asset Management (Hong Kong) had founded and managed two mutual funds, GF China RMB Fixed Income Fund and GF China Growth Fund, and three privately raised products in the form of funds. GF Asset Management (HK) managed assets of HK\$4,463.3 million as of December 31, 2014, and generated net asset management fees of HK\$6.8 million in 2014.

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***Fund Management***

*GF Fund*

As of December 31, 2014, we held a 51.13% equity interest in GF Fund, a PRC fund manager established in August 2003. As of December 31, 2014, GF Fund managed 22 actively managed equity funds with a total AUM of RMB54,029.1 million, ranking it No. 4 among PRC fund managers. GF fund is one of the domestic investment managers for the NCSSF. GF fund also provides asset management services to insurance companies, finance companies, other institutional investors and high-net-worth individuals. Furthermore, GF Fund is licensed to invest funds raised in China in overseas capital markets through QDIIs scheme, and to invest funds raised in Hong Kong in the PRC capital markets as QFIIs and RQFIIs through its wholly owned subsidiary, GF International Investment Management. As of December 31, 2014, the AUM of mutual funds managed by GF Fund amounted to RMB131.0 billion, according to Wind Info. In 2012, 2013 and 2014, management fees generated by GF Fund amounted to RMB1,305.8 million, RMB1,361.7 million and RMB1,461.4 million, respectively.

We also develop fund products in cooperation with large Internet companies, such as Baidu.com and WeChat, drawing upon their strengths in big data mining and analysis and our strong product design and sale capabilities. In October 2014, we cooperated with Baidu.com to launch “Baidu Baifa Fund (百度百發基金)”, the industry’s first fund product developed based on the application of Internet big data, which had a total AUM of RMB3.0 billion as of December 31, 2014. We distribute Tiantian Hong (天天紅), a money market fund product on WeChat, which had accumulated over 3.0 million accounts with a total AUM of RMB14.0 billion as of December 31, 2014.

*E Fund*

As of December 31, 2014, we held a 25.0% equity interest in E Fund, a PRC fund manager established in April 2001, making us one of its three largest shareholders. As of December 31, 2014, E Fund managed 59 open-end funds. E fund is one of the investment managers for the NCSSF. E Fund also provides asset management services to insurance companies, finance companies, enterprise annuities, other institutional investors and high-net-worth individuals. Furthermore, E Fund is licensed to invest funds raised in China in overseas capital markets through QDIIs scheme, and to invest funds raised in Hong Kong in the PRC capital markets through QFIIs and RQFIIs schemes. As of December 31, 2014, the AUM of mutual funds managed by E Fund amounted to RMB208.8 billion, according to Wind Info.



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### ***Private Equity Investment***

#### *GF Xinde*

We engage in private equity investments as a principal in China through our wholly owned subsidiary, GF Xinde. We principally invest in companies with proven business models and attractive valuations. As of December 31, 2014, GF Xinde had completed 68 equity investments, and 16 of its investee companies had been listed on China’s A share market through IPOs. The total investment return of the 16 projects (calculated by dividing the total returns from the 16 projects by the principal amount of our initial investments) amounted to 392.3%.

The following table sets forth the amount of our investments and the number of companies we invested in for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
Amount of Investment (RMB in millions) .....	176.0	108.3	534.0
Number of companies invested.....	4	6	21

We also manage private equity funds and mezzanine funds through GF Xinde and its fund management platforms: Xinjiang GF Xinde Wensheng, GF Xinde Healthcare Capital Management and Zhuhai GF Xinde Alpha Capital Management Co., Ltd. GF Xinde founded and managed two private equity funds: GF Xinde (Zhuhai) Medical Industry Investment Center L.P., a private equity fund focused on equity investments in China’s healthcare institutions with a total committed capital of RMB889.9 million as of December 31, 2014, and Zhuhai GF Xinde Alpha Industry Investment Fund Phase I L.P., a private equity fund focused on investments in China’s mobile, Internet and cultural industries with a total committed capital of RMB254.0 million as of December 31, 2014. GF Xinde also founded and managed two mezzanine funds: GF Xinde-China Railway Changsha Properties Trust Scheme and Zhuhai GF Xinde Xihu Mezzanine Investment L.P. Enterprise with a total committed capital of RMB1,400 million as of December 31, 2014.

#### *GF Investments (Hong Kong)*

We conduct equity investments in Hong Kong through GFHK’s wholly owned subsidiary, GF Investments (Hong Kong). As of December 31, 2014, GF Investments (Hong Kong) had invested in one renowned IT training company in China which had been listed on the NASDAQ market in the United States.



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### ***Alternative Investment***

In May 2012, we established our alternative investment platform, GF Qianhe, to focus on investments in private placements, non-standard fixed-income products, venture capital and industrial investment funds. As of December 31, 2014, GF Qianhe had invested in 27 projects with total investment amount of approximately RMB1,996.0 million, had exited from 13 projects with a total investment return of 52.5%, calculated by dividing the total returns from the 13 projects by the principal amount of the initial investments.

### **MAJOR CLIENTS**

We serve a diverse set of clients across a spectrum of sectors. Our major clients comprise corporates (especially SMEs), individuals (especially affluent individuals), institutional investors, financial institutions and government clients. Our clients are primarily located in China. We expect to serve more overseas clients as we further expand our overseas operations.

In 2012, 2013 and 2014, our revenue and other income attributable to our five largest clients accounted for less than 30% of our total revenue and other income.

To the knowledge of our Directors, none of our Directors, Supervisors, their respective associates or any Shareholders holding more than 5% of our issued share capital has any interests in any of our five largest clients as of the Latest Practicable Date.

We have no major suppliers due to the nature of our businesses.

### **COMPETITION**

Competition in the financial services industry in China has been and is likely to remain intense. We compete based on a number of factors, including range of products and services, price, innovation, transaction execution capacity, marketing and distributing capacity, reputation, experience and knowledge of our staff, employee compensation and geographic scope. Our main competitors include other securities firms and fund managers in China. We also face competition from commercial banks, insurance companies and private equity funds. Some of our competitors are larger in terms of asset size and client base, and have greater financial resources or more specialized capabilities than we do. Foreign financial institutions, some of which have greater experience and resources than we do, have been expanding their operations in China and will continue to compete with us in providing financial products and services. We also face increasing competition in overseas financial services markets as we seek to further expand our overseas operations.

We have experienced intense price competition in some of our businesses in recent years. For example, competition in China’s wealth management industry is intense, which has resulted in considerable pressure on brokerage commissions. The increased popularity of trading platforms, such as the Internet, as well as the launch of unified securities account platform, has also contributed to the decline in commission rates. We believe that we will continue to experience competitive pressures in these and other areas in the future as some of our competitors seek to win market share through low pricing.

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We also face competition in attracting and retaining talent. The competition among large securities firms for outstanding sponsor representatives, investment managers, researchers, marketing staff and other experienced professionals is substantial. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new talent and retain and motivate our existing talent.

### EMPLOYEES

As of the Latest Practicable Date, we had a total of 9,349 employees. The table below sets out the number of employees by function as of the same date:

	<u>Number of Employees</u>	<u>Percentage (%)</u>
Principal Businesses.....	7,878	84.3
Risk Management.....	<u>50</u>	0.5
Legal and Compliance.....	62	0.7
Information Technology .....	229	2.5
Others .....	<u>1,130</u>	<u>12.0</u>
<b>Total</b> .....	<u><u>9,349</u></u>	<u><u>100</u></u>

Of all our employees, 9,155 were based in the PRC, and 194 were based in Hong Kong, the United Kingdom and Canada. Approximately 74.7% of our employees held at least a bachelor’s degree as of the Latest Practicable Date. We are the first company in China’s financial service industry to establish post-doctoral workstations.

Our full-time employees participate in various employee benefit plans such as social security, enterprise annuities, housing funds, work related injury benefits plans, medical benefit plans, unemployment insurance and maternity insurances. The employment agreements generally specify the employees’ responsibilities, remuneration and grounds for termination.

We conduct performance evaluation for our employees annually to provide feedback on their performance. Compensation for our full-time employees typically consists of a base salary and a discretionary bonus. The discretionary bonus is usually awarded at the year end based on our results of operations and the employee’s performance.

We emphasize employee career development, and offer our employees training opportunities in China and overseas on a regular basis. We have developed and launched our own online training platform that enables our employees to share training materials and exchange information, experience and knowledge about the securities industry. We currently offer over 700 online training courses tailored for employees in different business lines.

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We have a labor union in accordance with PRC laws and regulations. We believe that we have maintained a good working relationship with our employees. As of the Latest Practicable Date, we had not experienced any labor strikes or other labor disturbances that had materially interfered with our operations.

### **INFORMATION TECHNOLOGY**

We are committed to the ongoing development, maintenance and use of technology throughout our business. We expect our technology initiatives to greatly enhance client service through increased connectivity and the provision of value-added and tailored products and services, improve our trading, execution and clearing capabilities, effectively manage our risks and improve overall efficiency, productivity and control.

Internet has changed and will continue to change the ways that securities and other financial products are traded. This creates both opportunities and challenges for our business. We are committed to being at the forefront of technological innovation in the PRC financial services market. Our information technology department has successfully established industry-leading systems such as human resource, finance, trading, settlement, client service, risk management as well as compliance and internal control and management systems. In addition, our information technology department is the first in the industry to establish an Internet financial products sales and trading platform using innovative technologies, such as cloud computing and big data. It has also established an interactive inquiry system based on mobile Internet technologies, which allows us to achieve precision marketing through analysis of big data on clients' personal particulars and investment preferences.

Business continuity and information security are high priorities for us. We have designed contingency plans to provide reasonable assurance of business continuity in the event of disruptions at our critical facilities. The key elements of the program are crisis management, business recovery, systems and data recovery and process improvement. We have established a multi-tier disaster recovery backup system at our three data recovery centers in Guangzhou and Shanghai, and have developed an industry-leading switching system that has realized high-speed switching between the principal and backup systems for our core businesses during emergencies. In addition, we apply safeguards to maintain the confidentiality, integrity and availability of information resources, including firewalls, anti-virus measures, data encryption, user authentication and authorization, intrusion prevention and detection.

### **INSURANCE**

We currently maintain property insurance coverage for our headquarters and branches. All of our policies are underwritten with reputable insurance providers and we review our insurance policies annually. Our shareholders have approved and we are in the process of negotiating liability insurance policies for our directors, supervisors and officers including senior management. We believe that our insurance coverage is adequate and standard compared to securities firms based in the PRC.

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### **PROPERTIES**

Our corporate headquarters are located at 43/F, Metro Plaza, No. 183-187 North Tianhe Road, Tianhe District, Guangzhou, the PRC. As of December 31, 2014, we owned 145 properties, the land use right for one owned land and one property under construction, and leased 333 properties in the PRC and three properties in Hong Kong, and licensed the right to use one property in Hong Kong. Our owned properties in the PRC have an aggregate gross floor area of approximately 76,052.63 m<sup>2</sup>, and our owned land with the land use right has a gross floor area of 6,463 m<sup>2</sup>. Our leased properties in the PRC and Hong Kong have the aggregate lettable areas of approximately 263,715.44 m<sup>2</sup> and 20,362 ft<sup>2</sup>, respectively, and the gross floor area of the property we licensed to use in Hong Kong was 224 ft<sup>2</sup>.

As of December 31, 2014, no single property accounted for 15% or more of our total assets by book value. Our Directors believe that this [Redacted] is exempt from the requirements under Chapter 5 of the Hong Kong Listing Rules and Section 342(1)(b) of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described in paragraph 34(2) in the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

### **Owned Properties**

#### *Owned properties*

As of December 31, 2014, we owned and occupied 145 properties in the PRC with an aggregate gross floor area of approximately 76,052.63 m<sup>2</sup>:

- We have obtained valid building ownership certificates for 121 properties with a total gross floor area of approximately 71,449.56 m<sup>2</sup>. We have been advised by Jia Yuan Law Offices, our PRC legal advisors, that we have the legal ownership of these properties and therefore have the right to possess, use, generate income from and dispose them, and none of these owned buildings was subject to mortgage, seizure or other designated third party interests.
- Titles to 18 properties with a total gross floor area of approximately 2,419.99 m<sup>2</sup>, or 3.18% of the aggregate gross floor area of all the properties we own, have not been transferred to us because of reasons such as judicial restrictions and the deregistration of the original property owners. We use these properties as office space. We are making commercially reasonable efforts to complete the registration procedures of the title change of these 18 properties. As advised by Jia Yuan Law Offices, our PRC legal advisors, we will be entitled to the complete and valid title of such properties upon completion of the registration for the title change, and the fact that the title to those 18 properties have not been transferred will not have any material adverse impact on our assets and operations because of the limited size of these 18 properties as compared with the total size of all the buildings we own.

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- We have not obtained valid building ownership certificates for six properties with a total gross floor area of 2,183.08 m<sup>2</sup>, or 2.87% of the aggregate gross floor area of all the properties we own, due to historical issues. Three of these properties are used as office space, one for non-operational purposes and the remaining two as staff quarters. We are applying for the building ownership certificates for one of the two properties used as staff quarters. Jia Yuan Law Offices, our PRC legal advisors, is of the view that there would be no material legal impediment for us to obtain the building ownership certificates if the necessary procedural requirements are satisfied. The fact that we were unable to obtain the relevant building ownership certificates for the remaining five properties will not have any material adverse impact on our assets and operations because of the small size of these five properties as compared with the total size of all the properties we own.

We have not been advised by any government department or other person to cease our use of the properties with defective titles for our business activities, or to pay fines or make compensations. Our Directors believe that the 24 owned properties with defective titles are not crucial to, and will not have any material impact on, our operations because (1) we have obtained the relevant valid building ownership certificates and land use rights certificates for the majority of our owned properties; (2) we have been advised by our PRC legal advisors that we can possess, use and/or lease the 24 owned properties with defective titles, and we should be able to substitute the properties with other comparable buildings, if necessary, without any material adverse impact on our operations, business or financial condition; and (3) the majority of our securities and future brokerage branches are located on our leased properties.

### *Owned Land*

We own a land with parcel a total site area of 6,463 m<sup>2</sup>, which we are permitted to use for commercial, financial, cultural and recreational purposes. We have obtained the land use right certificate in respect of this land parcel.

### **Properties under Construction**

As of December 31, 2014, we held one property under construction with an aggregate gross floor area of approximately 156,509.00 m<sup>2</sup>, for which we have been granted the relevant land use right certificates and the construction permits and approvals required under PRC law. As of the Latest Practicable Date, construction of this property is still ongoing. We have been advised by Jia Yuan Law Offices, our PRC legal advisors, that there would be no legal impediment for completing the construction of the property. Upon completion of the construction and inspection of the property, there would not be any material legal impediment for us to obtain the relevant building ownership certificate.

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### **Leased Properties**

#### *Leased properties*

As of December 31, 2014, we leased a total of 333 properties with an aggregate lettable area of approximately 263,715.44 m<sup>2</sup> in the PRC, which are used for our business operations and office purposes. These include:

- 289 properties with a total gross floor area of approximately 233,146.26 m<sup>2</sup>, the lessors of which were able to provide title certificates showing valid ownership of or the right to lease such properties. Our Directors confirm that we use these leased properties for the purposes permitted under the relevant lease agreements. Jia Yuan Law Offices, our PRC legal advisors, is of the view that such leases are legal and valid.
- 35 properties with a total gross floor area of approximately 25,303.63 m<sup>2</sup>, or 9.60% of the aggregate gross floor area of all the properties we lease, the lessors of which were unable to provide title certificates or told us there were no title certificates for such properties. We use these properties mainly as office space. The lessors of the 35 properties have issued letters of undertaking or have agreed in the lease agreements that they will bear any risks resulting from the defective title to the leased properties. Jia Yuan Law Offices, our PRC legal advisors, is of the view that such undertakings and agreements are legal, valid and enforceable.
- Seven properties used for operational purposes with a total gross floor area of 4,029.75 m<sup>2</sup>, or 1.53% of the aggregate area of all the properties we lease. These properties are permitted for use as residences. The lessors of the seven properties have issued letters of undertaking or agreed in the lease agreements that the lessors will bear any risks resulting from the defective title to the properties. Jia Yuan Law Offices, our PRC legal advisors, is of the view that such undertakings and agreements are legal, valid and enforceable.
- Two properties with a total gross floor area of approximately 1,235.80 m<sup>2</sup>, or 0.47% of the aggregate gross floor area of all the properties we lease, whose lessors and property owners were not the same. The lessors were unable to provide proof showing that the properties owners had authorized them to lease the properties. We use these properties mainly as office space. The lessors have issued letters of undertaking or have agreed in the lease agreements that the lessors will bear any risks resulting from the defective title to the properties. Jia Yuan Law Offices, our PRC legal advisors, is of the view that such undertakings and agreements are legal, valid and enforceable.

We have been advised by Jia Yuan Law Offices, our PRC legal advisor, that we may claim against the lessors in respect of their defective title to the above properties under the relevant letters of undertaking or lease agreements. In addition, because the properties with defective titles are leased properties, we will not bear any potential legal liability in respect of the defective titles. Moreover, the title defects will not have any material adverse impact on our operations because of the limited size of these leased properties as compared with the total size of all the properties we use and the fact that these leased properties can easily be substituted by comparable premises.

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### *Leased Lands*

As of December 31, 2014, we did not lease any land in the PRC.

### **Overseas Properties**

We leased three properties with a total lettable area of 20,362 ft<sup>2</sup> in Hong Kong. Among these, we use one leased property with a lettable area of 19,102 ft<sup>2</sup> as office space. The lease for this property will expire on February 28, 2018. We use the other two leased properties with a total lettable area of 1,260 ft<sup>2</sup> as staff quarters. The leases for these properties will expire on March 17, 2017 and April 30, 2016 respectively. These lease agreements have been entered into in accordance with local legal requirements and are valid and binding.

In addition, we have the right to use a site with an area of approximately 224 ft<sup>2</sup> in Hong Kong as office space. The license of this property will expire on December 10, 2016. The license has been entered into in accordance with the local legal requirements and are valid and legally binding.

### **MANAGEMENT OF LIQUIDITY AND LEVERAGE RATIOS**

Managing our liquidity and leverage ratios is crucial to our success. The focus of our liquidity management is to ensure the sufficiency of liquid funds and the safety of capital, while actively capturing all types of opportunities to enhance the rate of return of short-term funds. The focus of our leverage ratio management is to keep liquidity risk under control and increase the rate of return on net assets by reducing our financing costs.

We have formulated a range of internal control policies, which entail the principles of managing our own funds, department responsibilities, financing management, assets allocation and liquidity risk management. We have established a multi-tier authorization mechanism and have formulated policies for the management and approval of the use and allocation of our own funds. The adoption of these policies helps to reinforce our capital management, enhance capital allocation and operational efficiency, control liquidity risk and establish a comprehensive management system.

We take into consideration multiple factors to forecast cash flows, and predict the capital needs for business expansion and other investments. To satisfy our short-term cash flow needs, we undertake inter-bank lending and repurchase business in the inter-bank lending market. We have also adopted stringent measures to manage liquidity to meet our net capital needs. We are required to measure our liquidity indicators before making any capital investment so as to satisfy regulatory requirements.

Apart from managing liquidity, we also actively manage our capital structure and financing channels. We plan to expand the debt finance channels to increase our financial leverage. We also plan to issue corporate bonds, commercial papers, short-term securities corporate bonds, subordinated bonds and other financing instruments to optimize our capital structure.



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### **RISK MANAGEMENT**

#### **Overview**

Effective risk management and internal control are critical to our success. We have established comprehensive risk management and internal control processes for monitoring, evaluating and managing our exposure to market, credit, operational, legal and compliance risks in our business activities. The CSRC rated us “Class A Grade AA” for four consecutive years from 2011 based on its evaluation of our risk management capabilities, competitiveness and regulatory compliance. “Class A Grade AA” is the highest rating received by PRC securities firms during that period.

#### **Governance Structure**

We seek to monitor and control our risk exposure through our reporting systems covering various risks in relation to our businesses. We have established a four-level risk management and internal control governance structure: our board of directors, senior management, internal control departments and risk management personnel at revenue-generating business departments.

#### ***Board of Directors***

Our board of directors is the top level of our risk management and internal control governance structure and is responsible for the ultimate oversight of our risk management and internal control processes, including reviewing and approving our risk management and internal control policies and strategies, determining our risk tolerance level, and assessing the effectiveness of our internal control systems and the independence of our chief compliance officer.

Under our board of directors, we have established a risk management committee mainly responsible for assisting our directors in:

- formulating our important risk management strategies including risk preference, reviewing our overall risk management and compliance objectives and policies;
- evaluating and determining our risk tolerance level, monitoring the overall risk exposure of our businesses and implementing our risk management and internal control strategies;
- supervising the performance of duties by the risk control committee;
- reviewing proposals for handling major risks and making decisions and giving directions for handling material crises and contingencies;
- reviewing our risk management and internal control reports; and
- undertaking self-evaluation on the implementation of risk management and internal control policies and corporate governance, and supervising the rectification of the identified deficiencies.



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### *Senior Management*

#### *Risk Control Committee*

Our risk control committee is composed of our general manager, deputy general managers, CFO, chief compliance officer, the heads of our risk management department, development and research center and compliance and legal affairs department. The primary responsibilities of our risk control committee include:

- formulating and implementing the detailed risk management rules and procedures based on the overall risk management principles and guidelines determined by our board of directors;
- assisting senior management in determining and adjusting the acceptable risk exposure for our business lines;
- assisting senior management in monitoring and evaluating the risk exposure of our major businesses decisions and innovative products and businesses; and
- reviewing the internal risk management report prepared by the risk management department.

Our risk control committee periodically reviews the limits for the matters that are subject to its approval and has the discretion to amend the ceiling thresholds within the risk limits formulated by our board of directors.

#### *Asset Allocation Committee*

Our asset allocation committee is composed of our general manager and the senior executives in charge of our business lines, capital management and risk management matters. Our asset allocation committee holds periodical meetings to discuss market developments, investment performance and status of assets and liabilities, and make asset allocation decisions. It also holds interim meetings at the request of the members of the asset allocation committee in the event of sudden changes in market conditions and temporary working capital needs.

#### *Chief Compliance Officer*

Our chief compliance officer formulates compliance policies and oversees the overall compliance of our business operations. Our chief compliance officer also oversees our compliance with applicable laws and regulations and internal policies and guidelines, and reports to our chairman and our general manager on a regular basis. Mr. Jifu Wu is currently our chief compliance officer. Please see “Directors, Supervisors and Senior Management” for details about Mr. Wu’s background.

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### ***Internal Control Departments***

We have established the following internal control departments, which are independent from the revenue-generating business departments, to perform our day-to-day risk management functions and report to our board of directors and management on the implementation of risk management procedures and internal control policies:

- Our risk management department evaluates, monitors and manages our risk exposure, and supervises the implementation of our risk management and internal control strategies, policies and procedures.
- Our compliance and legal affairs department (1) evaluates and manages the legal risks associated with our business operations and provides day-to-day legal support to our business departments; (2) is responsible for formulating compliance policies and guidelines and performing regular compliance examinations; (3) evaluates the risk management performance of our employees and establishes appraisal and accountability systems for risk management.
- Our internal audit department performs independent audit of our business operations, financial performance, corporate governance, internal control and risk management procedures.
- Our capital management department manages our proprietary funds and debt financing, ensures that our liquidity need is met, performs payment of external obligations and handles any need for emergency liquidity.
- Our finance department manages our financial risks and prepares and submits statements on risk indicators.
- Our settlement and transaction management department manages our operational risks associated with account checking, registration, settlement, delivery and transaction and account management.
- Our IT department is responsible for ensuring the proper functioning of our IT systems and the security, completeness and accuracy of IT data.
- Our general office is responsible for formulating reputational risk management strategies and mechanisms for handling emergencies.

### ***Revenue-generating Business Departments***

Each of our business departments is required to designate risk management personnel to monitor and manage its risk exposure, and implement firm-wide risk management and internal control policies. Senior management at each of our branches is responsible for overseeing the branch’s risk management practices. As of the Latest Practicable Date, we had 207 employees responsible for risk management and compliance at our securities brokerage branches, who are responsible for formulating

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and implementing detailed internal control and risk management rules and procedures, evaluating and monitoring the risk exposure of each branch and reporting to our risk management department and compliance and legal affairs department. The employees responsible for risk management and compliance at our securities brokerage branches have an average of approximately 13 years' experience in the securities industry.

### **Monitoring and Management of Major Risks**

We focus on monitoring and managing the market risk, liquidity risk, credit risk, operational risk, compliance risk and legal risk we are exposed to in our business operations.

#### ***Market Risk***

Market risk refers to the risk of loss in the value of our trading and investing positions resulting from changes in the market condition or regulatory requirements. Our principal market risks include interest rate risk, equity price risk, exchange rate risk and commodity price risk.

We seek to control our market risk exposure within our tolerance level and maximize our risk-adjusted returns by identifying, quantifying, monitoring and managing market risk based on our risk preference and net capital level. We have adopted the following measures to manage our market risk exposure:

- We use VaR to evaluate our risk exposure in combination with other methods, such as scenario analysis, sensitivity analysis, stress testing and back testing to assess the risks to our trading portfolios.
- We impose market risk limits at various operational levels to manage risk and periodically review and adjust our market risk limits to reflect changes in our business performance, risk tolerance levels and results of stress testing and variations in market conditions.
- We carry out comprehensive risk management on our trading positions through market risk management systems that are widely used in matured market, including Riskmetrics and Imagine.
- We revalue our trading positions and positions exposing us to market risk on a daily basis. Our risk management department reviews our valuation models, assumptions and parameters, and value the financial instruments that we invest in independently.
- Our risk management department prepares and submits daily market risk assessment reports to our senior management and related personnel.
- We evaluate the market risks relating to new businesses and products to ensure we have the corresponding risk management mechanism prior to engaging in a new business or launching a new product.

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### ***Liquidity Risk***

Liquidity risk refers to the risk of our failure to obtain sufficient funds at a reasonable cost and in a timely manner to pay our debts as they fall due, perform other payment obligations and satisfy the capital requirements to carry on our businesses in the ordinary course. We identify, quantify, monitor and control our liquidity risks effectively through the continuous building of a scientific and optimized liquidity risk management system to ensure that we will be able to timely satisfy all liquidity requirements arising from assets, liabilities and off-balance sheet businesses and meet our external payment obligations, achieve a balance between the effectiveness and safety of capital, and prevent firm-wide liquidity risks effectively.

- Our capital management department coordinates the sourcing of capital, collects information regarding capital requirements of other departments, formulates and optimizes financing strategies, implements daily liquidity management, estimates and analyzes our cash flow and the matching of our assets and liabilities, and organizes the formulation, rehearsal and evaluation of liquidity risk contingency plans.
- Our risk management department independently identifies, evaluates, quantifies and monitors liquidity risks, formulates the liquidity risk quota system, and continually assesses the conversion of other risks into liquidity risk.
- We monitor and manage liquidity risks by managing quality liquidity assets, managing charged and pledged collateral, monitoring liquidity risk indicators, managing liquidity risk limits and liquidity risk stress tests.
- We set aside emergency liquidity reserves using a scale based on a certain proportion of financial assets to safeguard the performance of payment obligations during emergencies.
- We measure liquidity indicators (including funding gap, liquidity coverage ratio and net stable funding ratio) and conduct liquidity risk stress tests on a regular basis. We also prepare monthly evaluation reports of liquidity risk and submit these reports to our senior management and other relevant personnel.

### ***Credit Risk***

Credit risk refers to the potential losses resulting from the failure of an issuer or counterparty to perform its obligations under a contract, or arising from variations in the market value of debts due to changes in credit ratings or inability to perform contractual obligations. We manage our credit risks primarily through the following measures:

- We strive to diversify our credit risk exposure appropriately across different counterparties, industries, products and by risk mitigation measures.
- We have developed a comprehensive set of “Know Your Clients” due diligence and evaluation procedures that focus on both the source of repayment and the sufficiency of credit enhancement measures, such as collateral.

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- We have formulated credit risk policies for all businesses exposed to credit risks.
- We have set up an internal rating model targeting at different types of major counterparties to evaluate the default risks of counterparties through both qualitative and quantitative methods.
- We set maximum credit risk limits for various types of our credit businesses and each counterparty, and review and adjust the relevant credit limits every year.
- We estimate our credit risk exposure and concentration of various categories on a daily basis, and prepare periodic credit risk evaluation reports for submission to our management.
- We perform stress tests to assess the potential losses that may be incurred under extreme circumstances based on possible market changes, risk events and adverse circumstances, and adjust our asset portfolios when necessary to ensure the security of our capital.

### ***Operational Risk***

Operational risk refers to the risk of loss resulting from operational errors, including inadequacy or defect of internal process, personnel or systems, or from external events, legal and compliance risks and reputational risks. We manage our operational risks primarily through the following measures:

- We have implemented unified operational risk data and assessment systems to monitor and analyze operational risk events and our business environment. The risk management personnel at our business departments work with our risk management department to monitor our operational risk on a daily basis.
- We analyze and monitor key risk indicators and alert our management, enabling them to make timely decisions and take actions to prevent or minimize potential losses.
- We have business continuity and disaster recovery programs in place that enables us to provide services to our clients in the event of a disruption.
- We have adopted various measures, including service evaluation and ongoing performance monitoring, to manage our exposure to the risks arising from services provided by third-party vendors.

### ***Compliance Risk***

Compliance risk refers to the risk of legal sanctions, regulatory measures, loss of property or damage to our reputation because of the violation of laws, regulations, industry standards and our internal rules arising from our operation and management activities and employee behavior. These compliance risks primarily include the risks associated with the transformation of traditional business,

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launch of innovative businesses, employee professional practices, management of Chinese walls and anti-money laundering. We manage, control and prevent compliance risks primarily through the below measures:

- We are committed to keeping abreast with changes in laws, regulations and industry standards, and improving our internal policies accordingly to guarantee the consistency of our internal policies with external laws and regulations. We also undertake compliance management over various aspects of our operations and employee activities.
- We conduct compliance audits at the early stage of a business. Our professional legal and compliance team is responsible for examining the compliance of innovative business model, analyzing product structures and preparing legal documentation. We implement effective compliance risk prevention and control measures at the early stage of a business.
- We effectively control the circulation of sensitive information and staff turnover by monitoring compliance and establishing dynamic Chinese walls and an information-tracing mechanism, with the aim to prevent insider trading risks and properly deal with conflicts of interest.
- We have established and are continually optimizing the internal control system for anti-money laundering management to fulfill our responsibility of client identification and classification of client risk level. We identify and analyze suspicious transactions and promptly report to the regulators as required.
- We undertake compliance reviews in accordance with applicable laws, regulations, other regulatory norms, self-discipline codes, industry norms and our internal policies, to monitor the compliance of our operations and management and employee activities, and identify and prevent compliance risks.
- We adopt various means to inculcate a compliance culture and conduct compliance training from time to time according to need, so that a compliance culture would permeate each segment of our business, functional department and branch, and our employees' compliance awareness could be fortified and enhanced.
- We undertake regular compliance assessment of each department and branch and employee to comprehensively understand and evaluate the compliance of the operations and management of each department and branch as well as our employees' professional practices.
- We have established an accountability system in respect of employees' violations of laws, regulations and internal policies, to impose applicable punishment on offenders and ensure the effectiveness of our compliance management.

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### ***Legal Risk***

Legal risk refers to the possible risk of economic loss or damage to our reputation resulting from breach of contracts, infringement-related disputes, litigation or other legal disputes in the ordinary course of business. We manage, control and prevent legal risks mainly through the following measures:

- Through researching and understanding the changes to laws and regulations, we are continually enhancing our internal policies and business procedures to ensure that our operations and management satisfy the requirements of applicable laws and regulations.
- We optimize the templates for various business contracts and require our business departments to adopt our own templates to the fullest extent. We also review contracts not based on our templates prior to signing so as to mitigate the legal risk associated with performing such contracts.
- We have established and enhanced internal policies on the engagement of external attorneys in the course of conducting business or dealing with disputes and legal proceedings when necessary.
- We conduct various legal training to enhance our employees’ legal awareness.
- We have developed a comprehensive processing authorization system and advance compensation mechanism for settling complaints and disputes, so as to effectively manage disputes.
- We adopt active measures to mitigate legal risks whenever disputes and litigations arise.

### **Implementation of Risk Management and Internal Control Policies**

#### ***Investment Banking***

We manage the market, credit, interest rate, compliance and operational risks associated with our investment banking business primarily through the following procedures:

- ***Project Inception.*** We have set up separate review teams for equity financing, debt financing and NEEQ quotation that we intend to sponsor and underwrite and mergers and acquisitions and restructurings we plan to act as financial advisor. Dedicated personnel of each review team will conduct preliminary review of the application materials. The quality control department organizes relevant personnel who are entitled to vote to resolve whether we can underwrite or participate a particular project.

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- ***Due Diligence.*** Our project team conducts thorough due diligence in connection with each transaction, including review of due diligence materials, on-site visits, attendance at meetings, conducting interviews with issuers and their directors, senior management, employees.
- ***Pre-review.*** The quality control department will review the application materials with a focus on the legal and financial aspects of a transaction. Once an issue is identified, the quality control department will request the project team to explain, clarify or take action to properly resolve the issue.
- ***Internal Review Meeting.*** The internal review committee appointed by the risk management department and the relevant examiners will convene an internal review meeting to further review and discuss various aspects of the project. The project team must promptly resolve the issues identified in the document highlighting the key points of internal review and briefing on risks prepared based on the review results, and implement the recommended course of action. Equity financing, debt financing, M&A projects and NEEQ quotations projects are all subject to the review by the internal review committee, and can only be approved by an affirmative vote of a majority of the meeting participants. The project application materials can only be officially submitted to the CSRC or the NEEQ after they have been approved by the internal review meeting.
- ***Review by the Regulatory Authorities.*** The sponsor representatives in charge of the project will carry out ongoing due diligence and promptly report any material issues to the relevant internal departments for further action. Our quality control groups will review the responses of the project teams to the CSRC and other regulators’ inquiries on the project and their opinion on the application materials.
- ***Ongoing Supervision and Guidance.*** The project teams are responsible for providing ongoing supervision and guidance to issuers after their listings, including on-site inspection from time to time, training to the issuer and its directors and senior management, and submitting the relevant working papers relating to the ongoing supervision and guidance to the regulatory authorities on a regular basis. The project teams are required to promptly report the issues identified during the ongoing supervision and guidance to the relevant internal departments for further actions, including defects in the operational, legal and accounting aspects of the issuer.

### ***Wealth Management***

We have implemented comprehensive risk management and internal control policies to manage the risks associated with our wealth management business to ensure our compliance with applicable laws and regulations. We focus on investigating suspicious client data, unusual transactions and irregular conduct of brokers, and strengthening compliance awareness of our sales staff in our brokerage branches through client interviews, system account maintenance, investigations of brokers and ongoing training and education. In addition, we have formulated and implemented internal rules and guidelines to manage the operational and legal risks associated with our brokerage business.



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### *Securities Brokerage*

To manage the risks associated with our securities brokerage business, we have taken the following measures:

- ***Management of client accounts and client evaluation.*** We have established an investigation and monitoring mechanism to examine client accounts and require our employees to verify suspicious client identity through phone calls or physical visits.
- ***Client classification.*** We evaluate the risk profile of our clients using our risk tolerance assessment system and questionnaires based on a combination of factors, such as financial condition, investment preferences and investment experience.
- ***Centralized management.*** To prevent misappropriation of client funds, we have established a centralized client transaction and clearing service platform to settle and clear client funds at our headquarters.
- ***Segregation of front and back offices.*** We supervise and manage our front and back offices separately. We have a dedicated internal control team to oversee the compliance of our brokerage business activities and the conduct of our employees. Our back office employees are prohibited from participating in sales and marketing, managing client accounts, or handling client deposits.
- ***Real-time monitoring.*** We monitor client transactions on a real-time basis to detect unusual and irregular trading activities.
- ***Client service and complaint handling.*** We have established a dedicated client service team to provide high-quality client services and promptly handle client complaints. We maintain several channels to respond to client complaints, including hotlines, emails and representative at our brokerage branches, to ensure that the concerns of our clients are properly and timely addressed.
- ***Third-party custody of client funds.*** We require our brokerage branches to deposit client funds at qualified commercial banks.
- ***Investor education.*** To enhance our clients’ risk knowledge and their risk management capabilities, we provide client education materials at our branch offices and our website and update such materials on a regular basis.
- ***Monitoring system.*** Our compliance and legal affairs department implemented separate monitoring for our brokerage business to monitor client transactions and detect unusual trading activities. We require risk management personnel at the brokerage business department to report timely material and suspicious activities to our compliance and legal affairs department.

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- **Regular and special audits.** Our internal audit department, compliance and legal affairs department and risk management department conduct regular and special audits on our brokerage business department and branches with respect to their internal controls, daily operations, financial and accounting management and risk management.
- **Internal control management of third-party financial products.** We manage the risks associated with the sales of third-party financial products by reviewing the background of the issuing financial institutions, performing product analysis and requiring our sales personnel to disclose sufficient product information to the clients.

### *Futures Brokerage*

The risk management department of GF Futures works with our compliance and legal affairs department, internal audit department and brokerage business management department, to manage the risks arising from our futures brokerage business primarily through the following measures:

- **Management of account opening.** We conduct comprehensive multi-tiered reviews of our client’s identity and creditworthiness during the account opening process.
- **Risk disclosure.** We require our sales personnel to accurately and fully disclose to our clients the trading rules of our futures products and the risks inherent in futures trading transactions.
- **Management of client security deposit.** We require our clients to place security deposits with us as collateral for their settlement obligations. We segregate client security deposits and our own funds and manage them separately in order to limit the risks of loss or misappropriation of our clients’ funds. We closely monitor the collateral to loan ratio and adjust such ratio in a timely manner to reflect changes in market conditions.
- **Trading activities.** We have implemented various measures to regulate futures trading activities, including prohibiting our employees from accepting improper entrustment from clients, engaging in futures trading or exaggerating profits.
- **Real-time monitoring.** We conduct real-time risk monitoring of our clients’ trading activities with a focus on risky accounts and large and suspicious transactions.

### *Margin Financing and Securities Lending*

We are exposed to credit risks in our margin financing and securities lending business where the value of the collateral provided by our clients may be insufficient to fully cover their borrowings from us due to price fluctuation of the underlying securities. To monitor and mitigate such risks, we have taken various measures, including giving top-up reminders to clients to increase security deposits

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when the security maintenance ratio falls below 150% and will force closure of clients’ open positions when the security maintenance ratio is lower than 130%. We did not experience any losses arising from the failure to implement the liquidation procedures in a timely manner during the Track Record Period and up to the Latest Practicable Date.

In addition, we determine and impose risk limits for margin financing and securities lending transactions through the following procedures:

- we evaluate each client and provide margin financing and securities lending services only to clients that meet the minimum eligibility requirements of (1) at least six-month continual trading history with us; and (2) at least RMB500,000 of brokerage account balance. We also adequately inform clients the risks before providing them with any margin financing and securities lending services.
- We have established a uniform credit system to evaluate each client based on their credit profile, risk awareness, risk tolerance and risk management capabilities.
- Our risk control committee formulates the risk limit approval standards each year, and the relevant departments review and approve the credit limits for clients’ margin financing and securities lending within their authorized approval limit.

We have developed a multi-tiered internal control and risk management system for our margin financing and securities lending business comprising our board of directors, risk control committee, risk management department and securities financing department.

- ***The Board.*** Our board of directors is responsible for formulating policies for our margin financing and securities lending business and reviewing the overall scale of our margin financing and securities lending business.
- ***Risk Control Committee.*** Our risk control committee establishes the risk ceiling limits and authorization restrictions for our margin financing and securities lending business and makes decisions on significant issues.
- ***Risk Management Department.*** The risk management department is responsible for monitoring the risk indicator, monitoring and reporting to our senior management the risks associated with our margin financing and securities lending business, as well as formulating risk management policies.
- ***Securities Financing Department.*** The securities financing department is responsible for implementing our risk management policies and risk limits for our margin financing and securities lending business, including conducting real-time monitoring of client transactions and liquidating clients’ positions once the risk limits are crossed.

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### ***Proprietary Trading***

We are exposed to market, credit, liquidity, operational and compliance risks arising from our trading activities. We centralize the management of our trading activities through a three-level investment management system:

- ***Risk Control Committee.*** With authorization of our board of directors, our risk control committee establishes limits on the size and maximum risk exposure of our investments and the stop-loss limit in connection with our investment portfolio.
- ***Risk Management Department.*** Our risk management department evaluates and monitors the risks arising from our trading activities on a daily basis, and reports our trading risk exposure to senior management and other relevant business departments. The risk management department is also responsible for implementing our “stop-loss” policy and monitoring the performance of our investment portfolio on a daily basis to keep our loss within certain limits. When the actual loss approaches the predetermined level, it will issue an alert to the relevant business departments requiring reduction of the risk exposure level.
- ***Business Departments.*** Our business departments involved in proprietary trading activities (i) manage and adjust our risk exposure within the authorized limit, (ii) establish securities pool and blacklist to manage the risks associated with our trading activities, and (iii) close out a position in an investment portfolio when the amount of losses incurred exceeds the predetermined limit.

### ***Investment Management***

#### ***Asset Management***

Our risk control committee, GF Asset Management, risk management department, compliance and legal affairs department and internal audit department work together to monitor and evaluate our exposure to the capital loss, credit risk and legal and regulatory risks associated with our asset management business in line with the requirements set forth by our board of directors. We have also established a risk control committee under our asset management subsidiary, to analyze and manage the risks associated with our asset management business, evaluate the potential risks arising from new asset management products and review contract templates for our asset management business.

We manage the risks associated with our asset management business through the following measures:

- ***Investment decision-making process.*** The asset management investment decision-making committee is responsible for formulating investment policies and guidelines and making major investment decisions. We have also established an approved pool of securities leveraging our sophisticated research platform. Our investment managers are required to invest only in securities in the pool.

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- ***Risk management of trading activities.*** We designate different personnel to place and execute trading orders. Our compliance and risk management personnel at the asset management subsidiary set thresholds for the risk indicators in our trading systems and monitor our risk exposure on a real-time basis. Our investment managers place orders through our trading system in accordance with their authorized limits and the risk management guidelines we formulate for each investment account. Our trading system reviews each trading order to ensure only orders within the authorized limits of the investment managers are sent to the traders for execution.
- ***Client evaluation and risk disclosure.*** We evaluate our clients’ asset and income, risk tolerance levels and investment preference in order to offer tailored asset management services. We require our business development personnel to fully inform our clients of our business qualification and investment experience, as well as the risk and return profiles of our asset management products.
- ***Management of client assets.*** We entrust client assets under CAM schemes with qualified commercial banks or other custodian institutions recognized by the CSRC in accordance with the relevant laws and regulations.
- ***Business segregation and confidentiality.*** We segregate our asset management business from our wealth management business, trading and institutional client services business and investment banking business to prevent insider trading and other improper trading activities. We also categorize confidential information based on its sensitivity levels and set different authorizations to access to such information.
- ***Fair trading and suspicious trading monitoring.*** We have developed fair trading mechanism to monitor the trading activities of our investment managers so as to ensure the fairness of our trading activities and protect our clients’ interest.
- ***New products approval.*** Our risk management department and compliance and legal affairs department review and approve the launch of new asset management products.

### *Private Equity Investment*

We engage in private equity investment and its management business primarily through our wholly owned subsidiary, GF Xinde. GF Xinde has established its own investment decision-making committee responsible for reviewing and approving investment decisions and ensuring investments are within authorized limits.

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GF Xinde has set up a series of internal rules covering project approval, due diligence, investment decision-making, post-investment management and exit, and established multi-level system to mitigate the risks associated with our private equity investment:

- ***The board.*** The board of directors of GF Xinde is responsible for formulating general investment and exit plans, and conduct review to decide any projects beyond the authorization limit of the investment decision-making committee.
- ***Investment decision-making committee.*** The investment decision-making committee makes investment and exit decisions within the authorized limits set by the board of directors of GF Xinde.
- ***Project committee.*** The project committee is responsible for reviewing the project application materials prepared by the deal team and providing review opinions to the investment decision-making committee.
- ***Chief risk management and compliance officer / Risk management committee.*** The chief risk management and compliance officer and risk management committee of GF Xinde identify, assess and manage the risks associated with private equity investment and management, and prepares risk assessment reports.
- ***Risk management and compliance department.*** The risk management and compliance department of GF Xinde is responsible for formulating detailed risk management rules and policies and examining, supervising and assessing the implementation of risk management policies.

### *Alternative Investment*

We engage in alternative investment business primarily through our wholly owned subsidiary, GF Qianhe. GF Qianhe has established its own investment decision-making committee responsible for reviewing and approving investment decisions and ensuring investments are within authorized limits. GF Qianhe has set up a series of internal rules covering project filing, due diligence, investment decision-making, post-investment management and exit, and established multi-level system to mitigate the risks associated with our alternative investment:

- ***The board.*** The board of directors of GF Qianhe is responsible for formulating general investment and exit plans, and conduct review to decide any projects beyond the authorization limit of the investment decision-making committee.
- ***Investment decision-making committee.*** The investment decision-making committee makes investment and exit decisions within the authorized limits set by the board of directors of GF Qianhe.

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- **Chief risk management and compliance control officer.** The chief risk management and compliance control officer of GF Qianhe identifies, assesses and manages the risks associated with alternative investment, and prepares risk assessment report.
- **Risk management and compliance department.** The risk management and compliance department of GF Qianhe is responsible for formulating detailed risk management rules and policies and examining, supervising and assessing the implementation of risk management policies.

### ***Innovative Businesses***

Our risk management department and compliance and legal affairs department participate in the entire innovative business development, analysis and approval process, and conduct comprehensive risk assessment and feasibility studies on the risks associated with new products and new businesses. They identify the potential risks of our new products and businesses, establish risk management measures and assign the responsibilities of implementing these measures to the relevant business departments. In addition, our risk management department and compliance and legal affairs department, together with each business department, monitor our risk exposure and compliance status to rectify problematic activities in a timely manner and improve the risk management of our innovative businesses.

### **Anti-Money Laundering**

We have established policies and procedures to prevent money laundering and terrorist financing. Money laundering covers a wide range of activities intended to mask or alter the source of illegally obtained money. We have adopted a client screening procedure to profile clients with a higher than average likelihood of engaging in money laundering and terrorist financing activities based on the client’s background, nature of its business, its origin or place of incorporation, associated entities and its ownership structure. We categorize the money laundering risks of each client, and may restrict, suspend or terminate our business relationship with clients based on our evaluation of their money laundering risk.

We have established an anti-money laundering working group at our headquarters, led by our chief compliance officer, to identify, monitor and manage money laundering risks together with our compliance and legal affairs, finance, IT, risk management and internal audit departments, as well as relevant personnel at our business departments and branches. Our employees who know, suspect or have a reasonable basis to believe that a client might have engaged in money laundering activities are required to immediately report to our compliance and legal affairs department, which, in turn, will notify the appropriate regulatory authorities. We have established an anti-money laundering system to monitor and generate alerts about suspicious money-laundering activities. In addition, we have issued and implemented detailed rules and procedures to protect confidentiality of the anti-money laundering information, enhance training of our employees with respect to our anti-money laundering policies and assist regulatory investigations of money laundering activities.



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In 2014, we engaged an internal control consultant to perform an internal control assessment in which one of the review scope was anti-money laundering policies and procedures to prevent and identify suspicious money laundering activities. The internal control consultant recommended that we (a) upgrade the anti-money laundering monitoring system to enhance the monitoring of suspicious money laundering activities and (b) adopt approaches to more effectively identify cases where a client’s name matches that of a suspect or a relevant person of money laundering and terrorist financing and assign an appropriate anti-money laundering risk rating to each client. We immediately implemented these recommendations. In December 2014 and January 2015, the internal control consultant reviewed our implementation and was of the view that the remedial measures it recommended had been fully implemented.

### **Chinese Walls**

As a full-service securities firm, we constantly face situations where two or more legitimate interests are conflicting in nature. We recognize the importance of managing these conflicts to protect the interests of our clients and our employees. Accordingly, we have implemented Chinese walls to limit conflicts of interest by controlling the flow of material non-public information.

A Chinese wall is a barrier to ensure that material non-public information regarding listed companies that is obtained by one department is not released to another department. It is intended to separate personnel who makes investment decisions from those in possession of material non-public information. We have developed and implemented the following policies and procedures to safeguard material non-public information and prevent improper trading:

- We have established Chinese walls among our businesses, including our wealth management, trading and institutional client services and investment management businesses, to prevent the flow of material non-public information.
- We maintain segregated accounts to hold our clients’ funds and our own funds and manage and settle these funds separately.
- We prohibit the senior managers of our business departments from concurrently managing our risk management department, compliance and legal affairs department or internal audit department.
- We have adopted securities measures, including Chinese walls and encryption technologies, to protect our client data, and have established physical segregation and password-protected access among departments to enforce our Chinese wall policies.



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### **Segregation of Duties**

To minimize the risks for collusion and improper trading activities, we assign duties and functions to different teams within our business departments and have adopted the following detailed rules:

- Our business departments, including investment banking, wealth management, proprietary trading, institutional client services and investment management departments, operate independently. We do not allow our employees to work for two or more business departments. Any transfer or secondment of our employees among business departments must be reviewed and approved by our compliance and legal affairs department.
- Our employees in our IT department, finance department, risk management department, compliance and legal affairs department, internal audit department and any other supervision department are prohibited from working in any business departments.
- We manage our trading business and asset management business separately through maintaining independent accounts and using separate trading desks.

### **Conflicts of Interest**

Conflicts of interest may arise (1) among our various business departments, (2) between our clients and us, (3) among clients; or (4) between our employees on one hand and our clients on the other hand. We have implemented comprehensive rules and procedures that are designed to identify and address conflicts of interest including:

- Our research department are required to provide our clients, other business departments and the public with consistent investment analysis, forecasts or recommendations for the same securities.
- We are required to disclose our interests in the listed companies in the research report if (1) we hold 1% of the total issued shares of the listed company, (2) the securities we manage account for 2% of the total issued shares of the listed company, or (3) we issue research report on the securities we invest within 6 months upon the expiration of the lock-up periods for such securities. In addition, our research advisors are not allowed to evaluate listed companies in which we hold more than 5% equity interest.
- Our research advisors are required to disclose the research results and information to our clients and other business departments simultaneously.
- Research results and information may not be disclosed to investors, institutions or the public without proper authorization.

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One of the fundamental objectives of Chinese Walls is to manage conflicts of interest. We have adopted a series of measures and methods to manage conflicts of interest based on the principles of prudent management, prioritizing client interests and treating clients fairly. We have adopted information segregation measures to avoid conflicts of interest and would disclose the conflict of interest or refrain from conducting the business activities if the interest conflicts could not be avoided or managed effectively. When we or our employees have a conflict of interest with any client, the client’s interests prevail. When a conflict of interest arises between clients, we are required to treat our clients fairly.

In addition, we require employees to learn and comply with internal policies with respect to conflicts of interest, such as prioritizing client interests, treating clients fairly, guarding against insider trading, preserving confidentiality, complying with Chinese Walls as well as complying with the restrictions on employees’ securities investments. We also require employees to timely disclose any conflict of interest to the manager of the relevant business department. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material failure to protect confidential information of our clients.

### **FATCA Compliance**

We may be subject to the FATCA issued by the Internal Revenue Service of the U.S. The Company has registered itself and substantially all of its subsidiaries as FFIs with the IRS of the U.S. in accordance with the FATCA requirements.

Although the U.S. and the PRC have in substance agreed to Model 1 IGA, the PRC government has not promulgated any legislations to interpret or implement FATCA. We will continue to monitor the regulatory changes and adopt measures in accordance with the interpretation and implementation of FATCA by the PRC government once they are promulgated.

Outside China, we have also adopted the following measures to ensure that GFHK and its offshore subsidiaries comply with FATCA, including:

- a. reviewing the holding structure of GFHK and determining the entities that should be considered as in the same “Expanded Affiliate Group” for FATCA purposes;
- b. performing entity scoping analysis for the relevant companies and determining each entity’s FATCA classification;
- c. registering the relevant companies with the competent authorities;
- d. enhancing the current client on-boarding process and relevant account opening forms and fund’s subscription forms to ensure compliance with FATCA;
- e. taking necessary steps to update FATCA status of our counterparties; and
- f. providing training and guidance to GFHK’s employees with respect to the new accounting on-boarding procedures under FATCA.

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**LAWS AND REGULATIONS**

**Licensing Requirements**

We operate our business principally in the PRC and Hong Kong and we are subject to the relevant regulatory requirements in the PRC and Hong Kong. Our Board of Directors and Jia Yuan Law Offices, our PRC legal advisors, confirmed that, except as disclosed in “— Regulatory Non-compliance” on pages 213 to 221 of the [Redacted], during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant PRC regulatory requirements and guidelines in all material respects, and had obtained the material permits and licenses for our operations pursuant to the PRC laws and regulations. Our Directors confirm that there was no outstanding regulatory issues involving us, our directors, senior management or other employees during the Track Record Period and up to the Latest Practicable Date that may threaten our entitlement to the licenses or memberships necessary for our operations in the jurisdictions in which we operate. Since our Shares were listed on the Shenzhen Stock Exchange in February 2010 and up to the Latest Practicable Date, our Company and Directors had not been subject to any CSRC auditing, CSRC administrative punishment, or been criticized or publicly reprimanded by the Shenzhen Stock Exchange due to violations of the listing rules of the Shenzhen Stock Exchange or other relevant applicable rules.

Set out below is a summary of the relevant licenses (including condition imposed) currently held by our licensed subsidiaries in Hong Kong:

<u>Name of licensed subsidiary</u>	<u>Type 1 Dealing in securities</u>	<u>Type 2 Dealing in futures contracts</u>	<u>Type 4 Advising on securities</u>	<u>Type 6 Advising on corporate finance</u>	<u>Type 9 Asset management</u>
GF Securities (Hong Kong) Brokerage ...	Yes		Yes		
GF Futures (Hong Kong) .....		Yes			
GF Capital (Hong Kong).....				Yes <sup>(1)</sup>	
GF Asset Management (Hong Kong) .....			Yes <sup>(2)</sup>		Yes <sup>(2)</sup>
GF International Investment Management .....	Yes <sup>(3)</sup>		Yes		Yes

(1) on the condition that the licensee shall not hold client assets

(2) on the condition that the licensee shall not hold client assets

(3) on the condition that the licensee shall only carry out transactions in the business of collective investment schemes

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In addition, GF Investments (Hong Kong) holds a money lender license under which it may carry out loan transactions and provide loans to clients. Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant Hong Kong regulatory requirements and guidelines in all material respects, and had obtained the material permits and licenses for its operations pursuant to Hong Kong’s laws and regulations.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had complied with all relevant laws and regulations in the jurisdictions in which we operate in all material respects.

### **Legal Proceedings**

We are involved in legal proceedings from time to time in the ordinary course of business.

Our Directors and our PRC legal advisors confirmed that, as of the Latest Practicable Date, we were not a party to any legal proceedings individually or in the aggregate, that would have a material effect on our business, financial condition or results of operations.

### **Regulatory Non-Compliance**

We must comply with various regulatory requirements and guidelines set forth by the regulatory authorities of the PRC, Hong Kong and other jurisdictions where we operate, including, among others, the CSRC, the PBOC, Shenzhen Stock Exchange, SFC, the Hong Kong Stock Exchange, Financial Conduct Authority, Commodity Futures Trading Commission, and their respective local bureaus and offices. Meanwhile, GFHK is also subject to the Foreign Account Tax Compliance Act issued by the Internal Revenue Service of the U.S.

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We have, from time to time, detected incidents of regulatory non-compliance committed by us or our employees. Set forth below are the non-compliance incidents that led or will likely lead to administrative penalties or demerit points during the Track Record Period and up to the Latest Practicable Date.

**Non-compliance Incidents**

**Brief explanation and our primary remedial measures**

The CSRC inspected our margin financing and securities lending business in December 2014 and identified the following regulatory violations: (1) opening margin accounts and providing margin financing and securities lending services to certain clients having less than six-month continual trading history with us and (2) failing to force closure of certain clients’ open positions after expiry of the maximum contractual period stipulated by the relevant stock exchanges. The CSRC issued a regulatory letter on January 16, 2015 mandating us to rectify the above violations within three months from the date of the regulatory letter.

The non-compliance incident was due to our failure to closely monitor our branches in respect of their compliance with the regulatory requirements on the opening and liquidation of margin financing and securities lending accounts.

We have implemented a series of remedial measures, including (1) closely monitoring the credit conditions and key risk indicators of clients with open positions and less than six-month continual trading history with us, and upon the expiration of the three-month rectification period, restricting them from entering into margin loan positions until they meet the six-month trading history requirement and (2) requesting clients who have failed to repay the borrowed funds or securities after expiration of the maximum permissible term to close their accounts within the three-month rectification period or force closing the open positions of clients who fail to do so.

To prevent the re-occurrence of similar non-compliance incidents, we have (1) adopted front-end control by adjusting certain parameters of our trading system to prevent the opening of new margin financing and securities lending accounts for clients with less than six-month continual trading history with us, (2) centralized the execution of liquidation procedures and enhanced the approval procedures and (3) circulated a notice to remind relevant departments, subsidiaries and branches of their obligations to strictly comply with all applicable laws and regulations and internal rules in respect of margin financing and securities lending business.

In January 2015, we increased the minimum requirements on margin financing clients’ securities account balance from RMB300,000 to RMB500,000 to minimize the risks associated with our margin financing and securities lending business.

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### Non-compliance Incidents

### Brief explanation and our primary remedial measures

In September 2014, the Beijing Securities Regulatory Bureau of the CSRC notified us of the results of its investigations into alleged failure to discharge our duties as the trustee for the holders of certain corporate bonds issued by a company whose financial condition has deteriorated. The regulator found that we failed (1) to protect bondholders’ interest by taking prompt, effective action to prevent the issuer from mortgaging collateral for the bonds to a third party and (2) to assist the issuer complete the registration of the mortgage or pledge of bond collateral in accordance with the specified schedule. Consequently, the regulator had a regulatory interview with two members of our senior management.

Immediately after being notified of the inspection result, we conducted an internal investigation and found that the incident was caused by certain employees’ failure to register the collateral with competent authorities promptly.

In response to the regulator’s findings, we have formulated detailed work plans to better monitor the financial condition of this particular issuer. They include (1) establishing a leading group and a working group to monitor the issuer’s daily operations and compliance with its payment obligations under the bonds; (2) requesting the issuer to actively provide further credit support for the bonds, including additional collateral; (3) actively pursuing the disposition of the issuer’s assets to fund its payment obligations, and arranging for the deposit of the sale proceeds into a repayment reserve account maintained with a third party; (4) using channels independent of the issuer to promptly inform bondholders of developments that heighten default risks; and (5) formulating contingency plans to address possible issuer default.

Our remedial measures to prevent the re-occurrence of similar incidents include (1) reviewing and optimizing the internal policies and procedures regarding the monitoring of outstanding bonds for which we act as trustee; (2) conducting due diligence on bond issuers to identify risks and perform stress tests and (3) providing training to employees in our debt underwriting department to enhance their compliance and risk control awareness.

We have submitted our working plans to the Beijing Securities Regulatory Bureau of the CSRC on November 12, 2014. In addition, we are also required to submit daily progress report regarding this event to the Beijing Securities Regulatory Bureau and attend weekly on-site enquiry. As of the Latest Practicable Date, we have not received any objections on our working plans or progress reports from the regulator.

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### Non-compliance Incidents

### Brief explanation and our primary remedial measures

From June 16 to July 15, 2014, the Suizhou central branch of the PBOC conducted an on-site inspection on the establishment and implementation of the anti-money laundering internal controlling system of our securities brokerage branch on Lieshan Road in Suizhou from May 1, 2013 to April 30, 2014 and imposed an administrative fine of RMB 30,000 because (1) we failed to fulfill the obligation on client identification; (2) we did not maintain client identification information and trading records as required; and (3) we did not submit reports on suspicious trading and large amount trading as required.

Immediately after being notified of the inspection result, we conducted an internal investigation and found that the incident was caused by certain employees' failure to strictly implement the anti-money laundering regulations and internal policies in conducting business activities.

Our remedial measures include: (1) updating incomplete client information through telephone, text messaging and physical visits; (2) imposing a penalty on the staff who failed to verify suspicious transactions within the stipulated time in accordance with the relevant requirements and enhancing our review and examination of large and suspicious transactions; and (3) enhancing compliance training for employees on anti-money laundering and incorporating the awareness of anti-money laundering as a criterion in employee performance evaluation.

In addition to the remedial measures on the problems identified during the on-site inspection, we also adopted the following primary measures to prevent the recurrence of similar problems : (1) highlighting the duties and responsibilities of the heads of the anti-money laundering group of our branches; (2) further improving internal control system regarding anti-money laundering and formulating the plan relating to regular anti-money laundering self-inspection; (3) refining anti-money laundering procedures and enhancing the execution of anti-money laundering rules in the course of operation.

We submitted our rectification report to the Suizhou central branch of the PBOC on November 3, 2014, and the Suizhou central branch of the PBOC was of the view that we should be imposed a less severe fine of RMB 30,000, taking into consideration that we have adopted prompt and effective measures against the problems identified. As of the Latest Practicable Date, we have not received any objections or follow-up comments on our remedial measures from the PBOC.

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**Non-compliance Incidents**

**Brief explanation and our primary remedial measures**

From September 23, 2013 to October 28, 2013, the Guangzhou Branch of the PBOC inspected our headquarters and branches in Guangzhou in respect of compliance with applicable anti-money laundering laws and regulations in China between June 1, 2012 and June 30, 2013, and imposed an administrative fine of RMB350,000 in June 2014 for (1) certain deficiencies identified in the client identification systems of our brokerage and asset management businesses and (2) our failure to detect and report certain suspicious transactions in a timely manner.

Immediately after being notified of the inspection result, we conducted an internal investigation and found that the incident was caused by the lack of detailed internal rules on anti-money laundering and certain deficiencies associated with the client identification and suspicious transaction evaluation systems.

Our remedial measures include: (1) formulating more detailed internal rules on anti-money laundering; (2) evaluating the money laundering risks associated with our new products and businesses; (3) rectifying the deficiencies in the client identification systems of our brokerage and asset management businesses; (4) upgrading our anti-money laundering monitoring system; (5) requiring each department to evaluate employees' fulfillment of anti-money laundering obligations; (6) formulating detailed procedures for suspicious transaction assessment and (7) conducting thorough analysis of suspicious transactions.

We submitted our rectification report to the Guangzhou Branch of the PBOC on May 30, 2014, and had not received any objections or follow-up comments on our remedial measures from the PBOC as of the Latest Practicable Date.



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**Non-compliance Incidents**

**Brief explanation and our primary remedial measures**

In September 2013, the Guangdong Securities Regulatory Bureau of the CSRC conducted an onsite inspection of our securities brokerage branch at Jiuzhou Boulevard of Zhuhai, and identified certain regulatory violations such as (1) failure to assess and record the risk profiles of several clients of its CAM schemes; (2) failure to properly and timely handle the abnormal transaction due to deficiencies in our monitoring system and (3) lapses in accounts opening and verification procedures. The Jiuzhou Boulevard branch was required to conduct an internal compliance inspection every three months between November 1, 2013 to October 31, 2014, and must submit an inspection report to the Guangdong Securities Regulatory Bureau after each inspection.

Immediately after being notified of the inspection result, we conducted an internal investigation and found that the violations were caused by certain branch employee’s failure to strictly implement applicable laws and internal policies in conducting daily business.

Our Jiuzhou Boulevard branch has conducted quarterly self-inspection since November 2013 and promptly filed the inspection results with the competent authority. The self-inspection covered front-office operations client service, sales personnel management, seal and record keeping, and monitoring of orders placed by employees using their mobile phones, office phones and laptops. As of the Latest Practicable Date, we have not received any objections or further comments from the regulatory agencies to the quarterly self-inspection reports we have submitted.

In addition, the Jiuzhou Boulevard branch has adopted the following remedial measures to prevent the reoccurrence of similar non-compliance incidents, including (1) reviewing and optimizing the work procedure of its asset management business with a focus on client risk assessment and risk disclosure, and formulating internal policies governing record keeping of important contracts; (2) monitoring and identifying execution of orders by employees on behalf of clients by examining the use of employees’ mobile phones and office equipment; (3) providing training to employees to increase their compliance awareness; and (4) imposing internal sanctions on employees involved in the non-compliance incidents, including a negative impact to their annual performance review.

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**Non-compliance Incidents**

**Brief explanation and our primary remedial measures**

In October 2012, the Guangdong Securities Regulatory Bureau of the CSRC conducted an inspection of our investment fund business and found that we executed certain fund purchase and redemption orders placed outside the time period prescribed in the relevant fund contracts in contravention of the relevant PRC regulations. In July 2013, the Guangdong Securities Regulatory Bureau issued a warning letter requiring us to examine the settings of our fund transaction system and rectify any non-compliance with the applicable laws and regulations, and file the rectification report before August 31, 2013.

We conducted an investigation and found that our fund transaction system developer set the fund purchase and redemption period in our fund transaction system to end five minutes after the prescribed transaction period without notifying us, which caused the purchase and redemption orders placed outside the prescribed time period to be executed by our fund transaction system.

Our remedial measures include (1) modifying the setting of our fund transaction system to ensure only fund purchase and redemption orders placed during the prescribed time period can be executed; (2) requiring our IT department to strengthen the management of third-party software developers; and (3) conducting a self-evaluation of our fund transaction system, including parameter settings, procedures and qualification of employees in charge of developing and maintaining our transaction system.

We submitted our remedial measures and self-inspection report to the Guangdong Securities Regulatory Bureau on August 28, 2013, and had not received any objections or follow-up comments on our report or remedial measures from the Guangdong Securities Regulatory Bureau as of the Latest Practicable Date.

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## BUSINESS

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### Non-compliance Incidents

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### Brief explanation and our primary remedial measures

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<p>During the Track Record Period and up to the Latest Practicable Date, the CSRC and its local branches issued to us one regulatory letter pointing out our failure as a sponsor to identify a non-compliant guarantee and related litigation involving the subsidiary of a company seeking relisting of shares on the Shenzhen Stock Exchange, as well as 7 regulatory letters pointing out our failure to detect certain post-listing compliance issues with 12 companies out of the 79 companies for which we acted as post-listing compliance adviser during the Track Record Period and up to the Latest Practicable Date, including (1) deficiencies in corporate governance and internal control, (2) failure to record certain research and development expenditures and employee salaries and benefits, and perform testing for impairment of certain fixed assets in accordance with the relevant accounting principles, (3) inaccurate information disclosure in public filings and (4) failure to place IPO proceeds in a separate account.</p>	<p>The non-compliance incidents were due to our failure to closely monitor our sponsor representatives in discharging their due diligence responsibilities.</p> <p>In response to the regulatory letter pointing out our failure to identify the non-compliant guarantee as a sponsor, we adopted the following remedial measures, including (1) requesting the company to establish a litigation and arbitration reporting system, (2) conducting due diligence to verify there are no other non-compliant guarantee provided by the company and (3) conducting an independent litigation and arbitration search to ensure the company and its subsidiaries are not involved in other litigations or arbitrations.</p> <p>In response to the regulatory letters identifying our failure to detect post-listing compliance issues with the 12 companies, we undertook the following remedial measures (1) assisting the relevant companies to promptly correct the erroneous accounting treatment and to make necessary disclosure in public filings; (2) requiring the relevant companies to provide training to their directors, senior management officers and key employees in the finance department to enhance their knowledge and understanding of the applicable laws, regulations and guidance; (3) independently verifying the relevant companies' use of proceeds with the banks at which the IPO proceeds accounts are maintained; (4) imposing internal sanctions on the sponsor representatives responsible for post-listing monitoring of the companies in question and (5) revising our internal policies for investment banking business to improve our ongoing monitoring procedures.</p>
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**BUSINESS**

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**Non-compliance Incidents**

**Brief explanation and our primary remedial measures**

Our remedial measures to prevent the re-occurrence of similar incidents include (1) reviewing and optimizing the internal policies and procedures relating to monitoring of issuers post-listing; (2) enhancing supervision and providing training to listed companies for which we act as post-listing compliance adviser and (3) improving our accountability mechanism and imposing penalties on sponsor representatives who fail to fully discharge their due diligence responsibilities.

We submitted rectification reports to the regulators immediately after completing remedial measures for each non-compliance incident. We submitted the latest rectification report to the CSRC in July 2014. As of the Latest Practicable Date, we had not received any objections or follow-up comments on our reports from the regulators.

Other than the primary remedial actions we undertook immediately after each incident was discovered, we have also implemented general remedial measures aimed at preventing the re-occurrence of such incidents. These general remedial measures include, among others, prompt revision of internal policies and procedures, strict internal inspection and examination, enhanced staff training and a strict internal sanction mechanism.

Our Directors and Jia Yuan Law Offices, our PRC legal advisers, are of the view that the above regulatory non-compliance incidents will not subject us to any material penalties or liabilities under current PRC laws and regulations or have any material adverse impact on our business, financial condition or results of operations.

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## **BUSINESS**

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### *Employee non-compliance incidents*

During the Track Record Period and up to the Latest Practicable Date, two incidents involving employee non-compliance occurred and were discovered by the regulators. Details of each of these employee non-compliance, brief explanations and our primary remedial measures are set forth below.

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#### **Non-compliance Incidents**

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#### **Brief explanation and our primary remedial measures**

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On January 19, 2015, a securities brokerage client of our Dongguan Chang’an branch complained that Mr. Li Huiyue, a sales personnel at Chang’an branch, had traded securities by using the client’s funds without due authorization, resulting in an alleged loss of approximately RMB340,000.

After receiving the client’s complaint, we promptly reported the incident to the Guangdong Securities Regulatory Bureau of the CSRC and conducted an internal investigation. Based on our interview with Li and review of the trading records and recorded phone conversations with the client, we concluded that Li was authorized by the client to trade securities on her behalf. However, he violated the relevant regulatory requirements that prohibit sales personnel from trading securities on a client’s behalf.

The Chang’an branch had provided comprehensive compliance training to Li before he formally assumed his position and on a regular basis afterwards. Although we have been closely monitoring our employees’ order placing with their work computers and mobile phones, we were not able to detect Li’s trading activities because Li placed orders using external devices that were not registered with and monitored by us. Li’s action was deliberate and purely in his personal capacity. Immediately after the incident, we terminated Li’s employment and issued a notice to all employees to reiterate that they are prohibited from trading securities on behalf of the clients under applicable laws and regulations.

To prevent the re-occurrence of similar non-compliance incidents, we have (a) provided more training to employees to enhance their compliance awareness; (b) strengthened self-inspection to identify non-compliance incidents of employees in a timely manner and (c) enhanced disciplinary action against employees for violating applicable laws and regulations.

We submitted the self-examination report to the Guangdong Securities Regulatory Bureau of the CSRC on January 29, 2015 and have not received any comments on or objections to our examination results. Our Directors and Jia Yuan Law Offices, our PRC legal advisers, are of the view that this incident will not subject us to any material penalties or liabilities under current PRC laws and regulations or have any material adverse impact on our business, financial condition or results of operations.

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**BUSINESS**

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**Non-compliance Incidents**

**Brief explanation and our primary remedial measures**

In May 2013, the SFC revoked the license of Ms. Zeng Huiyu and prohibited her from working in the securities industry for five years from May 8, 2013 to May 7, 2018 as a result of her highly suspicious trading in the shares of Nexen Inc. in July 2012. Zeng was a licensed representative of GF Securities (Hong Kong) Brokerage carrying on Type 1 (dealing in securities) regulated activities. The SFC found that, from July 16 to July 19, 2012, Zeng purchased 25,000 shares of Nexen Inc. for her personal account maintained with GF Securities (Hong Kong) Brokerage and another 135,000 shares of Nexen Inc. for three discretionary client accounts, and she subsequently sold almost all the Nexen shares she had bought for herself and the three discretionary client accounts on July 23, 2012 when CNOOC Limited announced its proposed acquisition of Nexen Inc. Sale of the Nexen shares generated profits of approximately US\$202,000 for her own account and of approximately US\$1,244,000 for the three client accounts. As a result of investigations by the U.S. Securities and Exchange Commission (“SEC”) into potential insider trading by Zeng, she agreed to pay approximately US\$404,000 to the SEC without admitting or denying responsibility. This incident cast doubt on Zeng’s fitness and properness to carry out regulated activities in Hong Kong. Accordingly, the SFC imposed the foregoing disciplinary action on her.

After being notified of the incident, we conducted an internal review. Zeng’s conduct was purely in her personal capacity as GF Securities (Hong Kong) Brokerage neither had any business relationship with any relevant parties in the Nexen Inc. transaction nor possessed any inside information. The incident does not indicate any deficiency in the internal control systems of GF Securities (Hong Kong) Brokerage.

Subsequent to the incident, GF Securities (Hong Kong) Brokerage terminated the account executive contract with Zeng. An email was also circulated to remind all employees of GF Securities (Hong Kong) Brokerage and other subsidiaries of GFHK to comply with all applicable laws, regulations, rules and internal policies and procedures.

The SFC’s investigation into the Nexen Inc. incident has been concluded. Our Directors are of the view that this incident will not subject us to any material penalties or liabilities under current laws and regulations or have any material adverse impact on our business, financial condition or results of operations.

None of our employees in the PRC and Hong Kong, during the Track Record Period and up to the Latest Practicable Date, were prosecuted or convicted for non-compliance with applicable regulations.

Our Directors confirm that none of our existing Directors or members of our senior management was involved in any regulatory non-compliance incidents. Based on (1) there being no material adverse impact of the non-compliance incidents on our business, financial position or results of operation; (2) the internal control measures we have adopted based on the recommendations of our internal control consultant; (3) confirmation by our internal control consultant that there was no internal control weakness identified in relation to our tracking, handling and monitoring procedures and management of non-compliance incidents in the internal control assessment they performed in 2014; and (4) the legal advice from Jia Yuan Law Offices, our Directors are of the view that (1) we have adequate and effective internal controls and the enhanced internal control measures are adequate

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and effective in preventing re-occurrence of similar non-compliance incidents in the future; (2) it is unnecessary to make any provision for these non-compliance incidents; and (3) such incidents do not affect the suitability of our Directors and our suitability for listing. After making reasonable inquiries to us about the non-compliance incidents and our remedial measures, there is nothing that causes the Joint Sponsors to disagree with our view.

### **Regulatory Inspections**

The regulatory authorities carry out periodic inspections, examinations and inquiries in respect of our compliance with applicable laws, regulations and guidelines. Routine or ad hoc examinations or inspections by the PRC and other regulatory authorities, although not resulting in fines or other penalties imposed on us, have revealed certain deficiencies or incidents of non-compliance in various areas of our business operations, risk management and internal control. We immediately took remedial measures and improved our risk management and internal control systems based on the recommendations of the regulatory authorities. The results of the principal examinations or inspections are summarized below.

From October 22, 2012 to January 11, 2013, the CSRC Guangdong Securities Regulatory Bureau conducted an onsite inspection and identified certain issues associated with our corporate governance, principal business lines and back-office management, including:

- failure to formulate detailed guidance on the powers and duties of the board and the management;
- failure to register certain sales persons of our securities brokerage business with the competent authorities, and to investigate suspicious activities conducted by certain employees;
- trading in securities outside the permitted scope of investment or conducting trading activities without proper internal review and verification;
- failure of our investment banking personnel to fulfill the due diligence requirements in connection with certain offerings we sponsored;
- failure to keep a full record of our securities analysts' communications with clients and their research activities, and to distribute research reports simultaneously to all clients;
- failure to allocate assets under our management in accordance with the relevant asset management contracts;
- failure to liquidate clients' position in certain margin financing accounts in a timely manner;
- failure to effectively manage certain direct investment projects;
- failure to adequately inform clients of the risks associated with fund investment;



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- failure to meet the SAC’s requirements with respect to the composition of the IT Management Committee;
- failure to handle compliance alerts in a timely manner; and
- failure to conduct periodic evaluation of our risk indicators monitoring system.

In response to these weaknesses identified by the regulatory authority, we took the following remedial measures:

- formulating detailed guidance to clarify the powers and duties of the board and the management;
- requiring each branch to strictly comply with the rules that prohibit unregistered sales persons against conducting marketing activities, and identifying and reviewing suspicious transactions involving our employees;
- imposing system limits to ensure that investment targets in excess of the approval authority limits of our trading department must be strictly selected from the core securities pool;
- requiring our sponsor representatives to strictly comply with the requirements of our investment banking business manual and to keep a record of our due diligence work;
- closely monitoring our securities analysts’ external communications and research activities, and upgrading the IT system to ensure simultaneous distribution of our research reports;
- upgrading the risk management functions of our trading system to realize front-end control on the asset allocation proportion indicators;
- requiring each branch to inform margin financing clients of the consequences of default, and upgrading our IT system to remove technical barriers that may prevent us from liquidating clients’ margin financing accounts;
- increasing the staffing levels of our direct investment management and enhancing our project management mechanism;
- enhancing the review of messages delivered to investment fund clients to ensure our clients are adequately informed of the risks associated with their investments;
- adjusting the composition of our IT Management Committee to satisfy the SAC’s requirements;
- conducting a thorough review of all compliance alerts and keeping record of our analysis of and responses to each alert; and
- conducting periodic evaluation of our risk indicators monitoring system.



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On March 18, 2013, we submitted our rectification report to the CSRC Guangdong Securities Regulatory Bureau, and had not received any objections from the regulatory authorities to our rectification report or rectification measures as of the Latest Practicable Date.

From March 26 to April 3, 2013, the CSRC Guangdong Securities Regulatory Bureau conducted an onsite inspection of our asset management business and compliance and risk management, and issued an onsite inspection feedback letter highlighting the existence of various issues, primarily including:

- failure to update internal policies and manuals based on the latest laws and regulations;
- selling asset management products that did not match clients’ risk profiles;
- failure to formulate rules governing selection and monitoring of and conflicts of interest with third-party business partners, and to inform clients of our business relationship with third-parties;
- failure to inform clients of certain amendments to CAM agreements;
- inadequate self-inspection on our compliance and risk management, and inaccurate statements in the self-inspection report;
- failure to formulate standards for the compliance alert and monitoring system;
- lack of general requirements for risk indicators in our management policies;
- failure to formulate risk management rules for certain subsidiaries, and lack of uniform criteria in the implementation of risk management policies among subsidiaries;
- certain deficiencies in our risk assessment methods and models; and
- failure to take disciplinary measures against certain personnel in our debt sales department for transacting with a counterparty that is not rated by us, exposing us to credit risks.

The letter also identified certain deficiencies in our “Chinese Wall” system, including (1) failure to add certain securities to the watch list when our investments in such securities crossed certain threshold, (2) failure to limit access to the watch list only to employees holding key positions, (3) issuing research reports on companies that our private equity business invested in, (4) failure to properly record certain cross-wall activities, (5) involvement of other business divisions in research personnel’s performance review, (6) failure to closely monitor and record the external communication of employees in possession of sensitive information and (7) failure to physically segregate business departments that have conflicts of interest.

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In response to this regulatory letter, we took a series of remedial measures, including

- reviewing and amending our internal policies for asset management business in accordance with the latest laws and regulations;
- formulating rules governing client suitability and closing the accounts of clients whose risk profiles did not match the risk profiles of our products;
- formulating internal guidance on cooperation with third parties in our asset management business and disclosing the information of third parties in the materials of our asset management products;
- disclosing information via email, website, text message and phone calls in accordance with the terms of asset management contracts and strengthening our internal review to stringently follow the terms of the contracts governing their amendment;
- making legal compliance and risk management the key focus of our internal review of asset management business and requiring our employees to improve their self-inspection efforts;
- formulating and updating compliance manuals, and amending internal review policies for the compliance department to ensure its independence from other business divisions;
- continuing to explore the most appropriate risk indicators for our businesses and implementing the selected risk indicators in our day-to-day practice;
- formulating risk management rules of our subsidiaries to clarify their risk management models and division of risk management responsibility between the parent company and our subsidiaries;
- optimizing our credit risk measurement and credit rating model based on our research; and
- strengthening the responsibility system in relation to violations of risk management policies and ensuring vigorous implementation of such policy.

In relation to the deficiencies of our “Chinese Wall” system, we took the following remedial measures: (1) upgrading our compliance management system to include GF Xinde, into the management scope of “Chinese Walls”, (2) limiting access of watch list to the administrator of “Chinese Walls”, (3) recording the previously unrecorded cross-wall activities into our system and adopting a number of measures, including compliance examination and responsibility system, to ensure the cross-wall activities are promptly recorded, (4) amending the rules for research personnel’s performance review to prohibit the involvement of business divisions that may have conflicts of interest, (5) procuring new hardware to monitor and record external communications of employees in possession of sensitive information, and (6) relocating the office premises of GF Xinde and physically

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segregating departments that have conflicts of interest. On June 25, 2013, we submitted our rectification report to the CSRC Guangdong Securities Regulatory Bureau, and had not received any objections from the regulatory authorities toward our rectification report or rectification measures as of the Latest Practicable Date.

Our directors confirm that, except as disclosed above, there were no other material breaches or material incidents of regulatory non-compliance committed by us or our employees in the jurisdictions in which we operate during the Track Record Period and up to the Latest Practicable Date, and the non-compliance incidents and findings of the regulatory authorities during the Track Record Period and up to the Latest Practicable Date did not reveal any material deficiencies in our operations, internal control or risk management systems.

## **CONNECTED TRANSACTIONS**

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Upon the [Redacted], transactions between us and our connected persons (as defined under the Hong Kong Listing Rules) will constitute connected transactions for us under Chapter 14A of the Hong Kong Listing Rules.

### **Exempt Continuing Connected Transactions**

We provide investment banking, wealth management, institutional client services and investment management services in the ordinary and usual course of our business to the public in China, which also includes our connected persons (including our Directors, Supervisors and/or their respective associates). Set forth below are details of various continuing connected transactions between our Company and certain of our connected persons (including our Directors, Supervisors and/or their respective associates). These transactions are entered into on normal commercial terms in the ordinary and usual course of our business, and are exempted from the reporting, annual review, disclosure and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

### **Investment banking, wealth management, institutional client services and investment management services provided in the ordinary and usual course of business**

We provide four major types of services in the ordinary and usual course of our business, namely investment banking, wealth management, institutional client services and investment management, for certain of our connected persons (including our Directors, Supervisors and/or their respective associates) at usual fees and charges (including but not limited to transaction fees, management fees and service charges) and on normal commercial terms. It is likely that such connected persons will continue to use above services following completion of the [Redacted], which will constitute continuing connected transactions for us under the Hong Kong Listing Rules.

The investment banking, wealth management, institutional client services and investment management services provided by us to our connected persons in the ordinary and usual course of our business and on normal commercial terms that are comparable to or no more favorable than those offered to independent third parties are exempt continuing connected transactions under Rule 14A.76 of the Hong Kong Listing Rules, namely de minimis transactions, and thus are exempt from the reporting, annual review, disclosure and independent shareholders' approval requirements contained in Rules 14A.68 to 14A.71 of the Hong Kong Listing Rules.

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**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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**OVERVIEW**

Our Board currently consists of eleven Directors (of whom the terms of two Directors commence from the date of the [Redacted] and [Redacted]), of whom four are executive Directors, three are non-executive Directors and four are independent non-executive Directors. The Directors are appointed by our Shareholders for a term of three years, and may be appointed for consecutive terms.

Our Supervisory Committee currently consists of four Supervisors, of whom two are Shareholder representative Supervisors and two are employee representative Supervisors. The Shareholder representative Supervisors were appointed by our Shareholders and the employee representative Supervisors were appointed by the representatives of our labor union. The Supervisors are appointed for a term of three years, and may be appointed for consecutive terms. Our Articles of Association provide that our Supervisory Committee is comprised of five Supervisors. Ms. Chak Mei Hing resigned as our Supervisor on March 20, 2015, resulting in one vacancy in our Supervisory Committee. We are now actively seeking a suitable candidate to fill the vacancy. If we fail to do so within a reasonably practicable period, such as two months, we may have to amend our Articles of Association regarding the number of Supervisors. Our PRC legal advisers, Jia Yuan Law Office, are of the view that our Supervisor vacancy does not constitute a violation of PRC law.

The following table sets out information regarding our Directors and Supervisors. Each of our Directors and the Supervisors satisfies the qualification requirements under relevant PRC laws and regulations for his or her position.

**Directors**

Name	Age	Position	Date of joining our Company	Date of appointment of current term	Responsibilities	Relationship with other Directors, Supervisors and senior management
Mr. Sun Shuming (孫樹明)	52	Chairman, executive Director	April 1, 2011	May 12, 2014	Directing the overall operations of the Board, supervising the implementation of the Board resolutions	None
Mr. Lin Zhihai (林治海)	51	Executive Director, general manager	September 1, 1996	May 12, 2014	Presiding over general operational management of our Company, and managing the human resource management department, international business department and strategy development department	None

**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of joining our Company</b>	<b>Date of appointment of current term</b>	<b>Responsibilities</b>	<b>Relationship with other Directors, Supervisors and senior management</b>
Mr. Qin Li (秦力)	46	Executive Director, standing deputy general manager	December 1, 1993	May 12, 2014	Assisting the general manager in daily operational management of our Company, taking charge of the daily innovative business of our Company, and managing the equity and derivatives investment department, fixed income sales and trading department, and over the counter market department	None
Ms. Sun Xiaoyan (孫曉燕)	42	Executive Director, deputy general manager, chief financial officer	July 1, 1993	December 8, 2014 (The appointment of Executive Director will take effect from the Listing Date.)	Managing finance department, settlement and transaction management department, treasury department, and securities financing department	None
Mr. Shang Shuzhi (尚書志)	62	Non-executive Director	July 1, 2001	May 12, 2014	Formulating strategies of our Company and making major decisions on business operations	None
Mr. Li Xiulin (李秀林)	62	Non-executive Director	May 12, 2014	May 12, 2014	Formulating strategies of our Company and making major decisions on business operations	None
Mr. Chen Aixue (陳愛學)	58	Non-executive Director	March 2, 2011	May 12, 2014	Formulating strategies of our Company and making major decisions on business operations	None

**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of joining our Company</b>	<b>Date of appointment of current term</b>	<b>Responsibilities</b>	<b>Relationship with other Directors, Supervisors and senior management</b>
Mr. Liu Jiwei (劉繼偉)	53	Independent non-executive Director	April 27, 2011	May 12, 2014	Formulating strategies of our Company and making major decisions on business operations, advising independently on the nomination, appointment and removal of the Directors and senior management, the connected transactions and the provision of security to external parties	None
Mr. Yang Xiong (楊雄)	48	Independent non-executive Director	May 12, 2014	May 12, 2014	Formulating strategies of our Company and making major decisions on business operations, advising independently on the nomination, appointment and removal of the Directors and senior management, the connected transactions and the provision of security to external parties	None
Mr. Tang Xin (湯欣)	43	Independent non-executive Director	May 12, 2014	May 12, 2014	Formulating strategies of our Company and making major decisions on business operations, advising independently on the nomination, appointment and removal of the Directors and senior management, the connected transactions and the provision of security to external parties	None

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Company	Date of appointment of current term	Responsibilities	Relationship with other Directors, Supervisors and senior management
Mr. Chan Kalok (陳家樂)	53	Independent non-executive Director	December 8, 2014	December 8, 2014 (The appointment will take effect from the Listing Date.)	Formulating strategies of our Company and making major decisions on business operations, advising independently on the nomination, appointment and removal of the Directors and senior management, the connected transactions and the provision of security to external parties	None

### Supervisors

Our Supervisors are responsible for monitoring and inspecting the financial affairs of our Company, as well as monitoring our Board of Directors and senior management in the discharge of their responsibilities.

Name	Age	Position	Date of joining our Company	Date of appointment of current term	Responsibilities	Relationship with other Directors, Supervisors and senior management
Mr. Wu Zhaoming (吳釗明)	47	Chairman of our Supervisory Committee, employee representative Supervisor	September 1, 1991	May 12, 2014	Leading daily work of our Supervisory Committee, co-ordinating the monitoring of the financial activities of our Company, and supervising the performance of the Directors and senior management	None
Mr. Cheng Huaiyuan (程懷遠)	48	Employee representative Supervisor	June 1, 1999	May 12, 2014	Monitoring the financial activities of our Company, and supervising the performance of the Directors and senior management	None



**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of joining our Company</b>	<b>Date of appointment of current term</b>	<b>Responsibilities</b>	<b>Relationship with other Directors, Supervisors and senior management</b>
Mr. Zhao Jin (趙金)	47	Supervisor	February 27, 2010	May 12, 2014	Monitoring the financial activities of our Company, and supervising the performance of the Directors and senior management	None
Ms. Zhan Lingzhi (詹靈芝)	59	Supervisor	February 27, 2010	May 12, 2014	Monitoring the financial activities of our Company, and supervising the performance of the Directors and senior management	None

**Senior Management**

Each member of our senior management satisfies the qualification requirements under relevant PRC laws and regulations for his or her respective position. Senior management is responsible for the day-to-day management of our business. The following table sets forth information regarding our senior management:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of joining our Company</b>	<b>Date of appointment of current term</b>	<b>Responsibilities</b>	<b>Relationship with other Directors, Supervisors and senior management</b>
Mr. Zeng Hao (曾浩)	55	Deputy general manager	April 1, 1997	May 12, 2014	Managing research center of development, stocks sales and trading department and asset custody department	None
Mr. Ouyang Xi (歐陽西)	47	Deputy general manager	December 1, 1993	May 12, 2014	Managing investment banking administration department (including its investment banking department, mergers and acquisitions department, capital market department, investment banking business general management department)	None

**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Date of joining our Company</b>	<b>Date of appointment of current term</b>	<b>Responsibilities</b>	<b>Relationship with other Directors, Supervisors and senior management</b>
Mr. Luo Binhua (羅斌華)	50	Secretary to the Board, deputy general manager	December 1, 1993	May 12, 2014	Monitoring GF Xinde, GF Qianhe and office of Board of Directors of our Company	None
Mr. Yang Long (楊龍)	50	Deputy general manager	July 1, 1994	May 12, 2014	Managing general management office of brokerage business (including its wealth management department, operation management department, institutional business department and private placement department), e-commerce department and information technology department	None
Mr. Wu Jifu (武繼福)	49	Deputy general manager, chief compliance officer	July 14, 2008	May 12, 2014	Managing risk management department, general office, compliance and legal affairs department and audit department	None
Mr. Zhang Wei (張威)	39	Deputy general manager	July 8, 2008	May 12, 2014	Managing debt underwriting department and GF Asset Management	None

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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### **DIRECTORS**

#### **Executive Directors**

**Mr. Sun Shuming** has been appointed as our Chairman and executive Director since May 2012. Mr. Sun’s primary working experience includes: serving as clerk, deputy chief officer and chief officer of the Department of Treaty and Law of the Ministry of Finance of the PRC from August 1984 to August 1990, deputy head of the Department of Treaty and Law of the Ministry of Finance of the PRC from August 1990 to September 1994, the head of the Department of Treaty and Law of the Ministry of Finance of the PRC from September 1994 to March 1996, deputy mayor (a temporary post) of the People’s Government of Zhuozhou, Hebei from July 1994 to July 1995, director of the general manager’s office and assistant to the general manager of China Economic Development Trust & Investment Corporation from March 1996 to June 2000, deputy director of the Central Financial Work Commission Supervisors Work Department from June 2000 to March 2003, supervisor of China Galaxy Securities Co. Ltd from September 2003 to January 2006, deputy chief officer of the Accounting Department of the CSRC from January 2006 to April 2007, chief officer of the Accounting Department of the CSRC from April 2007 to March 2011. Mr. Sun obtained a bachelor’s degree in economics from the Hubei Institute of Finance and Economics (now known as Zhongnan University of Economics and Law), Wuhan, in July 1984, and a doctorate degree in economics from the Research Institute for Fiscal Science of the Ministry of Finance, Beijing, in August 1997.

**Mr. Lin Zhihai** has been appointed as our executive Director and general manager since March 2008 and April 2011, respectively. Mr. Lin’s primary working experience includes: teaching assistant of the finance faculty at the Dongbei University of Finance and Economics from July 1986 to December 1991, assistant economist of the People’s Bank of China (Dalian Branch) from January 1992 to May 1993, economist and deputy general manager at the investment banking department of Liaoning Trust & Investment Company from May 1993 to January 1995 and January 1995 to August 1996, respectively. He joined our Company in September 1996, and became a general manager at the Dalian branch of our Company from February 1997 to October 2001, chairman and general manager of Guangfa Northern Securities Company Limited from October 2001 to March 2006, deputy general manager and standing deputy general manager of our Company from March 2006 to April 2011, director of GFHK since July 2011, and chairman of GF Asset Management from January 2014 to August 2014. Mr. Lin obtained a bachelor’s degree in economics in July 1986, and later a master’s degree in economics and a doctorate in economics from the Dongbei University of Finance and Economics, located in Dalian, in October 1991 and January 2005, respectively. In addition, Mr. Lin also obtained the senior management executive master of business administration degree from the Hong Kong University of Science and Technology in November 2011. Mr. Lin obtained his qualification as an economist from Liaoning Provincial Department of Personnel (now known as Liaoning Provincial Department of Human Resources and Social Security) in June 1993.

**Mr. Qin Li** has been appointed as our executive Director and standing deputy general manager since April 2011. His primary working experience includes: standing deputy general manager at the department of investment banking administration, general manager of the investment management department, general manager of capital operation department, general manager of planning and management department, general manager of investment department, assistant to the general manager, deputy general manager of our Company since March 1997, director of GFHK since September 2006

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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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and chairman of GF Xinde from May 2010 to August 2013, director of E Fund since May 2012 and chairman of the board of Guangdong Equity Exchange Co., Ltd. since September 2013. As E Fund is mainly engaged in fund management, it competes or is likely to compete, either directly or indirectly, with some aspects of our business. Please see “Appendix VI — Statutory and General Information — C. Further Information about our Directors, Management and Staff — Directors’ Competing Interests” for further details. Mr. Qin obtained a bachelor’s degree in economics from the Shanghai University of Finance and Economics in July 1992, a master’s degree in commercial economics from the Jinan University, Guangzhou, in June 1995, a doctorate in economics from the Renmin University of China, Beijing, in July 2003 and completed a senior management executive master of business administration course from the Cheung Kong Graduate School of Business, Beijing, in September 2013.

**Ms. Sun Xiaoyan** is a deputy general manager and the chief financial officer of our Company and was appointed as our executive Director in December 2014, with effect from the Listing Date. Ms. Sun’s primary working experience includes: staff of capital operation department, finance department and investment banking department, respectively, since joining our Company in July 1993, deputy general manager of our accounting department from September 1998 to January 2000, deputy general manager of our investment and proprietary trading department from January 2000 to October 2002, chief financial officer of GF Fund (preparatory) from October 2002 to August 2003, chief financial officer of GF Fund from August 2003 to October 2003, deputy general manager of GF Fund from October 2003 to March 2005, and general manager of finance department of our Company from November 2003 to March 2014. Ms. Sun has been the chief financial officer of our Company from March 2006 to April 2011, a director of GF Fund since June 2007. Ms. Sun has been the deputy general manager and chief financial officer of our Company since April 2011 while also acting as director of GFHK since August 2013. Ms. Sun was appointed as the chairman of the first Session of supervisory committee of Zhengtong Co., Ltd. (証通股份有限公司) in December 2014. Ms. Sun obtained a bachelor’s degree in economics from the Renmin University of China, Beijing, in July 1993 and a master’s degree of business administration from the China Europe International Business School, Shanghai, in September 2007.

### **Non-executive Directors**

**Mr. Shang Shuzhi** has been appointed as our non-executive Director since July 2001. His primary working experience includes: deputy manager at Liaoning Province Textiles Import and Export Corporation from December 1987 to February 1991, deputy manager of Liaoning Province Knitwear and Home Textiles Import and Export Corporation in charge of operation from February 1991 to November 1991 and manager of Liaoning Province Knitwear and Home Textiles Import and Export Corporation from December 1991 to July 1993. Mr. Shang has been the chairman of Liaoning Cheng Da Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 600739, and principally engaged in business trade, energy development, bio-pharmaceuticals and financial service, formerly known as Liaoning Cheng Da (Group) Co., Ltd. (遼寧成大(集團)股份有限公司)), and the chairman of Liaoning Cheng Da Group Ltd. since January 1997. Mr. Shang graduated from the Dongbei University of Finance and Economics, Dalian, in August 1977, majoring in international trade. Mr. Shang obtained the qualification of Senior Economist from the Liaoning Provincial Department of Personnel in September 1993, the qualification of Senior International

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Business-Engineer from the Liaoning Provincial Department of Personnel (now known as Liaoning Provincial Department of Human Resources and Social Security) in December 1994, and a senior management executive master of business administration degree from the Dongbei University of Finance and Economics, Dalian, in June 2005.

**Mr. Li Xiulin** has been appointed as our non-executive Director since May 2014. His primary working experience includes: general manager and engineer of Yanbian AoDong Pharmaceutical Company from August 1982 to December 1987, general manager of Yanbian Dunhua Deer Farm from December 1987 to February 1993, chairman and general manager of Yanbian Pharmaceutical Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 000623, and renamed as Jilin Aodong Pharmaceutical Group Co., Ltd. in October 1998) from February 1993 to February 2000. He has been the chairman of Jilin Aodong Pharmaceutical Group Co., Ltd. since February 2000. Mr. Li obtained an academic diploma of bachelor’s degree qualification in economics from the Open College of Central Party School of the Communist Party of China, Beijing, in June 1992, and completed the 28th training course in business administration at the Tsinghua University School of Economics and Management, Beijing, from February 2000 to June 2000.

**Mr. Chen Aixue** has been appointed as our non-executive Director since March 2011. His primary working experience includes: director and deputy general manager of Chu Kong Shipping Enterprises (Holdings) Co., Ltd. from May 1998 to May 2007, deputy bureau chief of each of Communications and Transportation Bureau of Zhongshan Municipality and Zhongshan Municipal Port and Shipping Administration from April 2007 to October 2010, chairman of Zhongshan Public Small Amount Loans Company Limited from May 2013 to September 2014. Mr. Chen has also been the secretary to the Party Committee and chairman of Zhongshan Zhonghui Investment Group Company Limited since October 2010, chairman of Zhongshan Public Utilities Group Company Limited (a company listed on Shenzhen Stock Exchange (stock code: 000685) and principally engaged in water supply and sewage treatment) since November 2010, vice chairman of CNOOC Guangdong Natural Gas Co., Ltd. (a subsidiary of China National Offshore Oil Corporation) since December 2010, and chairman of Zhongshan — Hong Kong Passenger Shipping GO-OP Co., LTD since June 2012. Mr. Chen graduated from the South China Institute of Technology (now known as the South China University of Technology), Guangzhou, in July 1980, majoring in marine electrification and automation. Mr. Chen obtained his qualification as an electrical engineer from the Zhanjiang Science and Technology Committee in November 1993.

### **Independent Non-executive Directors**

**Mr. Liu Jiwei** has been appointed as our independent non-executive Director since April 2011. His primary working experiences includes: deputy director of the Academic Affairs Office of the Shenyang Institute of Finance and Economics (now known as Shenyang University) from January 1993 to March 1996, deputy director of Academic Affairs from September 1996 to May 1997, vice dean and dean of Shenyang Polytechnic College of Shenyang University from May 1997 to June 2000. Mr. Liu obtained professor qualification in June 2006 when he worked in Dongbei University of Finance Economics. Mr. Liu was an independent director of Shen Yang Hui Tian Thermal Power Co., Ltd. from July 2008 to September 2012, the chief accountant and director of the finance office of Dongbei University of Finance and Economics from October 2011 to November 2014 and is currently a professor of the accounting school of Dongbei University of Finance and Economics. Mr. Liu was

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also an independent director of the Bank of Dalian since May 2013, independent director of Liaoning Huafu Environmental Engineering Co., Ltd. since December 2013, independent director of Ling Yuan Iron & Steel Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 600231) since November 2014, and independent director of Dalian Refrigeration Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 000530) since February 2015. Mr. Liu obtained a bachelor’s degree in engineering from Shenyang Institute Mechanical and Electrical Engineering (now known as Shenyang University of Technology) in July 1984, a master’s degree in economics and a doctorate degree in management from the Dongbei University of Finance and Economics, Dalian, in November 1988 and January 2014, respectively. He obtained his qualification as a PRC certified public accountant from the Chinese Institute of Certified Public Accountants in April 1994.

**Mr. Yang Xiong** has been appointed as our independent non-executive Director since May 2014. Mr. Yang is currently and has been a member of the managing committee and a senior partner of BDO China Shu Lun Pan Certified Public Accountant LLP since August 2011. His primary working experience includes: vice chairman of the Guizhou Office of Certified Public Accountants from 1995 to August 1998, chief accountant of Guizhou Qianyuan Certified Public Accountants from September 1998 to November 2000, director and deputy chief accountant of Tianyi Certified Public Accountants from December 2000 to November 2002, chief accountant of Zhonghe Zhengxin Certified Public Accountants from December 2002 to October 2009, and chief accountant of Pan-China Certified Public Accountants from November 2009 to July 2011. Mr. Yang has also been an independent director of Beijing Shougang Company Limited (a company listed on Shenzhen Stock Exchange, stock code: 000959) since November 2009, Easecompeace Technology Card Co., Ltd (a company listed on Shenzhen Stock Exchange, stock code: 002017) since April 2011, Jiangsu Transportation Institute Company Limited (a company listed on Shenzhen Stock Exchange, stock code: 300284) since August 2011, Rongfeng Holdings Co., Ltd (a company listed on Shenzhen Stock Exchange, stock code: 000668) since September 2013. He was an independent director of Rizhao Port Co., Ltd (a company listed on Shanghai Stock Exchange, stock code: 600017) from July 2008 to March 2014. Mr. Yang graduated from the Wuhan Technical University of Surveying and Mapping (now merged into Wuhan University) in July 1989, majoring in electronic engineering. He obtained his qualification as a PRC certified public accountant in January 1995.

**Mr. Tang Xin** has been appointed as our independent non-executive Director since May 2014. Mr. Tang currently is a professor of the Law School of Tsinghua University and concurrently serves as the vice director of the Commercial Law Research Centre of Tsinghua University and an associate editor of Tsinghua Law Journal. Mr. Tang was selected as a member of the first session and second session of the Mergers and Acquisitions Review Committee of the CSRC from February 2008 to October 2010. Mr. Tang has been an independent director of China Spacesat Co., Ltd (a company listed on Shanghai Stock Exchange, stock code: 600118) from July 2008 to November 2014 and a member of the third session of the listing committee of the Shanghai Stock Exchange since August 2012. Mr. Tang served as an independent director of the seventh Session and eighth Session of the board of SDIC Power Holdings Co., Ltd. (previously known as SDIC Power Holdings Co., Ltd., a company listed on Shanghai Stock Exchange, stock code: 600886) from April 2009 to September 2013 and an independent director of the fifth Session and sixth Session of the board of Changjiang Securities Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 000783) from December 2007 to December 2013. Mr. Tang was also an independent director of Beijing Rural Commercial Bank Co., Ltd. since May 2009, Harvest Fund Management Co., Ltd since August 2010, and Shandong



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Publication and Media Co., Ltd. since June 2012. In September 2014, Mr. Tang served as the head of the committee of independent directors of the China Association for Public Companies. Mr. Tang obtained his bachelor's, master's and doctorate degrees in law from the Renmin University of China, Beijing, in July 1992, July 1995 and June 1998, respectively.

**Mr. Chan Kalok** has been appointed as our independent non-executive Director since December 2014, with effect from the Listing Date. Mr. Chan currently is the dean of business school of The Chinese University of Hong Kong. His primary working experiences includes: professor, head of the finance faculty and acting president of business school of the Hong Kong University of Science and Technology from June 1995 to October 2014. Mr. Chan was a member of the risk management committee of the Hong Kong Exchanges and Clearing Limited from July 2005 to June 2011 and the president of Asian Finance Association from 2008 to 2010. Mr. Chan is currently a member of the Hang Seng Index Advisory Committee and a member of the Hong Kong Housing Authority. He obtained his bachelor's degree in social science (majoring in economics) from The Chinese University of Hong Kong in June 1985 and a doctorate from The Ohio State University, U.S.A., in June 1990.

### **SUPERVISORS**

**Mr. Wu Zhaoming** has been appointed as an employee representative Supervisor and the chairman of our Supervisory Committee since February 2010. His primary working experience includes: an employee of Guangdong Development Bank Head Office (currently known as China Guangfa Bank) from July 1988 to September 1991, and deputy manager and manager of the securities department of Guangdong Development Bank from September 1991 to December 1993, assistant to general manager and manager of the capital operation department of our Company from December 1993 to September 1995, deputy manager of the audit and legal department from July 1997 to July 1998, deputy general manager of the international business department from July 1998 to January 2000, general manager of the audit department from January 2000 to January 2004, assistant to the general manager and the general manager of the audit department of our Company from January 2004 to December 2005 and the chief audit executive of our Company from December 2005 to February 2010. He has been an external director of the Guangzhou Light Industry Group Co., Ltd. since December 2007, the chairman of our Supervisory Committee since February 2010, external director of Guangzhou Municipal Construction Group Co. Ltd. from November 2013 to February 2015, and the chairman of the labor union committee of our Company since August 2014. Mr. Wu was sponsored by our Company to receive full-time education in the Finance Department, School of Economics, Jinan University from September 1995 to June 1997, and obtained a graduation diploma in monetary banking from the postgraduate course of further studies of Jinan University, Guangzhou, in January 1998; a master of business administration degree from the Asia International Open University (Macau), in March 2001, and a certificate of postgraduate (economics) from the Party School of the Guangdong Provincial Committee of the Communist Party of China, Guangzhou, in July 2002.

**Mr. Cheng Huaiyuan** has been appointed as an employee representative Supervisor since February 2010. Mr. Cheng is currently general manager of party-public relations department of our Company. His primary working experience includes: an employee, deputy director of the process and equipment department of Sino Pharmengin Corporation Wuhan Pharmaceuticals Design Institution, which is principally engaged in the design and general contracting of pharmaceutical engineering, from August 1988 to June 1999, research fellow of the development research center and deputy

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manager of the human resources department of our Company from June 1999 to March 2003, general manager of human resources department of GF Huafu Securities Co. Ltd. from March 2003 to December 2003, shareholder supervisor of GF Huafu Securities Co. Ltd. from May 2003 to March 2004. He has also been the deputy general manager of the party-public relations department and general manager, respectively, and general vice president of the labor union of our Company since January 2004. Mr. Cheng obtained a bachelor's degree in engineering from the Huazhong University of Technology (now known as Huazhong University of Science and Technology), Wuhan, in July 1988 and a master of management degree from Wuhan University in June 1999. Mr. Cheng has obtained the qualification of senior economist from the Guangdong Provincial Department of Personnel (now known as Guangdong Provincial Department of Human Resources and Social Security) in February 2002.

**Mr. Zhao Jin** was appointed as a Supervisor since February 2010. His primary working experience includes: head of securities investment department of Gansu Jiu Steel Group Hongxing Iron & Steel Co., Ltd. from May 1999 to January 2009, director of property management office of the strategic investment committee under the board of directors from January 2009 to October 2009, acting as deputy director of the strategic investment committee under the board of directors from August 2009 to December 2011, director of capital operation management office of the strategic investment committee under its board of directors of Jiuquan Iron & Steel (Group) Co., Ltd., a company principally engaged in the production and sale of steel materials, from October 2009 to December 2010, director of property management office of the strategic investment committee under the board of directors of Gansu Jiu Steel Group Hongxing Iron & Steel Co., Ltd. since February 2010, and the chairman and legal representative of Gansu Jiuquan Iron & Steel Group Western Heavy Industry Co., Ltd. since December 2010. He has also been an assistant to the general manager, director of the property management committee under the board of directors, head of the property management department and the chief financial officer of Jiuquan Iron & Steel (Group) Co., Ltd. since September 2011, December 2011, May 2014 and December 2014, respectively. He has been a supervisor of Everbright Securities Company Limited since October 2011. Mr. Zhao graduated from the department of economics (management economics) of the Graduate School of the Central Party School of the Communist Party of China in July 2010.

**Ms. Zhan Lingzhi** was appointed as a Supervisor since February 2010. Her primary work experience includes: deputy secretary to the Youth League general branch and secretary to the Party branch of workshop of Anqing Textile Factory (安慶紡織廠) from December 1978 to March 1984, deputy director, first deputy director and a member of the Party committee of Anqing Textile Factory from March 1984 to July 1998, director of Anhui Huamao Group Co. Ltd. and deputy general manager of Anhui Huamao Textile Co., Ltd. from July 1998 to April 2004, director of Anhui Huamao Textile Group Co. Ltd. and the deputy general manager, general manager and director of Anhui Huamao Textile Co. Ltd. from April 2004 to March 2007. She has also been chairman and the secretary to the Party committee of Anhui Huamao Group Co. Ltd. and chairman of Anhui Huamao Co., Ltd. since March 2007, vice president of the China Federation of Entrepreneurs of Textile Industry since July 2008 and a member of the Anqing City Party Committee since September 2011, chairman of the Woman Entrepreneurs Chamber of Anqing City, and supervisor of Guotai Junan Securities Co. Ltd. since September 2009. Ms. Zhan obtained a college diploma in textile engineering from China Textile University (now known as Donghua University), Shanghai, in December 1991.



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**SENIOR MANAGEMENT**

**Mr. Zeng Hao** has been appointed as a deputy general manager of our Company since August 2002. His primary working experience includes: standing deputy general manager of the international business department of our Company from July 1997 to September 1998, deputy general manager and general manager of the training center from September 1998 to April 2000, assistant professor of the School of Policy Informatics, Chiba University of Commerce from April 2000 to August 2000, general manager of the e-commerce department of our Company from August 2000 to February 2002, assistant to general manager from January 2001 to January 2003, general manager of the human resource management department from February 2002 to January 2003 and director of GF Xinde from October 2008 to May 2010. He has been the deputy general manager of our Company since January 2003 and a director of GFHK since July 2011. Mr. Zeng was an assistant lecturer of the economics faculty at Hokkaido University in Japan and a lecturer of the commerce and economics faculty at Chiba University of Commerce. Mr. Zeng obtained a bachelor’s degree in education from Fujian Normal University, located in Fuzhou, in July 1986, a master’s degree in economics from Fukushima University, located in Fukushima, Japan, in March 1990. He completed doctoral courses in management science from Hokkaido University, Japan, in March 1993 and obtained a doctorate in economics in March 1995. Mr. Zeng obtained his qualification as a senior economist in finance from the Guangdong Provincial Department of Personnel (now known as Guangdong Provincial Department of Human Resources and Social Security) in December 1998.

**Mr. Ouyang Xi** has been appointed as a deputy general manager of our Company since November 2004. His primary working experience includes: library assistant at the Guangdong Mechanics College (now known as Guangdong University of Technology) from July 1989 to August 1992, deputy general manager and managing deputy general manager of the investment banking department of our Company from July 1995 to February 2001, general manager of the proprietary trading department of our Company from February 2001 to January 2003, standing deputy general manager of the investment banking head office of our Company from January 2003 to January 2004, chief financial officer of our Company from January 2004 to March 2006, deputy general manager and secretary of the Board of Directors of our Company from July 2005 to November 2009 and director of GF Fund from March 2005 to June 2007. He has been a director of GFHK since September 2006. Mr. Ouyang obtained a bachelor’s degree in science from Wuhan University in July 1989 and a master’s degree in economics from Jinan University, Guangzhou, in June 1995.

**Mr. Luo Binhua** has been appointed as a deputy general manager and the secretary to our Board of our Company since November 2009. His primary working experience includes: clerk of the production output office of the Rural Social and Economic Survey Team of Jiangxi Province (now known as the Jiangxi Chief Survey Team of the National Bureau of Statistics) from June 1988 to September 1991, manager, deputy general manager and general manager of the investment banking department of our Company from December 1993 to January 2004, assistant to general manager and the general manager of investment banking head office of our Company from January 2004 to November 2009. He was chairman of GF Xinde from October 2008 to May 2010 and since August 2013, director of GFHK since July 2011, director of GF Asset Management since January 2014 and chairman of Zhuhai GF Xinde Aofei Capital Management Limited since March 2014. Mr. Luo obtained

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a bachelor’s degree in agriculture from the South China Agricultural University, Guangzhou, in July 1988, a master’s degree in economics from Jinan University, Guangzhou, in June 1994 and an executive master of business administration degree from the Hong Kong University of Science and Technology in June 2012.

**Mr. Yang Long** has been appointed as a deputy general manager of our Company since May 2014. His primary working experience includes: employee of the research department of Tianjin Municipal Government from July 1991 to August 1993, employee of the office of Tianjin Water Conservancy Bureau from August 1993 to June 1994, general manager of the Hongbao Road brokerage branch of our Company in Shenzhen from July 1994 to January 1998, general manager of our sub-headquarters of Shenzhen from January 1998 to March 2004, standing deputy general manager of brokerage business sub-headquarter and general manager of our sub-headquarter of Shenzhen from March 2004 to October 2004, deputy general manager of our human resources management division from October 2004 to March 2005, general manager of operations department of bank-securities link business from March 2005 to September 2005, consultant to Unicom Huajian Connections Company Limited from October 2005 to December 2008, assistant to general manager of our Company from January 2009 to September 2014 (he was concurrently the general manager of Shenzhen branch office from October 2009 to November 2012 and the general manager of Shenzhen High Tech South Yidao Securities branch from September 2011 to December 2011). Mr. Yang obtained a bachelor’s degree in economics from Nankai University, Tianjin, in June 1988, a master’s degree in economics from the Central Party School of the Communist Party of China, Beijing, in July 1991, an executive master of business administration degree from the Hong Kong University of Science and Technology in May 2013 and a doctorate in management from Nankai University, Tianjin, in December 2003.

**Mr. Wu Jifu** has been appointed as a deputy general manager and the chief compliance officer of our Company since May 2014. His primary working experience includes: lecturer of accounting department of the school of economics at Heilongjiang University from July 1987 to July 1993, deputy head and head of the accountancy department of the school of economics at Heilongjiang University from July 1993 to July 1995 and July 1995 to October 1997, respectively, deputy director of the Audit Department of the Provincial Securities Supervision and Administration Office of the Heilongjiang Bureau of the CSRC from October 1997 to November 1998, deputy director of the Audit Department and director of the General Office of the Office of the Commissioner of the CSRC in Harbin from November 1998 to February 2004, director of the General Office of the Heilongjiang Bureau of the CSRC from March 2004 to February 2006 and director of the supervision department of the Heilongjiang Bureau of the CSRC from March 2006 to July 2008. He has been the chief compliance officer of our Company since July 2008, director of GFHK since August 2013 and supervisor of GF Asset Management since January 2014. Mr. Wu obtained a bachelor’s degree in economics from Heilongjiang University in July 1987, and a master’s degree in economics from Heilongjiang University in June 1998.

**Mr. Zhang Wei** has been appointed as a deputy general manager of our Company since May 2014. His primary working experience includes: business manager of Anhui Guoyuan Trust Company Ltd. from July 1998 to June 2002, business manager of our investment banking department of our Company from July 2008 to February 2009, deputy general manager of the debt underwriting department of our Company from February 2009 to January 2010, and the general manager of the debt underwriting department of our Company from January 2010 to March 2013. He was the assistant to

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general manager of our Company from January 2011 to August 2014 and concurrently served as co-general manager of investment banking department of the headquarters from April 2013 to August 2014. Mr. Zhang has been the chairman of GF Asset Management since August 2014. Mr. Zhang obtained a bachelor’s degree in economics from Anhui University, located in Hefei in June 1998, a master’s degree in Economics from Fudan University, Shanghai, in June 2005 and a doctorate in economics from the Renmin University of China, Beijing, in July 2008.

Except as disclosed above, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business.

Except as disclosed above, none of our Directors, Supervisors and senior management members is related to other Directors, Supervisors and senior management members.

Except as disclosed above, none of our Directors, Supervisors and senior management members has been a director of any public company, the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this [Redacted].

Except as disclosed herein, there is no other information that needs to be brought to the attention to the Shareholders under Rule 13.51(2) of the Hong Kong Listing Rules.

### **JOINT COMPANY SECRETARIES**

**Mr. Luo Binhua** is one of our joint company secretaries. Please see “— Overview — Senior Management” above for his biography. As Mr. Luo Binhua does not possess the qualifications stipulated under Rules 3.28 and of the Hong Kong Listing Rules, we have applied for and have been granted a waiver by the Hong Kong Stock Exchange from strict compliance with those rules. Please see “Waivers from Strict Compliance with the Hong Kong Listing Rules — Qualification of Company Secretary” in this [Redacted] for details.

**Mr. Wan Ka Hung** is one of our joint company secretaries. Mr. Wan was appointed as one of the joint company secretaries of our Company on November 21, 2014, with effect from the Listing Date. Mr. Wan has over 20 years of experience in investment banking and corporate finance. He joined GF Capital (Hong Kong) in January 2007 and is currently serving as its managing director. Prior to joining GF Capital (Hong Kong), Mr. Wan worked for Zeppelin Capital Limited (卓凌融資有限公司) (currently known as Zeppelin Capital Limited (卓凌融資控股有限公司)) from June 1994 to March 1997 and was the manager of the company before his resignation. Mr. Wan was working in the corporate finance department of Oriental Patron Asia Limited from March 1997 to September 2000 and his last position was a senior manager of the Company. He was a director and head of the corporate finance department when working in KGI Asia Limited/KGI Capital Asia Limited from October 2000 to June 2003, and a director of the corporate finance department of SinoPac Securities (Asia) Limited (currently known as SinoPac Securities Limited) from April 2004 to January 2007. Mr. Wan has been a member of the Hong Kong Institute of Certified Public Accountants since February 2001. Mr. Wan has also become a member of The Association of Chartered Certified Accountants since March 2001

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and a fellow member of The Association of Chartered Certified Accountants since March 2006. Mr. Wan obtained a bachelor’s degree in engineering from The University of Hong Kong in November 1991, a master degree of philosophy from The University of Hong Kong in November 1996, and a honorary bachelor’s degree in laws from The University of London in August 2003.

### **CORPORATE GOVERNANCE**

We aim to achieve high standards of corporate governance to safeguard the interests of our Shareholders. To accomplish this, we will comply with the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules after [Redacted].

### **BOARD COMMITTEES**

Our Board of Directors delegates certain responsibilities to various committees. In accordance with relevant PRC laws, our Articles of Association and the Hong Kong Listing Rules, we have formed four board committees, namely the strategic committee, the audit committee, the remuneration and nomination committee and the risk management committee.

#### **Strategic Committee**

Our strategic committee consists of two executive Directors and three non-executive Directors. The two executive Directors are Mr. Sun Shuming and Mr. Lin Zhihai; the three non-executive Directors are Mr. Shang Shuzhi, Mr. Li Xiulin and Mr. Chen Aixue. Mr. Sun Shuming is the chairman of the committee.

The principal responsibilities of the strategic committee include:

- being aware of and supervising the basic operational situation of our Company;
- analyzing and supervising the latest development of the domestic and overseas industries, relevant national policies and its effect on our Company’s operation;
- analyzing and preparing the medium to long-term development strategies of our Company;
- reviewing the medium to long-term strategic goals and development plans of each business sectors of our Company;
- drafting the medium to long-term strategic goals and development plans of our Company;
- providing consultation and advice on the medium to long-term development strategies and substantial decision on material changes of our Company;
- reviewing the operational plans and medium to long-term investment plans of our Company;
- reviewing the substantial strategic investments of our Company; and

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- other duties under the authorization of the Board.

### **Audit Committee**

Our audit committee consists of three independent non-executive Directors, namely Mr. Yang Xiong, Mr. Liu Jiwei and Mr. Tang Xin. Mr. Yang Xiong is the chairman of the committee.

The principal responsibilities of the audit committee include:

- reviewing the financial monitoring, internal control, risk management systems of our Company and the effectiveness of the implementation of these systems. Discussing the internal control with the management and reporting to the Board of Directors. Conducting study on important findings of internal control and management’s responses on such findings actively or commissioned by the Board;
- guiding the work of the internal audit department of our Company, and supervising the internal audit system and its implementation;
- monitoring the annual audits, examining our Company’s financial statements, annual reports and accounts, semi-annual reports and (if propose to publish) quarterly reports, reviewing the significant views on financial reporting set out in financial statements and reports as well as other information relating to our Company’s operation and management and relevant disclosures. Making judgments on the truthfulness, accuracy and completeness of audited financial reports and information and submitting to the Board of Directors for consideration;
- acting as the major representative of both our Company and external auditors, and responsible for overseeing the relationship between them;
- inspecting and ensuring the timely reply of the Board to the management letter (or equivalent documents) submitted by external auditors to the senior management, and also inspecting any significant queries raised by external auditors on accounting records, financial accounts or monitoring system to the senior management and the responses from the senior management;
- examining and supervising related party transactions and assessing the appropriateness of related party transactions;
- making proposals to the Board on the appointment, reappointment or change of external auditors, approving the compensation and terms of appointment for external auditors, as well as handling any matters regarding the resignation or removal of external auditors;
- monitoring and assessing the independence and objectivity of work done by external auditors of our Company and the effectiveness of the auditing procedures, the Audit Committee shall discuss the nature, scope of the audit and relevant reporting obligations with external auditors before the auditing work commences as well as formulating policies on non-auditing service provided by external auditors and implementing such policies;

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- reviewing our Company’s financial and accounting policies and practices;
- being responsible for the communication between internal auditors and external auditors, and making sure adequate resources of our Company are available for internal auditors for operation and the proper positions for internal auditors, and reviewing and monitoring internal auditors’ effectiveness;
- assessing the mechanism for our Company’s staff to whistle-blow, carry out internal control or report on other misconducts, and the mechanism of our Company for making independent and fair investigations on reported matters and taking appropriate actions;
- paying attention to, and dealing with the challenges and claims raised by the employees, clients, suppliers, investors and media against the truthfulness, accuracy and completeness of information contained in the audited financial statement; and
- other duties under the authorization of the Board.

### **Remuneration and Nomination Committee**

Our remuneration and nomination committee consists of two executive Directors and three independent non-executive Directors. The two executive Directors are Mr. Lin Zhihai and Mr. Qin Li; the three independent non-executive Directors are Mr. Liu Jiwei, Mr. Yang Xiong and Mr. Tang Xin. Mr. Liu Jiwei is the chairman of the committee.

The principal responsibilities of the remuneration and nomination committee include:

- making suggestions or recommendations on the structure, size and composition of the Board of Directors (including the expertise, know-how and experience) at least annually to the Board based on the business activities, asset size and shareholding structure of our Company, and making recommendations on any changes proposed to make to the Board of Directors in line with our Company’s policies;
- reviewing the selection standard and procedures of the Directors, general manager and other senior management, and making recommendation to the Board;
- identifying candidates with proper qualifications for the Directors, the general manager and other senior management of our Company, and selecting and nominating relevant candidates as Directors or make recommendations to the Board regarding this matter;
- reviewing and making recommendations on the qualification, appointment, re-appointment or succession plan of the candidates for the directors, especially the Chairman, and the general manger and other senior management;
- assessing on the independence of independent non-executive Directors;



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- considering and making opinions on the assessment of directors and senior management and the remuneration management system in response to the corporate goals and objective formulated by the Board, making proposals to the Board on the remuneration package of the Directors and senior management;
- making recommendations to the Board on the remuneration of non-executive Directors;
- assessing and making recommendations on the performance of Directors and senior management according to our Company’s performance assessment scheme, and determining the rewards and incentives/punishments of senior management accordingly;
- making proposals of resignation and removal of directors and senior management for their violations and dereliction;
- formulating the remuneration policies of our Company by considering the salary level of comparable companies, time devoted, responsibilities and the conditions of other positions of our Company, and supervising and inspecting the implementation of such policies;
- reviewing the compensation paid to executive directors and senior management due to loss or termination of offices and making recommendations to the Board;
- reviewing the compensation arrangement involved in the dismissal or removal of Directors due to their misconducts and making recommendations to the Board;
- ensuring that any Directors or other associates (as defined in the Hong Kong Listing Rules) are not involved in their own evaluation of their performance and the decision-making process of their remuneration, a part from their self-assessment of performance; and
- other duties under the authorization of the Board.

### **Risk Management Committee**

Our risk management committee consists of three executive Directors, namely Mr. Sun Shuming, Mr. Lin Zhihai and Mr. Qin Li. Mr. Sun Shuming is the chairman of the committee.

The principal responsibilities of the risk management committee include:

- formulating major risk management policies in relation to risk appetite;
- reviewing general goals and fundamental policies of the risk management and compliance management of our Company, and making recommendations on the same;
- reviewing the establishment and responsibilities of the compliance management and risk management, and making recommendations on the same;

## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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- evaluating the risks of substantial decisions which shall be reviewed by the Board and making recommendations on the resolutions to the substantial risks;
- supervising the performance of the risk control committee under the operational management level of our Company;
- reviewing and setting the scale and maximum risk limitation for each substantial business sector of our Company, under the authorization of the Board;
- reviewing and deciding the resolutions of the substantial risks raising from operational management of our Company, under the authorization of the Board;
- reviewing the risk management report and compliance report of our Company and making recommendations on the same; regularly evaluating the risk situation and risk management ability of the Company;
- evaluating the internal control system of our Company based on the advice of external supervision authorities, internal and external audit reports, and supervising the operation management to adopt rectification measures;
- making decision and commanding on substantial and sudden crises of our Company;
- making recommendations on the drafting and amending policies in relation to corporate governance;
- carrying on self-examination on corporate governance, supervising rectifications on the same, promoting creativeness of the corporate governance management based on the practical situation of our Company;
- other duties under the authorization of the Board.

## **COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Our Directors and Supervisors are entitled to receive compensation in the form of fees, salaries, housing allowances and other allowances, benefits in kind, employer contributions to pension schemes and discretionary bonuses.

The total compensation after tax paid to our Directors for the years ended December 31, 2012, 2013 and 2014 was approximately RMB13.9 million, RMB15.4 million and RMB13.0 million, respectively.

The total compensation after tax paid to our Supervisors for the years ended December 31, 2012, 2013 and 2014 was approximately RMB4.4 million, RMB4.2 million and RMB5.2 million, respectively.



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## **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

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The total compensation after tax paid to our senior management (other than those members of our senior management who were also our Directors or Supervisors for the relevant period) for the years ended December 31, 2012, 2013 and 2014 was approximately RMB19.0 million, RMB20.3 million and RMB25.9 million, respectively.

For the year ended December 31, 2012, the five highest paid individuals include four individuals other than our Directors, Supervisors and senior management. For the year ended December 31, 2013, the five highest paid individuals include one individual other than our Directors, Supervisors and senior management. For the year ended December 31, 2014, the five highest paid individuals include two individual other than our Directors, Supervisors and senior management. The total compensation after tax paid to the remaining four, one and two highest paid individual(s) for the years ended December 31, 2012, 2013 and 2014 was approximately RMB22.9 million, RMB6.5 million and RMB9.2 million, respectively.

We did not pay our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for each of the years ended December 31, 2012, 2013 and 2014. Furthermore, none of our Directors waived compensation for the same period.

Under arrangements currently in force, we estimate the total compensation after tax payable to our Directors, Supervisors and senior management for the year ending December 31, 2015 is approximately RMB24.4 million, RMB5.1 million and RMB25.3 million, respectively.

### **JOINT COMPLIANCE ADVISORS**

We have agreed to appoint GF Capital (Hong Kong) and ABCI Capital Limited to be our joint compliance advisors upon [Redacted] in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. We expect to enter into a compliance advisory agreement with the compliance advisor prior to the Listing Date, the material terms of which are as follows:

- the term of appointment will commence on the Listing Date and end on the date on which our annual report for the first full financial year commencing after the Listing Date is published, or until the agreement is terminated, whichever is earlier;
- the compliance advisor will provide us with certain services, including guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Hong Kong Listing Rules and applicable laws and regulations;
- the compliance advisor will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws and guidelines; and
- the compliance advisor will serve as a channel of communication with the Hong Kong Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As of the Latest Practicable Date, the following persons directly or indirectly control, or are entitled to exercise the control of 5% or more interests in our A Shares:

Name of Shareholder	Nature of interest	Class	Number of Shares directly or indirectly held	Approximate percentage of shareholding (%)
Liaoning Cheng Da Co., Ltd. ....	Beneficial owner	A Shares	1,250,154,808	21.12%
Jilin Aodong Pharmaceutical Group Co., Ltd. ....	Beneficial owner	A Shares	1,244,652,926	21.03%
Zhongshan Public Utilities Group Co., Ltd. ....	Beneficial owner	A Shares	686,754,216	11.60%

So far as our Directors are aware, immediately following the completion of the [Redacted], the following persons will have an interest or a short position in our Shares or underlying shares of our Company which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Class	Immediately following the completion of the [Redacted] (assuming no exercise of the [Redacted])			Immediately following the completion of the [Redacted] (assuming full exercise of the [Redacted])		
			Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company	Number of Shares directly or indirectly held	Approximate % of interest in our Company	Approximate % of the relevant class of Shares of our Company
Liaoning Cheng Da Co., Ltd. ....	Beneficial owner	A Shares	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Jilin Aodong Pharmaceutical Group Co., Ltd. ....	Beneficial owner	A Shares	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Zhongshan Public Utilities Group Co., Ltd. ....	Beneficial owner	A Shares	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

Except as disclosed in this [Redacted], as of the Latest Practicable Date, we are not aware of any arrangement which may on a subsequent date result in a change of control of our Company.

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**SHARE CAPITAL**

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**Our Shares**

(1) *Before the [Redacted]*

As of the Latest Practicable Date, our registered share capital was RMB5,919,291,464, comprising 5,919,291,464 A Shares of nominal value of RMB1.00 each, all of which are listed on the Shenzhen Stock Exchange.

Description of Shares	Number of shares	Percentage of issued share capital
A Shares in issue .....	5,919,291,464	100%

(2) *Upon Completion of the [Redacted]*

Immediately following completion of the [Redacted], assuming that the [Redacted] is not exercised, our share capital is as follows:

Description of Shares	Number of shares	Approximate percentage of issued share capital
A Shares in issue .....	[Redacted]	[Redacted]%
H Shares issued pursuant to the [Redacted] .....	[Redacted]	[Redacted]%
<b>Total</b> .....	<b>[Redacted]</b>	<b>100%</b>

Immediately following completion of the [Redacted] and assuming that the [Redacted] is fully exercised, our share capital is as follows:

Description of Shares	Number of shares	Approximate percentage of issued share capital
A Shares in issue .....	[Redacted]	[Redacted]%
H Shares issued pursuant to the [Redacted] .....	[Redacted]	[Redacted]%
<b>Total</b> .....	<b>[Redacted]</b>	<b>100%</b>

According to our Articles of Association, we have two classes of Shares, namely, domestic shares and overseas shares. Domestic shares refer to our A Shares (Shares issued and subscribed for in RMB to investors within the PRC and listed in the PRC); and overseas shares refer to our H Shares (Shares to be issued and subscribed for in Hong Kong dollars to overseas investors and listed in Hong Kong). A Shares and H Shares are all ordinary Shares. H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC, except for certain QDIIs. A Shares may be subscribed for by and traded between legal or natural persons of the PRC, QFIIs approved by CSRC

## **SHARE CAPITAL**

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or qualified foreign strategic investors and must be traded in RMB, and residents in Hong Kong, Macao and Taiwan also can open A share accounts from April 2013. Pursuant to the requirements of PRC laws, regulations, rules and exchange guidelines, such as PRC Securities Law, securities practitioners shall not hold and trade securities directly or do so with an alias or in the name of others. As of the Latest Practicable Date, none of our Directors, Supervisors or senior management held any Shares in our Company.

According to our Articles of Association, A Shares and H Shares are considered different classes of shares and their holders are different classes of Shareholders. We therefore have two classes of Shareholders, namely holders of A Shares and holders of H Shares. The rights conferred on any class of Shareholders may not be varied or abrogated without approval by a special resolution of the Shareholders at a general meeting and by holders of Shares of that class at a separate meeting. Appendix V to this [Redacted] lists the circumstances that would be deemed variation or abrogation of the rights of a class of Shares. The requirement of approval made separately by classes of Shareholders does not apply (i) if we issue not more than 20% (excluding the [Redacted]) of each of our then existing issued A Shares and H Shares with the approval of a special resolution of the Shareholders at a general meeting, either separately or concurrently, once every twelve months; (ii) where our plan to issue A Shares at the time of our establishment and our plan to issue H Shares is implemented within fifteen months from the date of approval of CSRC and (iii) has been approved by the securities regulatory authorities of the State Council to transfer A Shares for listing and trading on an overseas stock exchange. Please see “— Conversion of A Shares into H Shares for Listing and Trading on the Hong Kong Stock Exchange” below for more details.

Our Articles of Association set out the differences between A Shares and H Shares. A summary of these differences is set forth in Appendix V to this [Redacted]. The differences include provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different branches of the register of Shareholders, the method of share transfers and appointment of dividend receiving agents. A Shares and H Shares will, however, rank equally with each other in all other respects and, in particular, for all dividends or distributions declared, paid or made after the date of this [Redacted]. The holders of our A Shares and H Shares are equally entitled to our distributable profits accumulated prior to the [Redacted]. For further information on this special dividend, please see “Financial Information — Dividend Policy” in this [Redacted]. All dividends in respect of H Shares are to be calculated in RMB and will be paid in Hong Kong dollars whereas all dividends in respect of A Shares will be calculated and paid in RMB. In addition to cash, dividends may be distributed in the form of Shares. Holders of H Shares will receive share dividends in the form of H Shares. Holders of A Shares will receive share dividends in the form of A Shares.

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## **SHARE CAPITAL**

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### **Conversion of A Shares into H Shares for Listing and Trading on the Hong Kong Stock Exchange**

A Shares and H Shares are generally neither interchangeable nor fungible, and the market prices of our A Shares and H Shares may be different.

If any holder of our A Shares wishes to transfer its A Shares to overseas investors for listing and trading on the Hong Kong Stock Exchange, it must obtain the approval of the relevant PRC regulatory authorities, including the CSRC for the transfer and conversion of the A Shares and the approval of the Hong Kong Stock Exchange for the listing and trading of the converted H Shares, as well as follow the procedures set forth below:

- (1) the holder of A Shares must obtain the requisite approval of the CSRC or the authorized securities approval authorities of the State Council for the conversion of all or part of its A Shares into H Shares;
- (2) we may apply for the listing of all or any portion of our A Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion and we must obtain prior approval from the Hong Kong Stock Exchange before the converted H Shares can be listed and traded on the Hong Kong Stock Exchange;
- (3) the holder of A Shares must request that we remove its A Shares from the A Share register, attaching the relevant documents of title together with the request;
- (4) subject to obtaining the approval of the Board and the Hong Kong Stock Exchange, we would then instruct the H Share Registrar, with effect from a specified date, to issue the relevant holder H Share certificates for a specified number of H Shares;
- (5) the specified number of A Shares to be converted to H Shares are then re-registered on the H Share register maintained in Hong Kong on the condition that:
  - (a) our H Share Registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share Register and the due dispatch of H Share certificate; and
  - (b) the admission of the H Shares for trading in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time;
- (6) upon completion of the transfer and conversion, the shareholding of the relevant holder of A Shares in our A Share register will be reduced by such number of A Shares transferred and the number of H Shares registered will correspondingly be increased by the same number of H Shares; and
- (7) in compliance with the Hong Kong Listing Rules, we will publicly announce the transfer and conversion not less than three days prior to the proposed effective date.

## **SHARE CAPITAL**

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Approvals from holders of A Shares and H Shares as separate classes are not required for the listing and trading of the converted H Shares. As at the Latest Practicable Date, the Directors were not aware of any intention of any holder of A Shares to convert all or part of its A Shares into H Shares.

### **Approval from Holders of A Shares regarding the [Redacted]**

We require the approval of holders of A Shares to issue H Shares and list the H Shares on the Hong Kong Stock Exchange. We have obtained the approval for the [Redacted] of H Shares at our general meeting held on December 8, 2014. The approval is subject to the following conditions:

(1) *Size of the [Redacted]*

The proposed number of H Shares to be [Redacted] does not exceed [Redacted]% of the total share capital of our Company after issue (before exercise of the [Redacted]) and the [Redacted] grants to the [Redacted] shall not exceed [Redacted]% of the number of H Shares under such issue.

(2) *Method of [Redacted]*

The method of [Redacted] shall be by way of a [Redacted] for subscription in Hong Kong and an [Redacted] to institutional and professional investors.

(3) *Targets of the [Redacted]*

H Shares may be issued to foreign investors who meet relevant conditions and domestic qualified investors who are entitled to make overseas securities investment according to the relevant PRC laws.

(4) *Pricing*

The issue price of the H Shares will be determined after due consideration of the interests of our existing Shareholders, the acceptance of investors and risks related to issue, etc., and in accordance with international practice, through order demands and a book-building process, based on the domestic and overseas capital market conditions and by reference to the valuation of comparable companies in domestic and overseas markets.

(5) *Validity period*

The issue of H Shares and listing of H Shares on the Hong Kong Stock Exchange must be completed within eighteen months from the date of the Shareholders' meeting, i.e. December 8, 2014.

There are no other approved offering plans for any other Shares except the [Redacted].

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## FINANCIAL INFORMATION

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*The following discussion and analysis should be read in conjunction with our audited consolidated financial statements included in “Appendix I — Accountants’ Report” together with the accompanying notes included elsewhere in this [Redacted]. Our consolidated financial statements set out in the Accountants’ Report are prepared in accordance with IFRS.*

*The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our experience and analysis on historical trend, current status and expected future development as well as our assumptions and analysis made based on other factors which we believe are reasonable under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Those factors which could result in significant difference between future results and those projected in the forward-looking statements include, but not limited to, factors set out in other sections in this [Redacted], in particular the sections headed “Risk Factors” and “Forward-Looking Statements”.*

### OVERVIEW

We are a provider of comprehensive capital market services with industry-leading innovation capabilities focused on serving China’s quality SMEs and affluent individuals. According to the SAC, we ranked No. 3 among securities firms in China by net assets and No. 4 by total assets, net capital, revenue and net profit as of and for the year ended December 31, 2013, each on an unconsolidated basis.

Our principal business activities include: (1) Investment Banking, (2) Wealth Management, (3) Trading and Institutional Client Services and (4) Investment Management. We report our financial results in the five reporting segments identified below:

- Investment Banking, which primarily includes underwriting commissions and sponsorship and advisory fees from equity and debt underwriting and financial advisory services;
- Wealth Management, which primarily includes fees and commissions we earn from providing brokerage and investment advisory services to retail clients, as well as interest income we earn from margin financing and securities lending activities, reverse repurchase transactions and cash held on behalf of clients, and fees we earn from selling financial products developed by us and other financial institutions;
- Trading and Institutional Client Services, which primarily includes investment gains and interest income we earn from market-making and proprietary trading of equity, fixed income and derivative products, as well as fees and commissions we earn from providing trading advisory and execution, investment research and prime brokerage services to institutional clients;



## **FINANCIAL INFORMATION**

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- Investment Management, which primarily includes management and advisory fees we earn from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from our private equity and alternative investments; and
- Others, which primarily includes interest income from cash deposits of our headquarters.

### **BASIS OF PREPARATION**

Our financial statements have been prepared in accordance with IFRS and include applicable disclosure required by the Hong Kong Listing Rules and the Hong Kong Companies Ordinance. We prepared our financial statements under the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Our financial statements consolidate the financial results of our Company and those of entities (including structured entities) controlled by us. Control is achieved when (1) we have power over an entity, (2) have rights to variable returns from our involvement with the entity and (3) have the ability to affect the returns of the entity. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by our Company. All intra-group transactions, balances, income and expenses are eliminated in full in consolidation.

### **SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL RESULTS**

Our results of operations, financial condition and the period-to-period comparability of our financial results are significantly affected by a number of factors, including those described below.

#### **Market Conditions**

As a securities firm, our results of operations and financial condition are materially affected by conditions in the financial markets and the general economy. Favorable economic or market conditions include high GDP growth, transparent, liquid and efficient capital markets, low inflation, low unemployment, strong business profitability and high investor confidence. Unfavorable or uncertain economic or market conditions may result from declines in economic growth, business activity or investor or business confidence, limitations on the availability (or increases in the cost) of credit and capital, increases in inflation or interest rates, exchange rate volatility, outbreaks of hostilities or other geopolitical instability, corporate, political or other scandals that reduce investor confidence in the capital markets, or a combination of these or other factors.

Our businesses and profitability have been and may continue to be affected by market conditions in many ways. For example, changes in the level of the equity markets or interest rates affect the value of our clients' portfolios and their trading and investing activities, which in turn may affect the amount of brokerage commissions we earn from executing buy and sell orders, and fees we earn for selling and managing assets. Changes in financial or economic conditions may also lead to increases or decreases in the number and size of transactions in which we provide underwriting, M&A advisory and



## **FINANCIAL INFORMATION**

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other services. Our investment banking revenue, in the form of financial advisory and underwriting fees, is directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn. In addition, fluctuating market prices could affect the value of our own portfolio of financial assets, and we may be required to record losses that would negatively impact our financial results due to the decline in market prices. We use derivative instruments to reduce our investment portfolio’s exposure to price fluctuations, but these derivative instruments may not be completely effective at managing these risks.

### **Regulatory Conditions in China**

We derive most of our revenue from our operations in the PRC. As a result, our results of operations, financial condition and prospects are affected by regulatory developments in China, as well as the economic measures undertaken by the PRC government.

The PRC securities industry is highly regulated. Many aspects of our business require government approvals and permits. In recent years, CSRC has gradually liberalized the regulation of the PRC securities industry. For example, in recent years, the CSRC approved the launch of various new financial products and businesses by PRC securities firms, including direct investment business, stock index futures, margin financing and securities lending, repurchase agreements, dealer-quoted bond repurchase agreements and stock option trading and market-making. The PRC government has also taken various measures to improve the capital efficiency and diversify the funding sources of PRC securities firms, including lowering the risk-weighted capital reserve requirements for qualified securities firms, and allowing PRC securities firms to issue subordinated debt to shareholders and institutional investors. We expect these regulatory reforms and governmental actions to continue to affect the PRC securities industry and our business, financial condition and results of operations.

### **Interest Rate Environment**

Our business is also affected by changes in interest rates, which occur continuously and may be unpredictable and highly volatile.

Changes in interest rates affect our results of operations and financial condition in different ways:

- Changes in interest rates affect the value of our financial assets. An increase in interest rates could cause a corresponding decline in the market value of fixed-income products we invest in. Increasing interest rates could also affect the profitability of our derivative financial instruments and hedging strategies depending on the long-short positions we take.
- Changes in interest rates would also affect the amount of interest income we would earn on interest-generating assets. Our interest-generating assets mainly include bank balances, clearing settlement funds, financial assets held under resale agreements, deposits with exchanges and non-bank financial institutions and margin loan and securities lending we provide to our clients.

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- Increases in interest rates, in particular interbank market rates, can significantly increase our cost of funding.
- A rise in interest rates could lower our corporate clients’ ability or willingness to access the debt capital markets, which could lower the revenue generated by our underwriting business.
- A decrease in interest rates could lower the yields on our new fixed-income investments.

Interest rates in China are regulated by the PBOC. The PBOC reduced the one-year RMB benchmark lending rate from 6.56% to 6.31% in June 2012, and further reduced it to 6.00% in July 2012 and 5.60% in November 2014. We expect future changes in the interest rate environment, in particular, changes in PBOC benchmark interest rates, to continue to significantly affect our financial condition and results of operations.

### **Competition**

We face intense competition in all aspects of our business. We compete principally with other securities firms in China and Hong Kong, some of which offer their clients a broader range of financial services, have substantially greater resources, and may have greater operating efficiencies. In addition, we face increasing competition from other financial institutions, such as commercial banks, online financial service providers, and other companies offering financial services. We believe that the principal factors affecting competition are price, product and service offering and the transaction execution, experience and knowledge of our staff. It is possible for our competitors to quickly adopt our business practices and set lower prices to compete with us. For example, in recent years, we have experienced intense price competition in our retail brokerage business, with considerable pressure on brokerage commissions. Increased competition or an adverse change in our competitive position could lead to a reduction of business and therefore a reduction of revenues and profits. Competition can also raise our costs of hiring and retaining the employees we need to effectively operate our business.

### **Product Offerings and Mix**

Our business lines and products and services have varying profit margins and future growth prospects, and as a result, any material changes in our product mix, whether due to changes in our growth strategies, market conditions, client demand or other reasons, may affect our financial condition and results of operations. Our historical financial results were significantly affected by the revenue contribution and profit margin of our wealth management segment. There has been considerable pressure on brokerage commissions in recent years. In 2012, 2013 and 2014, our average stock and fund brokerage commission rates were 0.881‰, 0.854‰ and 0.692‰, respectively. We believe that we will continue to experience competitive pressures on brokerage commissions as some of our competitors seek to obtain market share by reducing prices, which may impair the profit margin of our brokerage business. We seek to optimize our product mix by increasing the revenue contribution of our other business lines with relatively higher profit margin and significant growth potential, such as margin financial and securities lending, investment banking and investment management.

## **FINANCIAL INFORMATION**

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As we also seek to diversify our revenue sources by broadening our product and service offerings, our future results of operations and financial condition could be significantly affected by our ability to design, develop and bring new products to market, to transact business with new clients and counterparties, to manage new asset classes and to engage in new markets.

### **CRITICAL ACCOUNTING POLICIES**

We have identified certain accounting policies and estimates significant to the preparation of our financial statements in accordance with IFRS. The Accountants’ Report in Appendix I to this [Redacted] sets forth these significant accounting policies in note 3 of Section G, which are important for an understanding of our financial condition and results of operations. The application of some of our accounting policies involve subjective assumptions, estimates and judgments related to assets, liabilities, income, expenses and other accounting items, which are discussed in note 4 in Section G of the Accountants’ Report in Appendix I to this [Redacted]. Our estimates are based on historical experience and other assumptions that management believes to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Our management has identified below the accounting policies, estimates and judgments that they believe are most critical to the preparation of our financial statements. We are not aware of any event or circumstance that, as of the Latest Practicable Date, would cause us to adjust our accounting estimates and assumptions.

### **Determination of consolidation scope**

Our financial statements incorporate the financial statements of our Company and entities (including structured entities) controlled by our Company and our subsidiaries. Control is achieved where we:

- have power over the investee;
- have rights to variable returns from our involvement with the investee; and
- have the ability to use our power to affect our returns.

All facts and circumstances must be taken into consideration assessing whether we, as an investor, control the investee. We reassess whether or not we control an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For CAM schemes and private equity funds where we are both an investment manager and an investor, we assess whether the combination of investments we hold, together with our remuneration and credit enhancement, creates exposure to variability of returns from the activities of the CAM schemes and private equity funds that is of such significance that it indicates that we are a principal. The CAM schemes and private equity funds are consolidated if we act in the role of principal.

## **FINANCIAL INFORMATION**

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### **Fair value of financial instruments**

We recognize financial assets and financial liabilities when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

We use valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of our Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

### **Fair value of available-for-sale equity investments with restriction on disposal**

Available-for-sale equity investments are measured at fair value at the end of the reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in the investment revaluation reserve, until the equity investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. The fair value of available-for-sale equity investments that are subject to legally enforceable restrictions that prevent the holders from disposing them within the specified period is determined by reference to the quoted market prices and discounted to reflect the effect of the restrictions. The estimation of fair value of these shares includes assumptions that are not based on observable data. Changes in those assumptions could affect the fair value of the available-for-sale equity investments.

### **Impairment of advances to customers and accounts receivable**

We review advances to customers and accounts receivable to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in profit or loss, we review the value of the securities collateral received from the customers first on an individual basis, and then on a collective basis in determining the impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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The policy for collective impairment allowances for advances to customers and accounts receivable is based on the evaluation of the probability of default, loss given default and exposure at default of accounts and on the management’s judgment. A considerable degree of judgment is required in assessing the ultimate realization of these loans and advances, including the current creditworthiness, and the past collection history of each loan.

### **Impairment of available-for-sale financial assets**

The determination of whether available-for-sale financial assets are impaired requires significant judgment. For listed available-for-sale equity investments, funds and CAM products, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. We also take into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economy or the law, as well as industry and sector performance and the financial information regarding the investee that provides evidence that the cost of the equity securities may not be recoverable. For available-for-sale debt instruments, trust investment, wealth management and TAMs, we make the judgments as to whether there is an objective evidence of impairment that indicates a measurable decrease in the estimated future cash flows of these financial instruments. This requires a significant level of management judgment that would affect the amount of impairment losses in profit or loss.

### **Income taxes**

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made. The realization of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognized in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Please see note 28 in Section G of the Accountants’ Report in Appendix I to this [Redacted].

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**OVERALL RESULTS OF OPERATIONS**

The following table sets forth selected consolidated statements of profit or loss data for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Revenue</b>			
Commission and fee income.....	4,001.5	4,399.4	8,217.3
Interest income .....	1,541.2	2,349.2	4,324.6
Net investment gains.....	1,688.1	2,525.1	3,605.0
Other income and gains .....	49.7	58.1	16.6
<b>Total revenue and other income .....</b>	<b><u>7,280.5</u></b>	<b><u>9,331.8</u></b>	<b><u>16,163.5</u></b>
<b>Expenses</b>			
Depreciation and amortization.....	(251.6)	(246.9)	(257.4)
Staff costs.....	(2,435.3)	(2,947.6)	(4,345.9)
Commission and fee expenses .....	(150.3)	(105.5)	(240.8)
Interest expenses.....	(500.4)	(1,378.6)	(2,757.7)
Other operating expenses .....	(1,341.6)	(1,451.9)	(2,100.4)
Impairment losses .....	(290.6)	(117.1)	(149.9)
<b>Total expenses .....</b>	<b><u>(4,969.8)</u></b>	<b><u>(6,247.6)</u></b>	<b><u>(9,852.1)</u></b>
Share of results of associates and joint ventures .....	374.5	393.1	337.2
Profit before income tax .....	2,685.2	3,477.3	6,648.6
Income tax expense .....	(494.9)	(664.7)	(1,503.1)
<b>Profit for the year.....</b>	<b><u>2,190.3</u></b>	<b><u>2,812.6</u></b>	<b><u>5,145.5</u></b>

The following discussion describes and compares the major components of our results of operations for the years ended December 31, 2012, 2013 and 2014. In addition, we evaluate our financial results, particularly our revenue composition, through reporting segments. For a discussion of each of our segments, please see “— Segment Operating Results” below.

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**Revenue and Other Income**

The following table sets forth the components of revenue and other income for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Revenue</b>			
Commission and fee income .....	4,001.5	4,399.4	8,217.3
Interest income .....	1,541.2	2,349.2	4,324.6
Net investment gains .....	1,688.1	2,525.1	3,605.0
Other income and gains .....	49.7	58.1	16.6
<b>Total revenue and other income.....</b>	<b>7,280.5</b>	<b>9,331.8</b>	<b>16,163.5</b>

Total revenue and other income mainly comprised (1) commission and fee income earned from investment banking, wealth management and investment management activities and institutional client services; (2) interest income earned from deposits from brokerage customers and our own cash deposits, advances to margin financing and securities lending customers, and from financial assets held under resale agreements; (3) net investment gains from trading and market-making activities, our equity and fixed income securities, and from our other investment activities; and (4) other income and gains, such as foreign exchange gains, rental income and government grants.

**Comparison of 2013 and 2014.** Total revenue and other income increased by 73.2% from RMB9,331.8 million in 2013 to RMB16,163.5 million in 2014. The increase primarily reflected a RMB3,817.9 million increase in commission and fee income, largely attributable to (1) increased trading in stock and funds by our brokerage clients, with total stock and fund trading volumes increased from RMB3,846.1 billion in 2013 to RMB6,733.5 billion in 2014, (2) the growth of our equity underwriting business, with the number of equity offerings lead-underwritten by us increased from 6 in 2013 to 31 in 2014 and (3) the growth of our asset management business, with the total AUM of GF Asset Management increased from RMB135,784 million as of December 31, 2013 to RMB196,777 million as of December 31, 2014. The increase in total revenue and other income was also attributable to a RMB1,975.4 million increase in interest income, primarily attributable to the growth of our margin financing and securities lending business, with the closing balance of margin financing and securities lending increased from RMB19,945.1 million as of December 31, 2013 to RMB64,356.2 million as of December 31, 2014.

**Comparison of 2012 and 2013.** Total revenue and other income increased by 28.2% from RMB7,280.5 million in 2012 to RMB9,331.8 million in 2013. The increase primarily reflected (1) a RMB837.0 million increase in net investment gains, primarily reflecting increased investment gains from proprietary trading activities driven by improved performance of our equity portfolio, (2) a



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RMB808.0 million increase in interest income, primarily attributable to the growth of our margin financing and securities lending business, with the closing balance of margin financing and securities lending increased from RMB5,183.0 million as of December 31, 2012 to RMB19,945.1 million as of December 31, 2013 and (3) a RMB397.9 million increase in commission and fee income, largely attributable to increased trading in stock and funds by our brokerage clients, with total stock and fund trading volumes increased from RMB2,586.3 billion in 2012 to RMB3,846.1 billion in 2013.

**Commission and Fee Income**

We earn commission and fee income in our Wealth Management segment from providing brokerage services for trading in equities, bonds, funds, warrants, futures and other securities, and in our Investment Banking segment from providing capital-raising services and financial advisory services to our clients. We also earn commission and fee income in our Investment Management segment through the management of various asset management schemes, investment funds and private equity funds for our clients, and from our other investment activities, and in our Trading and Institutional Client Services segment from providing investment research services to institutional clients.

The following table sets forth the components of commission and fee income for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Commission on securities dealing and broking and handling fee income.....	2,396.0	3,439.4	4,949.9
Underwriting and sponsors fees.....	1,027.1	308.1	1,552.3
Commission on futures and options contracts dealing and broking and handling fee income.....	297.0	279.3	230.5
Asset management and fund management fee income.....	112.0	205.1	1,124.5
Consultancy and financial advisory fee income.....	161.8	146.1	327.3
Others.....	7.6	21.4	32.8
<b>Total commission and fee income .....</b>	<b>4,001.5</b>	<b>4,399.4</b>	<b>8,217.3</b>

**Comparison of 2013 and 2014.** Commission and fee income increased by 86.8% from RMB4,399.4 million in 2013 to RMB8,217.3 million in 2014, primarily reflecting (1) a RMB1,510.5 million increase in commission on securities dealing and broking and handling fee income, from RMB3,439.4 million in 2013 to RMB4,949.9 million in 2014, primarily attributable to our brokerage clients’ increased stock and fund trading volumes, (2) a RMB1,244.2 million increase in underwriting and sponsors fees, from RMB308.1 million in 2013 to RMB1,552.3 million in 2014, largely attributable to the growth of our equity underwriting business, (3) a RMB919.4 million increase in



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asset management and fund management fee income, from RMB205.1 million in 2013 to RMB1,124.5 million in 2014, largely attributable to our consolidation since August 2014 of GF Fund’s financial results, including its commission and fee income, after we increased our equity interest in GF Fund from 48.33% to 51.13% as a result of our capital injection into GF Fund, as well as an increase in the AUM of GF Asset Management resulting from our launch of new CAM and TAM schemes and (4) a RMB181.2 million increase in consultancy and financial advisory fee income, from RMB146.1 million in 2013 to RMB327.3 million in 2014, primarily attributable to the growth of our financial advisory business.

**Comparison of 2012 and 2013.** Commission and fee income increased by 9.9% from RMB4,001.5 million in 2012 to RMB4,399.4 million in 2013, primarily reflecting a RMB1,043.4 million increase in commissions from securities dealing and broking and handling fee income, from RMB2,396.0 million in 2012 to RMB3,439.4 million in 2013, primarily attributable to our brokerage clients’ increased stock and fund trading volumes. The increase was partially offset by a RMB719.0 million decrease in underwriting and sponsors fees, from RMB1,027.1 million in 2012 to RMB308.1 million in 2013, primarily because we underwrote fewer equity offerings in 2013 as the CSRC issued fewer approvals for new IPOs.

### Interest Income

The following table sets forth the components of interest income for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Deposits with exchanges and non-bank financial institutions and bank balances.....	1,159.7	989.7	1,235.1
House accounts.....	477.6	300.8	368.6
Cash held on behalf of customers <sup>(1)</sup> .....	682.1	688.9	866.5
Advances to customers and securities lending <sup>(2)</sup> .....	378.1	1,166.3	2,636.2
Financial assets held under resale agreements <sup>(3)</sup> .....	0.5	182.4	423.5
Due from banks .....	—	—	16.3
Others.....	2.9	10.8	13.5
<b>Total interest income.....</b>	<b>1,541.2</b>	<b>2,349.2</b>	<b>4,324.6</b>

(1) represents interest income from brokerage clients’ deposits.

(2) represents interest income from margin financing and securities lending services.

(3) represents interest income from reverse repurchase transactions.

Interest income is largely comprised of interest income from advances to customers and securities lending, which represents the interest income we receive from our margin financing and securities lending business, as well as interest income we receive from brokerage deposits of our brokerage customers and our own cash deposits. We also earn interest income from financial assets held under resale agreements, which represents the interest income we receive from our reverse repurchase transactions.

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**Comparison of 2013 and 2014.** Interest income increased by 84.1% from RMB2,349.2 million in 2013 to RMB4,324.6 million in 2014, primarily reflecting (1) a RMB1,469.9 million increase in interest income from advances to customers and securities lending, from RMB1,166.3 million in 2013 to RMB2,636.2 million in 2014, primarily resulting from the growth of our margin financing and securities lending business and (2) a RMB241.1 million increase in interest income from financial assets held under resale agreements, from RMB182.4 million in 2013 to RMB423.5 million in 2014, largely attributable to a significant increase in collateralized stock repurchase transactions in 2014.

**Comparison of 2012 and 2013.** Interest income increased by 52.4% from RMB1,541.2 million in 2012 to RMB2,349.2 million in 2013, primarily reflecting (1) a RMB788.2 million increase in interest income from advances to customers and securities lending, from RMB378.1 million in 2012 to RMB1,166.3 million in 2013, primarily resulting from the growth of our margin financing and securities lending business and (2) a RMB181.9 million increase in interest income from financial assets held under resale agreements, from RMB0.5 million in 2012 to RMB182.4 million in 2013, primarily because we entered into more reverse repurchase agreements and began to engage in collateralized stock repurchase transactions in 2013.

**Net Investment Gains**

The following table sets forth the components of net investment gains for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Net realized gains from disposal of available-for-sale financial assets .....	99.8	587.8	235.2
Dividend income and interest income from available-for-sale financial assets .....	522.3	796.4	1,128.5
Net realized (losses) gains from disposal of financial assets at fair value through profit or loss.....	(131.3)	111.6	1,302.5
Dividend income and interest income from financial assets at fair value through profit or loss .....	736.1	899.6	1,157.6
Interest income and net realized gains from loan and receivable investments .....	—	14.4	40.1
Net realized gains (losses) from derivatives .....	366.4	483.2	(685.5)
Unrealized fair value change of financial instruments at fair value through profit or loss			
financial assets at fair value through profit or loss .....	473.7	(573.7)	693.8
derivatives .....	(378.9)	205.8	(268.0)
Others .....	—	—	0.8
<b>Net investment gains .....</b>	<b>1,688.1</b>	<b>2,525.1</b>	<b>3,605.0</b>

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Net realized gains from the disposal of available-for-sale financial assets represent investment returns from our investment, trading and market-making activities. Dividend income and interest income from available-for-sale financial assets are dividends from equity investments and interest from fixed-income products we held as principal or as a market-maker. Net realized gains from the disposal of financial assets at fair value through profit or loss are gains we earn from trading or market-making in equity and fixed-income products that we purchase for the purpose of sale in the near term. Dividend income and interest income from financial assets at fair value through profit or loss are dividend from equity investments and interest income from fixed-income products that we purchase for the purpose of sale in the near term. Interest income and net realized gains from loan and receivable investments are investment returns on our investment in non-listed debt securities, trust products and other financial products. Net realized gains from derivatives are investment returns on our investment in derivatives. Unrealized fair value change of financial instruments at fair value through profit or loss are gains we receive or losses we incur from the fair value changes of such financial assets.

**Comparison of 2013 and 2014.** Net investment gains increased by 42.8% from RMB2,525.1 million in 2013 to RMB3,605.0 million in 2014, primarily reflecting (1) a RMB1,267.5 million increase in the unrealized fair value of financial assets at fair value through profit or loss in 2014, largely attributable to the improved performance of China’s securities markets in 2014, and (2) a RMB1,190.9 million increase in net realized gains from disposal of financial assets at fair value through profit or loss as we disposed of some of our equity securities at a gain in 2014. The increases were partially offset by a RMB1,168.7 million decrease in the net realized gains from derivatives in 2014, primarily reflecting a decrease in gains from stock index futures that we used to hedge our equity portfolio.

**Comparison of 2012 and 2013.** Net investment gains increased by 49.6% from RMB1,688.1 million in 2012 to RMB2,525.1 million in 2013, primarily because of (1) a RMB730.9 million increase in net realized gains from disposal of available-for-sale financial assets and financial assets at fair value through profit or loss, as we disposed of some of our equity securities at a gain in 2013, (2) a RMB584.7 million increase in unrealized fair value of derivatives in 2013, largely attributable to a significant increase in the unrealized value of stock index futures that we used to hedge our equity portfolio in 2013, and (3) a RMB274.1 million increase in dividend income and interest income from available-for-sale financial assets, primarily attributable to our increased trading and market-making activities in fixed-income products in 2013. These increases were partially offset by a RMB1,047.4 million decrease in unrealized fair value of financial assets at fair value through profit or loss in 2013, primarily reflecting a decrease in the unrealized fair value of our debt and equity securities and underlying assets of hedging transactions.

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**Expenses**

The following table sets forth the components of our expenses for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Depreciation and amortization.....	251.6	246.9	257.4
Staff costs.....	2,435.3	2,947.6	4,345.9
Commission and fee expenses.....	150.3	105.5	240.8
Interest expenses.....	500.4	1,378.6	2,757.7
Other operating expenses.....	1,341.6	1,451.9	2,100.4
Impairment losses.....	290.6	117.1	149.9
<b>Total expenses.....</b>	<b>4,969.8</b>	<b>6,247.6</b>	<b>9,852.1</b>

Our expenses primarily comprised (1) staff costs, including salaries, bonuses and allowances and other employee benefits, (2) commission and fee expenses incurred in our Investment Banking, Wealth Management and Investment Management segments, (3) interests we paid to the counterparties of repurchase agreements, our bond and short-term financing bill holders and our brokerage customers, and interests on our borrowings, and (4) other operating expenses. Other operating expenses consist of general and administrative expenses, business taxes and surcharges, operating lease rentals and securities investor protection fund expenses. Operating expenses accounted for 68.3%, 66.9% and 61.0% of our total revenue and other income in 2012, 2013 and 2014, respectively.

**Comparison of 2013 and 2014.** Our expenses increased by 57.7% from RMB6,247.6 million in 2013 to RMB9,852.1 million in 2014, primarily reflecting (1) a RMB1,379.1 million increase in interest expenses, from RMB1,378.6 million in 2013 to RMB2,757.7 million in 2014, primarily due to our issuance of corporate bonds, subordinated bonds and short-term financing bills, as well as our increased use of repurchase agreements and increased borrowings from banks and other financial institutions to fund our business activities in 2014 and (2) a RMB1,398.3 million increase in staff costs, from RMB2,947.6 million in 2013 to RMB4,345.9 million in 2014, primarily reflecting our efforts to optimize our staff composition and an increase in performance-based bonuses for employees resulting from our increased revenue in 2014.

**Comparison of 2012 and 2013.** Our expenses increased by 25.7% from RMB4,969.8 million in 2012 to RMB6,247.6 million in 2013, primarily reflecting (1) a RMB878.2 million increase in interest expenses, from RMB500.4 million in 2012 to RMB1,378.6 million in 2013, primarily due to our issuance of short-term financing bills and corporate bonds and our increased use of repurchase transactions to fund our bond investment in 2013 and (2) a RMB512.3 million increase in staff costs, from RMB2,435.3 million in 2012 to RMB2,947.6 million in 2013, primarily reflecting our efforts to

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optimize our staff composition, as well as an increase in performance-based bonuses for employees resulting from our increased revenue in 2013. The increases were offset in part by a RMB44.8 million decrease in our commission and fee expenses in 2013, primarily because we incurred lower expenses in our investment banking business.

We consider interest expenses, staff costs and commission and fee expenses as the three principal components of our expenses and important variables affecting our financial results. The following discussion addresses these expenses.

### Interest Expenses

The following table sets forth interest expenses for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Interest on liabilities that are wholly repayable within five years			
Accounts payable to brokerage clients <sup>(1)</sup> .....	140.2	111.8	138.2
Financial assets sold under repurchase agreements .....	202.2	438.9	843.4
Borrowings .....	3.5	4.0	16.3
Due to banks and other financial institutions .....	108.0	93.5	212.0
Short-term financing bills .....	46.5	398.6	544.2
Corporate bonds .....	—	75.9	213.1
Subordinated bonds .....	—	—	169.0
Long-term loans .....	—	—	54.7
Principals of <u>structured notes</u> .....	—	—	51.1
<u>Principals and deposits of equity return swaps</u> .....	—	2.5	35.5
Others .....	—	3.5	19.6
Interest on liabilities that are not wholly repayable within five years			
Corporate bonds .....	—	249.9	460.6
<b>Total interest expenses</b> .....	<b>500.4</b>	<b>1,378.6</b>	<b>2,757.7</b>

<sup>(1)</sup> represents interest expenses on deposits held on behalf of brokerage clients.

We incur interest expenses principally in respect of (1) outstanding bonds and short-term financing bills, (2) repurchase agreements, (3) accounts payable to brokerage clients and (4) amount due to banks and other financial institutions. Interest expenses accounted for 6.9%, 14.8% and 17.1% of our total revenue and other income in 2012, 2013 and 2014, respectively.

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**Comparison of 2013 and 2014.** Interest expenses increased by 100.0% from RMB1,378.6 million in 2013 to RMB2,757.7 million in 2014, primarily reflecting (1) a RMB404.5 million increase in interest expenses for financial assets sold under repurchase agreements, from RMB438.9 million in 2013 to RMB843.4 million in 2014, largely because of our increased use of repurchase agreements to fund our business activities, (2) a RMB347.9 million increase in interest expenses on corporate bonds, from RMB325.8 million in 2013 to RMB673.7 million in 2014, due to our issuance of corporate bonds in an aggregate principal amount of RMB12.0 billion in June 2013, (3) interest expenses of RMB169.0 million on subordinated bonds in 2014 as a result of our issuance of subordinated bonds in an aggregate principal amount of RMB12.2 billion in July and December 2014, (4) a RMB145.6 million increase in interest expenses on short-term financing bills, from RMB398.6 million in 2013 to RMB544.2 million in 2014, primarily due to the increases in principal amount and interest rates of short-term financing bills issued in 2014, (5) a RMB118.5 million increase in amount due to banks and other financial institutions from RMB93.5 million in 2013 to RMB212.0 million in 2014, primarily as a result of our liquidity management and (6) interest expenses of RMB54.7 million on long-term loans in 2014, resulting from our receipt of long-term loans of RMB3.0 billion in June and November 2014.

**Comparison between 2012 and 2013.** Interest expenses increased by 175.5% from RMB500.4 million in 2012 to RMB1,378.6 million in 2013, mainly reflecting (1) interest expenses of RMB325.8 million in 2013 resulting from our issuance of corporate bonds in an aggregate principal amount of RMB12.0 billion in June 2013, (2) a RMB352.1 million increase in interest expenses on short-term financing bills, from RMB46.5 million in 2012 to RMB398.6 million in 2013, primarily reflecting more issues of short-term financing bills in 2013 and (3) a RMB236.7 million increase in interest expenses for financial assets sold under repurchase agreements, from RMB202.2 million in 2012 to RMB438.9 million in 2013, primarily as a result of our increased use of repurchase agreements to fund our bond investments. These increases were offset in part by a RMB28.4 million decrease in interest expenses on accounts payable to brokerage clients in 2013 caused by a decrease in the daily average balances of customers’ brokerage deposit due to our brokerage clients’ withdrawals of brokerage deposits for other investments.

### Staff Costs

The following table sets forth staff costs for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Salaries, bonus and allowances .....	1,863.5	2,342.1	3,603.1
Social welfare .....	272.9	285.3	328.1
Contributions to annuity schemes.....	61.3	88.6	113.9
Early retirement benefits.....	46.3	20.0	10.9
Others.....	191.3	211.6	289.9
<b>Total staff costs .....</b>	<b>2,435.3</b>	<b>2,947.6</b>	<b>4,345.9</b>

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We operate in an industry that is highly competitive, and we continually seek to recruit, motivate and retain high-quality talent in order to compete effectively and expand into new business areas. Staff costs represented 33.4%, 31.6% and 26.9% as a percentage of total revenue and other income in 2012, 2013 and 2014, respectively.

**Comparison of 2013 and 2014.** Staff costs increased by 47.4% from RMB2,947.6 million in 2013 to RMB4,345.9 million in 2014, primarily reflecting a RMB1,261.0 million increase in salaries, bonus and allowances, from RMB2,342.1 million in 2013 to RMB3,603.1 million in 2014. The increase primarily reflected our efforts to optimize our staff composition, as well as an increase in performance-based bonuses for employees resulting from our increased revenue in 2014.

**Comparison between 2012 and 2013.** Staff costs increased by 21.0% from RMB2,435.3 million in 2012 to RMB2,947.6 million in 2013, primarily due to a RMB478.6 million increase in salaries, bonus and allowances, from RMB1,863.5 million in 2012 to RMB2,342.1 million in 2013. The increase primarily reflected our efforts to optimize our staff composition, as well as an increase in performance-based bonuses for employees resulting from our increased revenue in 2013.

**Commission and Fee Expenses**

The following table sets forth commission and fee expenses for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Securities and futures dealing and broking expenses .....	55.2	74.5	127.0
Underwriting and sponsors fee expenses .....	60.0	12.0	89.6
Other service expenses.....	35.1	19.0	24.2
<b>Total commission and fee expenses .....</b>	<b><u>150.3</u></b>	<b><u>105.5</u></b>	<b><u>240.8</u></b>

Commission and fee expenses primarily comprised (1) fees and commissions charged by exchanges, banks and other authorized institutions and (2) direct expenses incurred in connection with underwriting securities and commissions charged by other financial institutions for distributing securities underwritten by us. Commission and fee expense accounted for 2.1%, 1.1% and 1.5% of our total revenue and other income in 2012, 2013 and 2014, respectively.

**Comparison of 2013 and 2014.** Commission and fee expenses increased by 128.2% from RMB105.5 million in 2013 to RMB240.8 million in 2014. The increase was primarily due to (1) a RMB77.6 million increase in underwriting and sponsors fee expenses, from RMB12.0 million in 2013 to RMB89.6 million in 2014, primarily because we underwrote more IPOs in 2014, which led to higher commission expenses in our investment banking business and (2) a RMB52.5 million increase in securities and futures dealing and broking expenses, from RMB74.5 million in 2013 to RMB127.0 million in 2014, primarily resulting from increased stock and fund trading volumes of our brokerage clients.



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**Comparison of 2012 and 2013.** Commission and fee expenses decreased by 29.8% from RMB150.3 million in 2012 to RMB105.5 million in 2013. The decrease was primarily due to a RMB48.0 million decrease in underwriting and sponsors fee expenses, from RMB60.0 million in 2012 to RMB12.0 million in 2013, primarily due to decreased IPO activity after the CSRC slowed down issuing approvals for IPOs in October 2012, which led to lower commission expenses for our investment banking business. The decrease in underwriting and sponsors fee expenses was offset in part by a RMB19.3 million increase in securities and futures dealing and broking expenses, from RMB55.2 million in 2012 to RMB74.5 million in 2013, primarily resulting from the increased trading volumes of our brokerage clients.

### **Share of results of associates and joint ventures**

**Comparison of 2013 and 2014.** Our share of results of associates and joint ventures in 2014 was a profit of RMB337.2 million, a 14.2% decrease from in 2013, when we had a profit of RMB393.1 million, mainly due to our consolidation of GF Fund’s financial results with our financial statements since August 2014.

**Comparison of 2012 and 2013.** Our share of results of associates and joint ventures for 2013 was a profit of RMB393.1 million, a 5.0% increase from 2012, when we had a profit of RMB374.5 million.

### **Profit before Income Tax**

Profit before income tax is derived by adding or deducting our share of results of associates and joint ventures from our operating profit.

**Comparison of 2013 and 2014.** In 2014, our profit before income tax was RMB6,648.6 million, an increase of 91.2% from in 2013, when profit before income tax was RMB3,477.3 million. The increase was largely due to the increases in our commission and fee income from our investment banking and brokerage businesses and interest income from our margin financing and securities lending business and our increased investment gains, which were offset in part by the increases in our interest expenses and staff costs.

**Comparison of 2012 and 2013.** In 2013, our profit before income tax was RMB3,477.3 million, an increase of 29.5% from 2012, when our profit before income tax was RMB2,685.2 million. The increase was largely due to the increases in our interest income from our margin finances and securities lending business, commission and fee income from our brokerage business and investment gains in 2013, which were offset in part by the increases in our interest expenses and staff costs.

### **Income Tax Expense**

The PRC statutory enterprise corporate income tax rate is 25%, and our income tax rates in various regions in the PRC and in other jurisdictions vary. GF Xinde enjoyed a preferential enterprise income tax rate of 12% from May 25, 2012 to December 31, 2015. Our subsidiaries in Hong Kong were subject to income tax rates of 16.5% during the Track Record Period. Our subsidiaries in other jurisdictions were subject to income tax rates prevailing in those jurisdictions.



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In addition to applicable enterprise income tax rates, our effective enterprise income tax rates may also be affected by amounts relating to portions of income not subject to taxation and expenses, not deductible for tax purpose, unrecognized tax losses carried forward and utilization of tax losses for which no deferred income tax assets were recognized. In 2012, 2013 and 2014, our effective tax rate was 18.4%, 19.1% and 22.6%, respectively. The fluctuations in effective tax rates during the Track Record Period primarily reflected a decrease in the proportion of non-taxable income, such as share of results of associates and joint ventures, and revenues from subsidiaries that enjoy preferential treatment, such as GF Xinde, as a result of increased taxable revenue during the Track Record Period.

As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

**Comparison of 2013 and 2014.** Income tax expense increased by 126.1% from RMB664.7 million in 2013 to RMB1,503.1 million in 2014. Effective income tax rate increased from 19.1% in 2013 to 22.6% in 2014, primarily due to an increase in taxable revenue in 2014.

**Comparison of 2012 and 2013.** Income tax expense increased by 34.3% from RMB494.9 million in 2012 to RMB664.7 million in 2013. Effective income tax rate remained stable at 18.4% in 2012 as compared to 19.1% in 2013.

### Profit for the Year

The following table sets forth profit for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
Operating profit (RMB in millions) <sup>(1)</sup> .....	2,261.0	3,026.1	6,294.8
Operating margin <sup>(2)</sup> .....	31.3%	32.6%	39.0%
Adjusted operating margin <sup>(3)</sup> .....	34.4%	38.8%	47.9%
Profit for the year (RMB in millions) .....	2,190.3	2,812.6	5,145.5
Net margin <sup>(4)</sup> .....	30.3%	30.3%	31.9%
Adjusted net margin <sup>(5)</sup> .....	33.3%	36.1%	39.1%
Return on average equity <sup>(6)</sup> .....	6.8%	8.3%	13.5%
Return on average total assets <sup>(7)</sup> .....	2.6%	2.7%	2.8%

(1) Represents the difference between total revenue and total expenses.

(2) Calculated by dividing operating profit by total revenue.

(3) Adjusted operating margin = (total revenue - total expenses)/(total revenue - commission and fee expenses - interest expenses). Adjusted operating margin is not a standard measure under IFRS but is presented here because PRC securities companies present their operating revenues after deduction of commission and fee expenses and interest expenses under PRC GAAP, which is different from the practices for presenting the gross revenue under IFRS. We believe that, the adjusted operating margin and adjusted net margin provide appropriate indicators of our results of operations that are more comparable to other PRC securities companies due to different presentation requirements under PRC GAAP. Prospective investors should be aware that adjusted operating margin presented in this [Redacted] may not be comparable to other similarly titled measures reported by other companies due to different calculation methods or assumptions.

## **FINANCIAL INFORMATION**

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- (4) Calculated by dividing profit for the year by total revenue.
- (5) Adjusted net margin = (profit for the year)/(total revenue- commission and fee expenses- interest expenses). Adjusted net margin is not a standard measure under IFRS but is presented here for the reasons stated in note 3 above.
- (6) Calculated by dividing profit attributable to owners of the Company by the average balance of shareholders' equity at the end of the previous year and the end of the current year.
- (7) Calculated by dividing profit attributable to owners of the Company by the average balance of total assets at the end of the previous year and the end of the current year.

**Comparison of 2013 and 2014.** Profit for the year increased by 82.9% from RMB2,812.6 million in 2013 to RMB5,145.5 million in 2014. Net margin and adjusted net margin increased to 31.9% and 39.1% in 2014, respectively, from 30.3% and 36.1% in 2013, respectively.

Return on average equity increased from 8.3% in 2013 to 13.5% in 2014, primarily reflecting increased net profits of our securities brokerage, investment banking and margin financing and securities lending businesses and increased gains from our bond and equity investments. Return on average total assets remained stable at 2.8% in 2014 as compared with 2.7% in 2013.

**Comparison of 2012 and 2013.** Profit for the year increased by 28.4% from RMB2,190.3 million in 2012 to RMB2,812.6 million in 2013. Net margin remained unchanged at 30.3% between 2012 and 2013, while adjusted net margin increased from 33.3% in 2012 to 36.1% in 2013.

Return on average equity and return on average total assets increased to 8.3% and 2.7% in 2013, respectively, from 6.8% and 2.6% in 2012, respectively, primarily reflecting increased net profits of our margin financing and securities lending and securities brokerage businesses and increased gains from our equity investments.

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**SEGMENT OPERATING RESULTS**

The following table sets forth the segment revenue and other income, segment expense and profit before income tax of each of our segments for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in million)		
<b>Investment Banking</b>			
Segment revenue and other income .....	1,119.1	376.6	1,785.9
Segment expenses .....	(443.2)	(388.3)	(876.5)
Profit (loss) before income tax .....	675.9	(11.7)	909.4
Segment margin <sup>(1)</sup> .....	60.4%	(3.1%)	50.9%
<b>Wealth Management</b>			
Segment revenue and other income .....	3,460.7	5,396.9	8,703.3
Segment expenses .....	(2,186.7)	(3,042.6)	(4,656.6)
Profit before income tax .....	1,274.0	2,354.3	4,046.7
Segment margin <sup>(1)</sup> .....	36.8%	43.6%	46.5%
<b>Trading and Institutional Client Services</b>			
Segment revenue and other income .....	1,649.6	2,242.5	3,414.7
Segment expenses .....	(866.0)	(1,349.0)	(1,939.8)
Profit before income tax .....	783.6	893.5	1,474.9
Segment margin <sup>(1)</sup> .....	47.5%	39.8%	43.2%
<b>Investment Management</b>			
Segment revenue and other income .....	548.6	910.2	1,808.0
Segment expenses .....	(110.9)	(240.5)	(872.0)
Share of results of associates and joint ventures .....	374.5	394.0	336.7
Profit before income tax .....	812.2	1,063.7	1,272.7
Segment margin <sup>(1)</sup> .....	88.0%	81.6%	59.3%
<b>Others</b>			
Segment revenue and other income .....	502.5	405.6	451.6
Segment expenses .....	(1,363.0)	(1,227.2)	(1,507.2)
Share of results of associates and joint ventures .....	—	(0.9)	0.5
Loss before income tax .....	(860.5)	(822.5)	(1,055.1)
Segment margin <sup>(1)</sup> .....	(171.2%)	(203.2%)	(233.4%)

(1) Segment margin = Profit (loss) before income tax / (segment revenue and other income + share of the results of associates and joint ventures) (when applicable).

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**FINANCIAL INFORMATION**

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The following discusses, describes and compares each of our five segments’ revenue and other income, expenses and profit before income tax for the periods indicated:

**Investment Banking**

The following table sets forth selected information concerning our Investment Banking segment for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<b>(RMB in millions <u>except percentages</u>)</b>		
Segment revenue and other income .....	1,119.1	376.6	1,785.9
Segment expenses .....	(443.2)	(388.3)	(876.5)
Profit (loss) before income tax.....	675.9	(11.7)	909.4
Segment margin .....	60.4%	(3.1%)	50.9%

In our Investment Banking segment, we provide capital-raising services, including IPOs, follow-on offerings and fixed-income products or debt offerings, and we also offer financial advisory services. The Investment Banking segment contributed 15.4%, 4.0% and 11.1% of total revenue and other income for 2012, 2013 and 2014, respectively, and contributed 25.2% and 13.7% of profit before income tax for 2012 and 2014. We had loss before income tax of RMB11.7 million in the Investment Banking segment in 2013.

***Segment revenue and other income***

Segment revenue and other income from our Investment Banking segment primarily consists of underwriting, sponsorship and advisory fees from investment banking activities. We generally recognize fee and commission income in the Investment Banking segment only upon completion of a project.

***Comparison of 2013 and 2014.*** Segment revenue and other income increased by 374.2% from RMB376.6 million in 2013 to RMB1,785.9 million in 2014. The increase primarily reflected the growth of our equity underwriting business. We lead-managed 31 equity offerings in the PRC in 2014, compared to 6 equity offerings in 2013.

***Comparison of 2012 and 2013.*** Segment revenue and other income decreased by 66.3% from RMB1,119.1 million in 2012 to RMB376.6 million in 2013. We lead-managed 6 equity offerings in the PRC in 2013, compared to 16 equity offerings in 2012, which led to decreased commissions for our equity underwriting business.

***Segment expenses***

Segment expenses from our Investment Banking segment primarily include ordinary operating expenses, such as employees’ salaries and bonuses, as well as fee and commission expenses and business tax and surcharges that we incur in connection with our underwriting and other investment banking activities.

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**Comparison of 2013 and 2014.** Segment expenses increased by 125.7% from RMB388.3 million in 2013 to RMB876.5 million in 2014. The increase was primarily the result of the growth of our equity underwriting business in 2014, which led to higher operating expenses, underwriting expenses and related business tax and surcharges.

**Comparison of 2012 and 2013.** Segment expenses decreased by 12.4% from RMB443.2 million in 2012 to RMB388.3 million in 2013. We underwrote fewer equity offerings in 2013 and thus incurred less underwriting expenses and related business tax and surcharges.

### ***Profit (loss) before income tax***

**Comparison of 2013 and 2014.** We recorded profit before income tax of RMB909.4 million in 2014, compared to loss before income tax of RMB11.7 million in 2013, primarily reflecting the growth of our equity underwriting business.

**Comparison of 2012 and 2013.** We recorded a loss of RMB11.7 million in 2013, compared to profit before income tax of RMB675.9 million in 2012, primarily reflecting decreased revenue from our investment banking business due to decreased IPO activity after the CSRC slowed down issuing approvals for IPOs in October 2012.

### **Wealth Management**

The following table sets forth selected information concerning our Wealth Management segment for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions except percentages)		
Segment revenue and other income .....	3,460.7	5,396.9	8,703.3
Securities brokerage .....	2,647.7	3,626.2	5,254.0
Futures brokerage .....	434.4	439.3	410.3
Margin financing and securities lending.....	378.1	1,166.3	2,636.2
Reverse repurchase agreements .....	0.5	165.1	402.8
Segment expenses .....	(2,186.7)	(3,042.6)	(4,656.6)
Profit before income tax .....	1,274.0	2,354.3	4,046.7
Segment margin .....	36.8%	43.6%	46.5%

In our Wealth Management segment, we provide brokerage and investment advisory as well as margin financing and securities lending services to our retail clients, engage in reverse repurchase transactions and sell financial products developed by us and other financial institutions. The Wealth Management segment contributed 47.5%, 57.8% and 53.8% of total revenue and other income, and 47.4%, 67.7% and 60.9% of profit before income tax for 2012, 2013 and 2014, respectively.

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### ***Segment revenue and other income***

Segment revenue and other income from our Wealth Management segment primarily includes commissions from executing and clearing our clients' orders, as well as interest income from our margin financing and securities lending services and reverse repurchase transactions, and from our clients' brokerage deposits. In the ordinary course of our brokerage business, we hold cash on behalf of our customers, which we deposit in segregated trust accounts with qualified commercial banks. We are obligated to pay our brokerage customers interest on these brokerage deposits until they are withdrawn. The interest paid by the qualified commercial banks where we deposit these brokerage deposits exceeds the interest that we are required to pay to our customers. Interest income earned on brokerage deposits is subject to interest rate fluctuations.

***Comparison of 2013 and 2014.*** Segment revenue and other income increased by 61.3% from RMB5,396.9 million in 2013 to RMB8,703.3 million in 2014. The increase primarily reflected (1) the growth of our margin financing and securities lending business, with our total margin account balances increased from RMB19,945.1 million as of December 31, 2013 to RMB64,356.2 million as of December 31, 2014 and (2) increased trading in stock and funds by our brokerage clients, with total stock and fund trading volumes increased from RMB3,846.1 billion in 2013 to RMB6,733.5 billion in 2014.

***Comparison of 2012 and 2013.*** Segment revenue and other income increased by 55.9% from RMB3,460.7 million in 2012 to RMB5,396.9 million in 2013. The increase primarily reflected (1) increased trading in stock and funds by our brokerage clients, with total stock and fund trading volumes increased from RMB2,586.4 billion as of December 31, 2012 to RMB3,846.1 billion as of December 31, 2013 and (2) the growth of our margin financing and securities lending business, with our total margin account balances increased from RMB5,183.0 million as of December 31, 2012 to RMB19,945.1 million as of December 31, 2013.

### ***Segment expenses***

Segment expenses from our Wealth Management segment consist mainly of expenses incurred by our brokerage branches, such as property and building rental costs, salaries and bonuses, interest expenses associated with margin financing and securities lending and repurchase transactions and on our clients' brokerage deposits, brokerage handling fee expenses, information technology-related expenses, and business tax and surcharges. Brokerage handling fee expenses incurred by us arise primarily in the course of effecting brokerage trades on behalf of customers and consist mostly of levies from various intermediaries such as stock exchanges.

***Comparison of 2013 and 2014.*** Segment expenses increased by 53.0% from RMB3,042.6 million in 2013 to RMB4,656.6 million in 2014. The increase was primarily the result of the growth of our margin financing and securities lending business, which led to higher interest expenses and business taxes.

***Comparison of 2012 and 2013.*** Segment expenses increased by 39.1% from RMB2,186.7 million in 2012 to RMB3,042.6 million in 2013. The increase was primarily the result of the growth of our margin financing and securities lending business, which led to higher interest expenses and business taxes.

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**FINANCIAL INFORMATION**

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***Profit before income tax***

***Comparison of 2013 and 2014.*** Profit before income tax increased by 71.9% from RMB2,354.3 million in 2013 to RMB4,046.7 million in 2014. Segment margin increased from 43.6% in 2013 to 46.5% in 2014, primarily reflecting the growth of our margin financing and securities lending and brokerage businesses.

***Comparison of 2012 and 2013.*** Profit before income tax in 2013 increased by 84.8% from RMB1,274.0 million in 2012 to RMB2,354.3 million in 2013. Segment margin increased from 36.8% in 2012 to 43.6% in 2013, primarily reflecting the growth of our margin financing and securities lending and brokerage businesses.

**Trading and Institutional Client Services**

The following table sets forth selected information concerning our Trading and Institutional Client Services segment for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions, except percentages)		
Segment revenue and other income.....	1,649.6	2,242.5	3,414.7
Segment expenses .....	(866.0)	(1,349.0)	(1,939.8)
Profit before income tax .....	783.6	893.5	1,474.9
Segment margin .....	47.5%	39.8%	43.2%

In our Trading and Institutional Client Services segment, we engage in market making and proprietary trading of equity and equity-linked products, fixed-income products and derivatives and provide trading advisory and execution, investment research and prime brokerage services to institutional clients, and engage in market making and proprietary trading of equities and equity-linked products, fixed-income products and derivatives. In 2012, 2013 and 2014, Trading and Institutional Client Services segment contributed 22.7%, 24.0% and 21.1%, respectively, of our total revenue and other income and 29.2%, 25.7% and 22.2%, respectively, of our profit before income tax. In 2012, 2013 and 2014, net investment gains from proprietary trading activities amounted to RMB1,011.7 million, RMB1,523.3 million and RMB2,123.1 million, respectively, accounting for 61.3%, 67.9% and 62.2% of our revenue and other income from the Trading and Institutional Client Services segment, respectively, and 13.9%, 16.3% and 13.1% of our total revenue and other income, respectively.

***Segment revenue and other income***

Segment revenue and other income from our Trading and Institutional Client Services segment is primarily comprised of the investment gains from our proprietary trading and market-making activities and the commissions and fees we receive from providing investment research and prime brokerage services to institutional clients.



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**Comparison of 2013 and 2014.** Segment revenue and other income increased by 52.3% from RMB2,242.5 million in 2013 to RMB3,414.7 million in 2014. The increase was primarily attributable to our increased fixed-income market-making and trading activities and the improved performance of China’s bond market in 2014.

**Comparison of 2012 and 2013.** Segment revenue and other income increased by 35.9% from RMB1,649.6 million in 2012 to RMB2,242.5 million in 2013. The increase was primarily attributable to improved performance of our equity portfolio in 2013.

### **Segment expenses**

Segment expenses from the Trading and Institutional Client Services segment arise primarily from interest expenses, general administrative expenses such as salaries and bonuses, recognized impairment and business tax and surcharges.

**Comparison of 2013 and 2014.** Segment expenses increased by 43.8% from RMB1,349.0 million in 2013 to RMB1,939.8 million in 2014. The increase was primarily due to increased interest expenses associated with increased financing activities to fund our increased fixed-income market-making and trading activities.

**Comparison of 2012 and 2013.** Segment expenses increased by 55.8% from RMB866.0 million in 2012 to RMB1,349.0 million in 2013. The increase was primarily due to increased interest expenses associated with increased financing activities to fund our increased fixed-income market-making and trading activities.

### **Profit before income tax**

**Comparison of 2013 and 2014.** Profit before income tax increased by 65.1% from RMB893.5 million in 2013 to RMB1,474.9 million in 2014. Segment margin increased from 39.8% in 2013 to 43.2% in 2014, primarily reflecting increased gains from fixed-income market-making and trading activities resulting from the improved performance of China’s bond market.

**Comparison of 2012 and 2013.** Profit before income tax increased by 14.0% from RMB783.6 million in 2012 to RMB893.5 million in 2013. Segment margin decreased from 47.5% in 2012 to 39.8% in 2013, primarily reflecting increased interest expenses associated with increased financing activities to fund our increased fixed-income market-making and trading activities.



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**Investment Management**

The following table sets forth selected information concerning our Investment Management segment for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions, except percentages)		
Segment revenue and other income .....	548.6	910.2	1,808.0
Segment expenses .....	(110.9)	(240.5)	(872.0)
Share of results of associates and joint ventures .....	374.5	394.0	336.7
Profit before income tax .....	812.2	1,063.7	1,272.7
Segment margin .....	88.0%	81.6%	59.3%

In our Investment Management segment, we manage asset management schemes, investment funds and private equity funds for our clients through our wholly owned subsidiary, GF Asset Management, and GF Fund and E Fund, in which we held equity interest of 51.13% and 25.0% as of December 31, 2014. We also engage in private equity and alternative investments through our wholly owned subsidiaries, GF Xinde and GF Qianhe. In 2012, 2013 and 2014, our investment management segment contributed 7.5%, 9.8% and 11.2%, respectively, of our total revenue and other income and 30.2%, 30.6% and 19.1% of our profit before income tax.

***Segment revenue and other income***

Segment revenue and other income from our Investment Management segment primarily consists of management and advisory fees we charge our clients for managing asset management schemes, investment funds and private equity funds, as well as income from exiting our private equity and alternative investments.

***Comparison of 2013 and 2014.*** Segment revenue and other income increased by 98.6% from RMB910.2 million in 2013 to RMB1,808.0 million in 2014. The increase primarily reflected our consolidation of GF Fund’s financial results since August 2014, as well as an increase in the AUM of GF Asset Management, from RMB135,784 million as of December 31, 2013 to RMB196,777 million as of December 31, 2014.

***Comparison of 2012 and 2013.*** Segment revenue and other income increased by 65.9% from RMB548.6 million in 2012 to RMB910.2 million in 2013. The increase primarily reflected a significant increase in the AUM of GF Asset Management, from RMB21,678.0 million as of December 31, 2012 to RMB135,784.0 million as of December 31, 2013, as well as a RMB243.2 million gain from investment in a trust product by GF Qianhe in 2013.

***Segment expenses***

Segment expenses from our Investment Management segment consist mainly of fund marketing expenses and staff costs.

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**Comparison of 2013 and 2014.** Segment expenses increased by 262.6% from RMB240.5 million in 2013 to RMB872.0 million in 2014. The increase was primarily the result of our consolidation of GF Fund’s financial results, including its operating expenses, since August 2014.

**Comparison of 2012 and 2013.** Segment expenses increased by 116.9% from RMB110.9 million in 2012 to RMB240.5 million in 2013. The increase was primarily due to increased fees incurred by GF Asset Management and GF Qianhe reflecting its business growth and increased revenue.

**Profit before income tax**

**Comparison of 2013 and 2014.** Profit before income tax increased by 19.6% from RMB1,063.7 million in 2013 to RMB1,272.7 million in 2014, primarily attributable to increased revenue of GF Asset Management driven by its business growth. Segment margin decreased from 81.6% in 2013 to 59.3% in 2014, primarily reflecting our consolidation of GF Fund’s financial results since August 2014.

**Comparison of 2012 and 2013.** Profit before income tax increased by 31.0% from RMB812.2 million in 2012 to RMB1,063.7 million in 2013. The increase was primarily attributable to increased revenue of GF Qianhe resulting from investment in a trust product in 2013. Segment margin decreased from 88.0% in 2012 to 81.6% in 2013, primarily reflecting increased fees incurred by GF Asset Management and GF Qianhe reflecting its business growth and increased revenue.

**Others**

The following table sets forth selected information concerning our Others segment for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions, except percentages)		
Segment revenue and other income .....	502.5	405.6	451.6
Segment expenses .....	(1,363.0)	(1,227.2)	(1,507.2)
Share of results of associates and joint ventures .....	—	(0.9)	0.5
Loss before income tax .....	(860.5)	(822.5)	(1,055.1)
Segment margin .....	(171.2%)	(203.2%)	(233.4%)

The Others segment contributed 6.9%, 4.4% and 2.8% of total revenue and other income for 2012, 2013 and 2014, respectively. In 2012, 2013 and 2014, loss before income tax from the Others segment amounted to RMB860.5 million, RMB822.5 million and RMB1,055.1 million, respectively.

**Segment revenue and other income**

Revenue and other income for the Others segment primarily include interest income from cash deposits of our headquarters.

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**Comparison of 2013 and 2014.** Segment revenue and other income increased by 11.3% from RMB405.6 million in 2013 to RMB451.6 million in 2014. The increase primarily reflected an increase in interest income from cash deposits of our headquarters.

**Comparison of 2012 and 2013.** Segment revenue and other income decreased by 19.3% from RMB502.5 million in 2012 to RMB405.6 million in 2013. The decrease primarily reflected a decrease in interest income from cash deposits of our headquarters.

### **Segment expenses**

Segment expenses from the Others segment consist mainly of operating expenses incurred by our headquarters.

**Comparison of 2013 and 2014.** Segment expenses increased by 22.8% from RMB1,227.2 million in 2013 to RMB1,507.2 million in 2014. The increase primarily reflected an increase in operating expenses incurred by our headquarter as a result of our increased revenue in 2014.

**Comparison of 2012 and 2013.** Segment expenses decreased by 10.0% from RMB1,363.0 million in 2012 to RMB1,227.2 million in 2013. The decrease primarily reflected a decrease in operating expenses incurred by our headquarters.

### **Loss before income tax**

**Comparison of 2013 and 2014.** Loss before income tax increased by 28.3% from RMB822.5 million in 2013 to RMB1,055.1 million in 2014. Segment margin decreased from negative 203.2% in 2013 to negative 233.4% in 2014, primarily reflecting increased segment expenses due to an increase in operating expenses incurred by our headquarter as a result of our increased revenue in 2014.

**Comparison of 2012 and 2013.** Loss before income tax decreased by 4.4% from RMB860.5 million in 2012 to RMB822.5 million in 2013. Segment margin decreased from negative 171.2% in 2012 to negative 203.2% in 2013, primarily reflecting a decrease in interest income from cash deposits of our headquarters.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

We have historically met our funding and capital requirements primarily with cash inflows generated from our operating activities, issuances of short-term financing bills, corporate bonds, subordinated bonds and securities-firm short-term corporate bond, short-term repurchase agreements, amount due to banks and other financial institutions and borrowings. We manage liquidity primarily by monitoring the maturities of our assets and liabilities in an effort to ensure that we have sufficient funds to meet payment obligations when they fall due, through the use of low-risk instruments such as bank deposits and repurchase agreements. We seek to maintain stable sources of funding and liquidity, but will vary our positions in such low-risk instruments, primarily on the basis of the interest rates offered or charged on different instruments at different times.

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**FINANCIAL INFORMATION**

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**Cash Flows**

The following table sets forth selected cash flow statement information for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
Net cash used in operating activities.....	(5,021.2)	(7,024.6)	(15,040.5)
Net cash used in investing activities .....	(568.4)	(8,022.5)	(8,723.4)
Net cash from financing activities.....	6,014.1	12,372.2	36,106.6
Net increase (decrease) in cash and cash equivalents .....	424.5	(2,674.9)	12,342.7
Cash and cash equivalents at beginning of the year.....	8,886.5	9,310.7	6,628.5
Effect of foreign exchange rate changes.....	(0.3)	(7.3)	2.4
Cash and cash equivalents at end of the year .....	9,310.7	6,628.5	18,973.6

***Operating activities***

Operating activities include our commission and fee based services, such as underwriting, financial advisory, brokerage and asset management services, margin financing, purchases and sales of financial assets at fair value through profit or loss, repurchase and reverse repurchase transactions, and other operating activities.

***Comparison of 2013 and 2014.*** Net cash used in operating activities was RMB15,040.5 million in 2014, a 114.1% increase from net cash used in operating activities of RMB7,024.6 million in 2013. The increase primarily reflected (1) a RMB28,961.0 million increase in cash outflow from advances to customers, primarily reflecting the growth of our margin financing and securities lending business in 2014, (2) a RMB2,645.3 million increase in cash outflow from reverse repurchases, primarily because we entered into a greater volume of reverse repurchase transactions in 2014 and (3) cash outflow from decrease in amount due to banks and other financial institutions of RMB4,177.0 million in 2014, compared to cash inflow from increase in amount due to banks and other financial institutions of RMB1,960.0 million in 2013, primarily as a result of our liquidity management. These increases were partially offset by a RMB24,753.6 million increase in cash inflow from repurchase agreements, primarily because we entered into a greater volume of repurchase transactions in 2014.

***Comparison of 2012 and 2013.*** Net cash used in operating activities was RMB7,024.6 million in 2013, a 39.9% increase from net cash used in operating activities of RMB5,021.2 million in 2012. This increase was primarily due to (1) a RMB12,832.9 million increase in cash outflow from advances to customers, primarily reflecting the growth of our margin financing and securities lending business in 2013 and (2) a RMB4,677.5 million increase in cash outflow from resale agreements, primarily because we entered into a greater volume of reverse repurchase transactions in 2013. These increases were partially offset by (1) a RMB9,417.3 million increase in cash inflow from repurchase

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agreements, primarily attributable to our increased use of repurchase agreements to fund our bond investments in 2013 and (2) a RMB5,428.1 million decrease in cash outflow from financial assets at fair value through profit or loss in 2013, primarily due to higher cash outflow from monetary fund investments in 2012 as compared with 2013.

### ***Investing activities***

Investing activities primarily include purchases and disposal of available-for-sale financial assets, purchase and disposal of property and equipment and intangible assets, and the acquisition and disposal of subsidiaries and associates and other investment activities.

***Comparison of 2013 and 2014.*** Net cash used in investing activities in 2014 was RMB8,723.4 million, an 8.7% increase from net cash used in investing activities of RMB8,022.5 million in 2013. The increase was primarily due to increased net cash outflow as a result of our increased investment in available-for-sale financial assets based on market conditions in 2014.

***Comparison of 2012 and 2013.*** Net cash used in investing activities in 2013 was RMB8,022.5 million, a 1,311.4% increase from net cash used in investing activities of RMB568.4 million in 2012. The increase was primarily due to increased net cash outflow as a result of our increased investment in available-for-sale financial assets in 2013.

### ***Financing activities***

Financing activities primarily include issuance of short-term financing payables and long-term bonds, borrowings and repayments, the distribution of dividends to our Shareholders and the payment of interest on our debt instruments.

***Comparison of 2013 and 2014.*** Net cash generated from financing activities was RMB36,106.6 million in 2014, a 191.8% increase from net cash generated from financing activities of RMB12,372.2 million in 2013. The increase was mainly due to (1) a RMB21,102.7 million increase in cash proceeds from short-term financing payables and bonds issuances and (2) cash proceeds of RMB3,000.0 million from long-term loans, which were partially offset by (1) a RMB765.5 million increase in repayment of interests on short-term financing bills and bonds issued by us and (2) a RMB338.0 million increase in cash dividends paid to Shareholders.

***Comparison of 2012 and 2013.*** Net cash generated from financing activities in 2013 was RMB12,372.2 million, a 105.7% increase from net cash generated of RMB6,014.1 million in 2012. The increase was primarily the result of our issuance of corporate bonds with aggregate principal amount of RMB12.0 billion in June 2013, which was partially offset by a RMB6.0 billion decrease in proceeds from our issuance of short-term financing bills in 2013 as compared to 2012.

**FINANCIAL INFORMATION**

**Assets and Liabilities**

In order to ensure appropriate liquidity management and capital allocation, we dynamically monitor the size and composition of our balance sheet and seek to maintain a liquid balance sheet. The major portion of our balance sheet consists of current assets and liabilities, on account of the highly liquid nature of our business.

**Current assets and liabilities**

The following table sets forth the components of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of
	2012	2013	2014	January 31,
				2015
				(Unaudited)
	(RMB in millions)			
<b>Current assets</b>				
Advances to customers .....	5,246.5	20,490.7	64,695.8	70,119.0
Due from banks .....	—	—	1,000.0	—
Prepaid lease payments .....	9.6	9.6	9.6	9.6
Accounts receivable <sup>(1)</sup> .....	337.6	322.6	1,267.4	1,986.3
Other accounts receivable, other receivables and prepayments .....	677.1	1,516.3	1,893.3	2,419.7
Amounts due from associates .....	12.3	16.1	8.3	0.3
Available-for-sale financial assets.....	11,781.0	19,690.3	32,300.2	31,249.3
Loan and receivable investments .....	—	50.0	402.7	496.8
Financial assets held under resale agreements.....	74.2	3,375.2	11,800.7	8,491.2
Financial assets at fair value through profit or loss .....	21,787.6	23,610.3	26,936.7	28,593.7
Derivative financial assets.....	0.1	57.4	91.3	101.8
Deposits with exchanges and non-bank financial institutions .....	2,958.0	2,581.7	3,029.9	3,351.0
Clearing settlement funds .....	5,018.2	5,656.3	22,624.8	14,767.0
Pledged and restricted bank deposits .....	381.8	549.5	401.1	473.9
Bank balances .....	36,378.8	31,374.1	67,199.4	85,699.8
House accounts .....	9,033.3	6,146.7	18,203.5	24,016.1
Cash held on behalf of customers .....	27,345.5	25,227.4	48,995.9	61,683.7
<b>Total current assets.....</b>	<b>84,662.8</b>	<b>109,300.1</b>	<b>233,661.2</b>	<b>247,759.4</b>

<sup>(1)</sup> Accounts receivable increased from RMB337.6 million as of December 31, 2012 to RMB1,267.4 million as of December 31, 2014, primarily as a result of the expansion of our business and the consolidation of GF Fund in 2014.

**FINANCIAL INFORMATION**

	As of December 31,			As of
	2012	2013	2014	January 31,
				2015
				(Unaudited)
	(RMB in millions)			
<b>Current liabilities</b>				
Borrowings.....	246.0	444.1	1,285.9	1,307.9
Short-term financing payables .....	7,546.4	9,044.5	29,536.7	26,299.6
Due to banks and other financial institutions.	3,340.0	5,300.0	1,123.0	6,623.0
Accounts payable to brokerage clients.....	34,287.6	31,609.2	71,465.6	73,730.8
Accrued staff costs.....	1,198.5	1,666.0	3,201.9	3,403.5
Other accounts payable, other payables and accruals .....	502.0	2,151.5	2,714.1	3,041.7
Provisions .....	49.2	47.9	33.4	33.4
Current tax liabilities .....	321.5	399.3	1,081.2	578.4
Other liabilities .....	469.6	369.9	4,283.3	5,496.5
Derivative financial liabilities .....	0.2	79.5	87.3	158.6
Financial assets sold under repurchase agreements.....	8,850.5	19,399.8	50,717.7	51,949.0
Bonds payable within one year.....	—	—	—	1,849.7
<b>Total current liabilities</b> .....	<b>56,811.5</b>	<b>70,511.7</b>	<b>165,530.1</b>	<b>174,472.1</b>
<b>Net current assets</b> .....	<b>27,851.3</b>	<b>38,788.4</b>	<b>68,131.1</b>	<b>73,287.3</b>
<b>Current ratio</b> <sup>(1)</sup> .....	<b>1.5</b>	<b>1.6</b>	<b>1.4</b>	<b>1.4</b>

(1) Current ratio is calculated by dividing current assets by current liabilities.

Current assets consist primarily of (1) bank balances (including cash held on behalf of customers resulting from our brokerage business), (2) advances to customers resulting from our margin financing and securities lending business, (3) financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial assets primarily resulting from our market-making and proprietary trading of various investment products for different purposes, and (4) clearing settlement funds resulting from our brokerage business. Current liabilities consist primarily of (1) accounts payable to brokerage clients resulting from our brokerage business, (2) financial assets sold under repurchase agreements resulting from the repurchase agreements we enter into, (3) derivative financial liabilities resulting from our market-making and proprietary trading of derivative products and (4) short-term financing payables. Please see note 3 of the Accountants’ Report on pages I-31, I-32 and I-35 for details of the accounting policies in respect of financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments.



## **FINANCIAL INFORMATION**

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Current assets increased by 6.0% from RMB233,661.2 million as of December 31, 2014 to RMB247,759.4 million as of January 31, 2015, primarily because of (1) a RMB12,687.8 million increase in cash held on behalf of customers, primarily reflecting the growth of our brokerage business, (2) a RMB5,423.2 million increase in advances to customers resulting from the growth of our margin financing and securities lending business and (3) a RMB1,657.0 million increase in financial assets at fair value through profit or loss, primarily reflecting our increased bond investments.

Current liabilities increased by 5.4% from RMB165,530.1 million as of December 31, 2014 to RMB174,472.1 million as of January 31, 2015, primarily because of (1) a RMB 5,500.0 million increase in amount due to banks and other financial institutions, primarily as a result of our liquidity management, (2) a RMB2,265.2 million increase in accounts payable to brokerage clients, primarily reflecting the growth of our brokerage business, (3) a RMB1,849.7 million increase in bonds payable within one year, primarily because of our issuance of structured notes in December 2014 with remaining maturity of less than one year as of January 31, 2015 and (4) a RMB1,231.3 million increase in financial assets sold under repurchase agreements, primarily reflecting our increased use of repurchase agreements to fund our business activities.

Current ratio remained unchanged as of December 31, 2014 compared to January 31, 2015.

Current assets increased by 113.8% from RMB109,300.1 million as of December 31, 2013 to RMB233,661.2 million as of December 31, 2014, primarily because of (1) a RMB44,205.1 million increase in advances to customers resulting from the growth of our margin financing and securities lending business, (2) a RMB23,768.5 million increase in cash held on behalf of customers and a RMB16,968.5 million increase in clearing settlement funds, primarily reflecting the growth of our brokerage business, (3) a RMB12,609.9 million increase in available-for-sale financial assets, primarily reflecting our increased bond investments, (4) a RMB8,425.5 million increase in financial assets held under resale agreements, primarily because we entered into a greater volume of reverse repurchase transactions in 2014 and (5) a RMB3,326.4 million increase in financial assets at fair value through profit or loss, primarily reflecting our increased bond investments.

Current liabilities increased by 134.8% from RMB70,511.7 million as of December 31, 2013 to RMB165,530.1 million as of December 31, 2014, primarily reflecting (1) a RMB39,856.4 million increase in accounts payable to brokerage clients, primarily because of the growth of our brokerage business, (2) a RMB31,317.9 million increase in financial assets sold under repurchase agreements, primarily reflecting our increased use of repurchase agreements to fund our business activities and (3) a RMB20,492.2 million increase in short-term financing payables, primarily reflecting our issuances of short-term financing bills and securities-firm short-term corporate bonds to fund our business activities in 2014 and (4) a RMB3,913.4 million increase in other liabilities, primarily reflecting an increase in third-party interests in CAM schemes and fund products driven by the growth of our asset management and fund management businesses.



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**FINANCIAL INFORMATION**

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Current ratio decreased from 1.6 as of December 31, 2013 to 1.4 as of December 31, 2014, primarily due to an increase in accounts payable to brokerage clients due to the growth of our brokerage business, as well as our increased use of repurchase agreements and issuances of short-term financing bills and securities-firm short-term corporate bonds to fund our business activities in 2014.

Current assets increased by 29.1% from RMB84,662.8 million as of December 31, 2012 to RMB109,300.1 million as of December 31, 2013, primarily reflecting (1) a RMB15,244.2 million increase in advances to customers resulting from the growth of our margin financing and securities lending business, (2) a RMB7,909.3 million increase in available-for-sale financial assets, primarily reflecting increased bond investments, and (3) a RMB3,301.0 million increase in financial assets held under resale agreements, primarily because we entered into a greater volume of reverse repurchase transactions in 2013.

Current liabilities increased by 24.1% from RMB56,811.5 million as of December 31, 2012 to RMB70,511.7 million as of December 31, 2013, primarily reflecting a RMB10,549.3 million increase in financial assets sold under repurchase agreements, reflecting our increased use of repurchase agreements to fund our business activities.

Current ratio increased from 1.5 as of December 31, 2012 to 1.6 as of December 31, 2013, primarily reflecting the growth of our margin financing and securities lending business.

***Adjusted assets and liabilities***

Deposits from brokerage customers form a significant component of both our current assets, reflected as cash held on behalf of customers and clearing settlement funds, and deposits with exchanges and non-bank financial institutions held on behalf of customers, and our current liabilities, reflected under accounts payable to brokerage clients. Customer deposits fluctuate based on our customers’ trading activity, financial market conditions and other factors extrinsic to our business; consequently, although we earn some interest income from these deposits, customer deposits tend not to be meaningful indicators of our financial condition. We have therefore adjusted our assets and liabilities in the following presentation and discussion to exclude the effect of customer deposits.

The following table sets forth our adjusted assets and liabilities as of the dates indicated:

	As of December 31,			As of January 31,
	2012	2013	2014	2015
	(RMB in millions)			
Adjusted current assets <sup>(1)</sup> .....	50,375.2	77,690.9	162,195.6	174,028.6
Adjusted current liabilities <sup>(2)</sup> .....	22,523.9	38,902.5	94,064.5	100,741.3
Adjusted Current Ratio <sup>(3)</sup> .....	2.2	2.0	1.7	1.7

## FINANCIAL INFORMATION

- (1) Adjusted current assets equals total current assets less accounts payable to brokerage clients, the latter representing the amount of deposits held by us on behalf of our brokerage clients.
- (2) Adjusted current liabilities equals total current liabilities less accounts payable to brokerage clients.
- (3) Adjusted current ratio is calculated by dividing adjusted current assets by adjusted current liabilities.

### *Non-current assets and liabilities*

The following table sets forth the components of non-current assets and liabilities as of the dates indicated:

	As of December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Non-current assets</b>			
Property and equipment .....	991.7	1,043.3	1,287.5
Prepaid lease payments .....	346.6	337.0	327.3
Investment properties .....	23.9	28.7	27.0
Goodwill .....	—	2.0	2.0
Other intangible assets .....	65.3	100.8	152.5
Interests in associates .....	1,995.4	2,321.8	1,548.8
Interests in joint ventures .....	—	27.8	35.4
Available-for-sale financial assets .....	1,508.7	1,913.6	2,109.9
Loan and receivable investments .....	—	270.6	206.0
Financial assets held under resale agreements .....	—	1,450.7	431.9
Pledged and restricted bank deposits .....	80.0	80.0	80.0
Deferred tax assets .....	181.4	415.8	230.2
<b>Total non-current assets .....</b>	<b>5,193.0</b>	<b>7,992.1</b>	<b>6,438.5</b>
<b>Non-current liabilities</b>			
Financial assets sold under repurchase agreements .....	—	—	4,050.0
Deferred tax liabilities .....	89.5	57.8	111.5
Bonds payable .....	—	11,979.7	26,030.7
Long-term loans .....	—	—	3,000.0
<b>Total non-current liabilities .....</b>	<b>89.5</b>	<b>12,037.5</b>	<b>33,192.2</b>

Most of our non-current assets are in the form of equity investments. These are reflected on our balance sheet as available-for-sale financial assets, interests in associates and interests in joint ventures. Interests in associates and interests in joint ventures are strategic investments, while non-current available-for-sale financial assets are mainly equity investments in unlisted companies. These non-current investments amounted to RMB3,694.1 million as of December 31, 2014 and were 57.4% of our non-current assets.

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## **FINANCIAL INFORMATION**

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Excluding non-current investments, property and equipment are the largest component of our non-current assets. Property and equipment mostly comprised real property used for operational purposes, and accounted for 20.0% of our non-current assets as of December 31, 2014.

Non-current assets decreased from RMB7,992.1 million as of December 31, 2013 to RMB6,438.5 million as of December 31, 2014, primarily due to (1) the consolidation of GF fund’s financial results caused by our capital injection into GF Fund in August 2014, resulting in a decrease in interests in associates and (2) a RMB1,018.8 million decrease in financial assets held under resale agreements, primarily because we entered into fewer reverse repurchase transactions with maturities exceeding one year in response to client demand.

Non-current assets increased from RMB5,193.0 million as of December 31, 2012 to RMB7,992.1 million as of December 31, 2013, primarily due to (1) a RMB1,450.7 million increase in financial assets held under resale agreements, primarily reflecting our entering into more collateralized stock repurchase agreements with maturities of over one year in 2013, (2) a RMB404.9 million increase in available-for-sale financial assets, primarily attributable to our increased investments in CAM and TAM schemes in 2013, and (3) a RMB326.4 million increase in our interests in associates, reflecting our share of the profits and other comprehensive income, net of dividends, of E Fund and GF Fund, and our increased investment in Guangdong Equity Exchange Center Co., Ltd. in 2013, in which we held an equity interest of 32.5% as of December 31, 2013.

Non-current liabilities increased by 175.7% from RMB12,037.5 million as of December 31, 2013 to RMB33,192.2 million as of December 31, 2014, primarily reflecting (1) a RMB14,051.0 million increase in bonds payable, reflecting our issuance of subordinated bonds in an aggregate principal amount of RMB12.2 billion in 2014, (2) a RMB4,050.0 million increase in financial assets sold under repurchase agreements, reflecting our increased use of repurchase agreements to fund our business activities and (3) long-term loans of RMB3,000.0 million from CITIC Trust Co., Ltd. in 2014.

Non-current liabilities increased by 13,349.7% from RMB89.5 million as of December 31, 2012 to RMB12,037.5 million as of December 31, 2013, primarily reflecting a RMB11,979.7 million increase in bonds payable, reflecting our issuance of corporate bonds in an aggregate principal amount of RMB12.0 billion in 2013.

### **INDEBTEDNESS**

#### **Bank Borrowings**

We had short-term bank borrowings of RMB246.0 million, RMB444.1 million, RMB1,285.9 million and RMB1,307.9 million as of December 31, 2012, 2013, 2014 and January 31, 2015, respectively, all of which were repayable on demand. As of December 31, 2012, 2013 and 2014 and January 31, 2015, RMB246.0 million, RMB444.1 million, RMB568.0 million and RMB421.2 million, respectively, of our short-term borrowings were secured by bank deposits and securities pledged by margin financing clients. In addition, as of December 31, 2013, RMB29.4 million of our bank borrowings were secured with bills receivables of GF Commodity Markets Co., Ltd., our wholly owned subsidiary, with principal amount of RMB30.0 million.

**FINANCIAL INFORMATION**

We incurred bank borrowings primarily to fund our working capital requirements. The following table sets forth the range of interest rates of our short-term bank borrowings as of the dates indicated:

	As of December 31,			As of January 31,
	2012	2013	2014	2015
				(Unaudited)
<b>Bank Borrowings</b>				
Interest rates (per annum) .....	Hibor +1%- Hibor+2% or Libor+2.2%	Hibor +1%- Hibor+2% or Libor+1%	Hibor +1%- Hibor+2.4% or Libor+1%	Hibor +1%- Hibor+2.4% or Libor+1%

During the Track Record Period, we did not experience any difficulties in refinancing our bank loans. As of January 31, 2015, we had unutilized banking facilities of HK\$2.5 billion.

**Short-term Financing Bills**

During the Track Record Period and up to January 31, 2015, we issued 32 tranches of short-term financing bills in an aggregate principal amount of RMB96.9 billion on the PRC inter-bank market. All of our short-term financing bills are unsecured and unguaranteed. As of January 31, 2015, we had outstanding short-term financing bills of RMB8.5 billion, all of which were repayable within three months from the issuance date. We used the net proceeds from the issuance of short-term financing bills primarily to fund our working capital. The following table sets forth the range of interest rates of short-term financing bills outstanding as of the dates indicated:

	As of December 31,			As of January 31,
	2012	2013	2014	2015
				(Unaudited)
Interest rates (% per annum)....	4.00-4.19	6.20-6.40	4.10-6.20	4.83-6.20

**Securities-Firm Short-term Corporate Bonds**

In November 2014, we issued an aggregate RMB15.5 billion principal amount of securities-firm short-term corporate bonds that trade on Shenzhen Stock Exchange’s negotiated transaction platform. All of our securities-firm short-term corporate bonds are unsecured and unguaranteed. We used the net proceeds from the issuance of securities-firm short-term corporate bonds primarily to fund our working capital. As of January 31, 2015, all of these bonds remained outstanding. The table below sets forth certain information on our securities-firm short-term corporate bonds:

	Ticker symbol	Issuance date	Maturity	Interest rate	Principal amount
					(RMB in billions)
Type 1 .....	117501	November 17, 2014	195 days	4.16%	4.0
Type 2 .....	117502	November 24, 2014	304 days	4.50%	5.0
Type 3 .....	117503	November 28, 2014	140 days	4.55%	3.0
Type 4 .....	117504	November 28, 2014	200 days	4.60%	3.5

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**FINANCIAL INFORMATION**

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**Corporate Bonds**

In June 2013, we issued an aggregate RMB12.0 billion principal amount of corporate bonds listed on the Shenzhen Stock Exchange. All of our corporate bonds are unsecured and unguaranteed. We used the net proceeds from the issuance of corporate bonds primarily to fund our working capital. As of January 31, 2015, all of these bonds remained outstanding. The following table sets forth certain information on our corporate bonds:

	<u>Ticker symbol</u>	<u>Issuance date</u>	<u>Maturity</u>	<u>Interest rate</u>	<u>Principal amount</u>
					(RMB in billions)
Type 1 ...	112181	June 17, 2013	five years <sup>(1)</sup>	4.50%	1.5
Type 2 ...	112182	June 17, 2013	five years	4.75%	1.5
Type 3 ...	112183	June 17, 2013	ten years	5.10%	9.0

(1) We have an option to adjust the coupon rate of the bonds, and bondholders have an option to sell the bonds back to us at the end of the third year of the issuance date.

**Subordinated Bonds**

In February 2014, we obtained shareholder approval to issue subordinated bonds in the maximum aggregate principal amount of RMB20.0 billion that trade on Shenzhen Stock Exchange’s negotiated transaction platform. We issued the first tranche of subordinated bonds in an aggregate principal amount of RMB6.0 billion in July 2014, and issued the second and third tranches of subordinated bonds in an aggregate principal amount of RMB5.0 billion and RMB1.2 billion, respectively, in December 2014. As of January 31, 2015, all of these bonds remained outstanding. All of our subordinated bonds are unsecured and unguaranteed. We used the net proceeds from the issuance of subordinated bonds primarily to fund our working capital. The following table sets forth certain information on our subordinated bonds:

	<u>Ticker symbol</u>	<u>Issuance date</u>	<u>Maturity</u>	<u>Interest rate</u>	<u>Principal amount</u>
					(RMB in billions)
<b>Tranche 1</b>					
Type 1 .....	118904	July 24, 2014	four years <sup>(1)</sup>	5.70%	3.0
Type 2 .....	118905	July 24, 2014	five years <sup>(2)</sup>	5.90%	3.0
<b>Tranche 2</b> .....	118911	December 18, 2014	four years <sup>(3)</sup>	6.00%	5.0
<b>Tranche 3</b> .....	118912	December 19, 2014	three years <sup>(3)</sup>	6.00%	1.2

(1) We have an option to redeem the bonds at the end of the second year of the issuance date.

(2) We have an option to redeem the bonds at the end of the third year of the issuance date.

(3) We have an option to redeem the bonds at the end of the first year of the issuance date.

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**FINANCIAL INFORMATION**

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In December 2014, we obtained shareholder approval to issue subordinated bonds in the maximum aggregate principal amount of RMB60.0 billion. The December 2014 approval supersedes the February 2014 approval and the new approved limit subsumes the bonds issued under the prior approval. On January 30, 2015, we issued subordinated bonds in the principal amount of RMB3.0 billion. We used the net proceeds from the issuance of subordinated bonds primarily to fund our working capital. The table below sets forth certain information on the subordinated bonds issued.

	<u>Ticker symbol</u>	<u>Issuance date</u>	<u>Maturity</u>	<u>Interest rate</u>	<u>Principal amount</u> (RMB in <u>billions</u> )
Tranche 1 .....	118914	January 30, 2015	three years <sup>(1)</sup>	5.55%	3.0

(1) We have an option to redeem the bonds at the end of the first year of the issuance date.

We intend to issue subordinated bonds on an as needed basis in accordance with our working capital requirements in consideration of market conditions. We plan to use the net proceeds from such issuances primarily to fund our working capital.

**Long-term loans**

In June and November 2014, we received long-term loans of RMB1.0 billion and RMB2.0 billion, respectively, from CITIC Trust Co., Ltd. which were primarily used to fund our working capital. All of our long-term loans are unsecured and unguaranteed. As of January 31, 2015, outstanding long-term loans amounted to RMB3.0 billion. The table below sets forth certain information on our long-term loans:

	<u>Issuance date</u>	<u>Maturity</u>	<u>Interest rate</u>	<u>Principal amount</u> (RMB in <u>billions</u> )
Tranche 1.....	June 27, 2014	<u>three</u> years <sup>(1)</sup>	7.00%	1.0
Tranche 2.....	November 25, 2014	<u>three</u> years <sup>(2)</sup>	7.00%	2.0

(1) We have the option to early repay the borrowings at the end of the second year.

(2) We have the option to early repay the borrowings at the end of the second year.

As of the Latest Practicable Date, there were no material covenants made by us in respect of any of our outstanding debts, and during the Track Record Period and up to the Latest Practicable Date, no covenant had been breached.

Except as disclosed above, we currently do not have any material external financing plans.

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**FINANCIAL INFORMATION**

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**Structured Notes**

We became eligible to issue structured notes in May 2014. In 2014 and up to January 31, 2015, we issued 553 tranches of structured notes in an aggregate principal amount of RMB8.9 billion with maturity period of less than one year, and issued 62 tranches of structured notes in an aggregate principal amount of RMB1.9 billion with maturity period of over one year. We used the net proceeds from issuance of structured notes primarily to fund our working capital. As of January 31, 2015, we had outstanding unsecured and unguaranteed structured notes of RMB4.2 billion bearing fixed interest rates or interest rates linked to certain stock indexes. The following table sets forth the range of interest rates of structured notes outstanding that bear fixed interest rate as of the dates indicated.

	<b>As of December 31, 2014</b>	<b>As of January 31, 2015</b>
Short-term structured notes .....	4.60 — 6.50	4.56 — 6.50
Long-term structured notes .....	6.30 — 6.97	5.90 — 6.97

**Contingent Liabilities**

As of January 31, 2015, we were not involved in any material legal, arbitration or administrative proceedings that if adversely determined, we expect would materially adversely affect our financial position or results of operations, although there can be no assurance that this will be the case in the future.

As of January 31, 2015, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans or other similar indebtedness or liabilities under acceptances or acceptance credits, any guarantees or other material contingent liabilities.

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**FINANCIAL INFORMATION**

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**Commitments and Contractual Obligations**

The following table sets forth our commitments as of the dates indicated:

	As of December 31,			As of January 31,
	2012	2013	2014	2015
				(Unaudited)
	(RMB in millions)			
<b>Capital commitments</b>				
Capital expenditure in respect of acquisition of property and equipment				
– Contracted but not provided for.....	18.0	672.4	609.2	624.6
<b>Operating lease commitments</b>				
Within one year.....	166.8	172.8	199.3	180.6
In the second to fifth years inclusive.....	368.6	318.5	324.9	286.9
Over five years .....	65.6	47.6	43.5	40.0
<b>Total .....</b>	<b>601.0</b>	<b>538.9</b>	<b>567.7</b>	<b>507.5</b>

Our Directors have confirmed that, except as disclosed in this [Redacted], there has not been any material change in our indebtedness or contingent liabilities since January 31, 2015.

**CAPITAL EXPENDITURE**

The total amount of capital expenditures in 2012, 2013 and 2014 was RMB423.3 million, RMB329.1 million and RMB309.6 million, respectively. Our capital expenditures mainly consisted of purchases or construction expenses of property and equipment and other intangible assets. We fund these expenditures primarily with cash generated from our operating activities.

We expect to incur capital expenditures of RMB894.3 million and RMB1,023.1 million in 2016 and 2017, respectively, which primarily relating to construction of office buildings and purchases of office equipments and softwares used in our wealth management business. We expect to fund these capital expenditures with cash generated from our operations and proceeds from the [Redacted].



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**FINANCIAL INFORMATION**

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**RELATED PARTY TRANSACTIONS**

We enter into transactions with our related parties from time to time. It is the view of our Directors that each of the related party transactions set out in note 61 to the Accountants’ Report in Appendix I to this [Redacted] were conducted in the ordinary course of business on an arm’s length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related parties transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

**OFF-BALANCE SHEET ARRANGEMENTS**

As of January 31, 2015, we did not have any outstanding, off-balance sheet guarantees or foreign currency forward contracts.

**WORKING CAPITAL**

Taking into account our internal resources, cash flow from operations and the estimated net proceeds from the [Redacted], our Directors have confirmed that we have sufficient working capital for at least the next 12 months following the date of this [Redacted].

**CAPITAL ADEQUACY AND RISK INDICATOR REQUIREMENTS**

We have established a dynamic net capital monitoring mechanism to comply with the regulatory requirements for net capital. As of December 31, 2014, we had net capital of RMB32,664.1 million, among the highest in China, including our competitors. Our net capital and key regulatory risk indicators on an unconsolidated basis as of the dates indicated are as follows:

	As of December 31,			Warning Level <sup>(1)</sup>	Required Level
	2012	2013	2014		
Net capital (RMB in millions) <sup>(2)(3)</sup> .....	21,726.9	20,704.8	32,664.1	240	>200
Net capital / total risk capital reserves <sup>(3)</sup> (%).....	1,042.6	696.7	816.1	120	>100
Net capital / net assets (%) .....	67.9	62.1	86.7	48	>40
Net capital / total liabilities <sup>(4)</sup> (%)..	100.6	41.6	27.3	9.6	>8
Net assets / total liabilities <sup>(4)</sup> (%)...	148.1	66.9	31.4	24	>20
Value of equity securities and derivatives held / net capital (%) .....	37.6	62.4	42.8	80	<100
Value of fixed income securities held / net capital (%).....	109.5	158.5	122.7	400	<500

## **FINANCIAL INFORMATION**

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- (1) Warning level is set by the CSRC in accordance with the Risk Indicator Measures: If the risk indicator is required to stay above a certain level, then the warning level is 120% of the stipulated minimum requirement, and if the risk indicator is required to stay below a certain level, then the warning level is 80% of the stipulated maximum requirement.
- (2) Net capital is measured by subtracting from net assets the risk adjustments required to be made to a securities company’s financial assets, other assets and contingent liabilities, and further adding or subtracting any other adjustments determined or authorized by the CSRC.
- (3) Please see “Supervision and Regulation — Corporate Governance and Risk Management — Corporate Governance and Risk Management of Securities Companies — Risk Management” for an explanation of how total risk capital reserves are calculated.
- (4) For purposes of calculating the risk indicator, total liabilities do not include accounts payable to brokerage clients.

In addition, we are required to comply with certain risk indicator requirements to engage in different businesses, such as direct investment, futures brokerage and trading. As of December 31, 2012, 2013 and 2014, we were in compliance with all applicable capital adequacy and risk indicator requirements.

### **QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK**

We have designed a risk management and control system to measure, monitor and manage financial risks arising in the ordinary course of business. Please see “Business — Risk Management” and note 65 of the Accountants’ Report in Appendix I to this [Redacted] for an overview of our risk management processes. The main financial risks faced by us in the ordinary course of business are market risk, credit risk and liquidity risk. As we expand our business by offering new products and services, doing business with individuals and entities that are not within our traditional client and counterparty base, and entering new geographical markets, we are exposed to new regulatory and business challenges and risks, and the complexity of the risks we face has increased. The following discussion of our main financial risks and the estimated amounts of our risk exposure generated by our risk measurement models are forward-looking statements. These analyses and the results of our risk measurement models are not, however, predictions of future events, and our actual results may be significantly different from the analyses and results due to events in the global economy or the markets where we operate, as well as other factors described below.

**FINANCIAL INFORMATION**

**Credit Risk**

Credit risk is the risk of loss arising from a borrower’s or counterparty’s failure to meet its contractual obligations to us or downgrade of its credit rating. We face credit risk primarily in two areas: (1) defaults on fixed income securities and derivatives, where the issuer of the debt securities or our counterparty may default on its payment obligations with respect to the debt securities and (2) in our margin financing and securities lending activities and repurchase transactions, where we take the risk that our clients may default on their obligations to us. Our credit risk is mitigated by a combination of our internal risk management measures as well as regulatory requirements, as discussed in note 65 of the Accountants’ Report in Appendix I to this [Redacted]. We mitigate credit risk in margin financing and securities lending, reverse repurchase transactions and in fixed-income products defaults through a variety of measures, including due diligence on counterparties, credit approval, continual monitoring, risk evaluation, and by restricting investments based upon credit ratings and investment quota. Our maximum credit risk exposure without taking account of any collateral and other credit enhancements is set out below:

	As of December 31,		
	2012	2013	2014
	(RMB in millions)		
Advances to customers.....	5,246.5	20,490.7	64,695.8
Accounts receivable .....	337.6	322.6	1,267.4
Other <u>accounts receivables and other</u> <u>receivables</u> .....	635.7	1,337.2	1,761.2
Amounts due from associates .....	12.3	16.1	8.3
Loan and receivable investments.....	—	320.6	608.7
Available-for-sale financial assets <sup>(1)</sup> .....	8,054.3	15,119.0	23,702.5
Including: securities lent to customers .....	206.9	212.8	580.6
Financial assets held under resale agreements ....	74.2	4,825.9	12,232.6
Financial assets at fair value through profit or loss <sup>(2)</sup> .....	9,849.9	15,271.1	18,440.2
Derivative financial assets .....	0.1	57.4	91.3
Deposits with exchanges and non-bank financial institutions.....	2,958.0	2,581.7	3,029.9
Due from banks .....	—	—	1,000.0
Clearing settlement funds.....	5,018.2	5,656.3	22,624.8
Pledged and restricted bank deposits .....	461.8	629.5	481.1
Bank balances .....	36,378.8	31,374.1	67,199.4
<b>Total maximum credit risk exposure .....</b>	<b><u>69,027.4</u></b>	<b><u>98,002.2</u></b>	<b><u>217,143.2</u></b>

(1) Includes debt securities and securities lent to customers.

(2) Includes debt securities only.

**FINANCIAL INFORMATION**

**Interest Rate Risk**

Interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from adverse movements in interest rates. Our interest-generating assets mainly include bank deposits, clearing settlement funds, deposits with exchanges and non-bank financial institutions and bond investments. The following tables set forth our interest-bearing financial assets and liabilities by their remaining terms to repricing or contractual maturity date, whichever is earlier:

As of December 31, 2014							
	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non- interest- bearing	Total
(RMB in millions)							
<b>Financial assets</b>							
Advances to customers .....	2,125.3	5,549.5	57,021.0	—	—	—	64,695.8
Available-for-sale financial assets...	1,864.3	1,596.9	3,548.7	15,789.5	3,343.0	8,267.7	34,410.1
Loan and receivable investments ....	—	170.0	232.7	206.0	—	—	608.7
Financial assets held under resale agreements .....	5,822.3	808.2	5,170.2	431.9	—	—	12,232.6
Financial assets at fair value through profit or loss .....	92.8	2,127.8	3,178.2	8,115.3	4,937.1	8,485.5	26,936.7
Derivative financial assets .....	—	—	—	—	—	91.3	91.3
Deposits with exchanges and non-bank financial institutions....	320.7	—	—	—	—	2,709.2	3,029.9
Due from banks .....	1,000.0	—	—	—	—	—	1,000.0
Clearing settlement funds .....	22,624.8	—	—	—	—	—	22,624.8
Pledged and restricted bank deposits .....	481.1	—	—	—	—	—	481.1
Bank balances .....	61,134.9	5,173.9	890.1	—	—	0.5	67,199.4
<b>Subtotal .....</b>	<b>95,466.2</b>	<b>15,426.3</b>	<b>70,040.9</b>	<b>24,542.7</b>	<b>8,280.1</b>	<b>19,554.2</b>	<b>233,310.4</b>
<b>Financial liabilities</b>							
Borrowings .....	1,285.9	—	—	—	—	—	1,285.9
Short-term financing payables .....	7,145.3	5,866.3	16,510.0	—	—	15.1	29,536.7
Due to banks and other financial institutions .....	800.0	323.0	—	—	—	—	1,123.0
Accounts payable to brokerage clients .....	64,352.5	—	—	—	—	7,113.1	71,465.6
Other accounts payable, other payables and accruals .....	—	—	—	—	—	2,714.1	2,714.1
Other liabilities .....	3,217.2	200.0	67.1	—	—	799.0	4,283.3
Derivative financial liabilities.....	—	—	—	—	—	87.3	87.3
Financial assets sold under repurchase agreements .....	26,249.2	7,453.3	17,015.2	4,050.0	—	—	54,767.7
Bonds payable .....	—	—	—	17,044.5	8,986.2	—	26,030.7
Long-term loans .....	—	—	—	3,000.0	—	—	3,000.0
<b>Subtotal .....</b>	<b>103,050.1</b>	<b>13,842.6</b>	<b>33,592.3</b>	<b>24,094.5</b>	<b>8,986.2</b>	<b>10,728.6</b>	<b>194,294.3</b>
<b>Net interest-bearing position .....</b>	<b>(7,583.9)</b>	<b>1,583.7</b>	<b>36,448.6</b>	<b>448.2</b>	<b>(706.1)</b>	<b>8,825.6</b>	<b>39,016.1</b>

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As of December 31, 2013

	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non- interest- bearing	Total
(RMB in millions)							
<b>Financial assets</b>							
Advances to customers .....	1,405.2	3,588.7	15,496.8	—	—	—	20,490.7
Available-for-sale financial assets...	634.4	1,207.5	3,488.2	7,042.5	4,839.9	4,391.4	21,603.9
Loan and receivable investments ....	—	—	50.0	270.6	—	—	320.6
Other receivables .....	—	—	25.0	—	—	1,491.3	1,516.3
Financial assets held under resale agreements .....	582.6	331.8	2,460.8	1,450.7	—	—	4,825.9
Financial assets at fair value through profit or loss .....	1,007.1	920.0	2,831.2	6,336.2	4,176.7	8,339.1	23,610.3
Derivative financial assets .....	—	—	—	—	—	57.4	57.4
Deposits with exchanges and non-bank financial institutions....	827.0	—	—	—	—	1,754.7	2,581.7
Clearing settlement funds .....	5,656.3	—	—	—	—	—	5,656.3
Pledged and restricted bank deposits .....	629.5	—	—	—	—	—	629.5
Bank balances .....	29,752.0	1,070.6	551.0	—	—	0.5	31,374.1
<b>Subtotal .....</b>	<b>40,494.1</b>	<b>7,118.6</b>	<b>24,903.0</b>	<b>15,100.0</b>	<b>9,016.6</b>	<b>16,034.4</b>	<b>112,666.7</b>
<b>Financial liabilities</b>							
Borrowings .....	414.7	—	29.4	—	—	—	444.1
Short-term financing payables .....	—	9,044.5	—	—	—	—	9,044.5
Due to banks and other financial institutions .....	5,300.0	—	—	—	—	—	5,300.0
Accounts payable to brokerage clients .....	26,892.4	—	—	—	—	4,716.8	31,609.2
Other accounts payable, other payables and accruals .....	678.4	236.6	11.0	—	—	1,225.5	2,151.5
Other liabilities .....	—	—	349.7	—	—	20.2	369.9
Derivative financial liabilities.....	—	—	—	—	—	79.5	79.5
Financial assets sold under repurchase agreements.....	19,346.1	26.6	27.1	—	—	—	19,399.8
Bonds payable .....	—	—	—	2,995.1	8,984.6	—	11,979.7
<b>Subtotal .....</b>	<b>52,631.6</b>	<b>9,307.7</b>	<b>417.2</b>	<b>2,995.1</b>	<b>8,984.6</b>	<b>6,042.0</b>	<b>80,378.2</b>
<b>Net interest-bearing position .....</b>	<b>(12,137.5)</b>	<b>(2,189.1)</b>	<b>24,485.8</b>	<b>12,104.9</b>	<b>32.0</b>	<b>9,992.4</b>	<b>32,288.5</b>

**FINANCIAL INFORMATION**

As of December 31, 2012

	Less than one month	More than one month but less than three months	More than three months but less than one year	More than one year but less than five years	More than five years	Non-interest- bearing	Total
(RMB in millions)							
<b>Financial assets</b>							
Advances to customers .....	431.8	894.8	3,919.9	—	—	—	5,246.5
Available-for-sale financial assets .....	200.0	—	1,570.2	5,377.0	1,403.9	4,738.6	13,289.7
Financial assets held under resale agreements .....	11.7	5.6	56.9	—	—	—	74.2
Financial assets at fair value through profit or loss .....	135.3	375.7	1,932.4	5,224.2	2,182.4	11,937.6	21,787.6
Derivative financial assets .....	—	—	—	—	—	0.1	0.1
Deposits with exchanges and non-bank financial institutions .....	959.7	—	—	—	—	1,998.3	2,958.0
Clearing settlement funds .....	5,018.2	—	—	—	—	—	5,018.2
Pledged and restricted bank deposits .....	461.8	—	—	—	—	—	461.8
Bank balances .....	30,287.4	3,181.0	2,710.0	200.0	—	0.4	36,378.8
<b>Subtotal .....</b>	<b>37,505.9</b>	<b>4,457.1</b>	<b>10,189.4</b>	<b>10,801.2</b>	<b>3,586.3</b>	<b>18,675.0</b>	<b>85,214.9</b>
<b>Financial liabilities</b>							
Borrowings .....	246.0	—	—	—	—	—	246.0
Short-term financing payables....	4,537.0	3,009.4	—	—	—	—	7,546.4
Due to banks and other financial institutions .....	3,340.0	—	—	—	—	—	3,340.0
Accounts payable to brokerage clients .....	29,656.3	—	—	—	—	4,631.3	34,287.6
Other liabilities .....	—	—	—	—	—	469.6	469.6
Derivative financial liabilities....	—	—	—	—	—	0.2	0.2
Financial assets sold under repurchase agreements .....	8,836.7	13.1	0.7	—	—	—	8,850.5
<b>Subtotal .....</b>	<b>46,616.0</b>	<b>3,022.5</b>	<b>0.7</b>	<b>—</b>	<b>—</b>	<b>5,101.1</b>	<b>54,740.3</b>
<b>Net interest-bearing position .....</b>	<b>(9,110.1)</b>	<b>1,434.6</b>	<b>10,188.7</b>	<b>10,801.2</b>	<b>3,586.3</b>	<b>13,573.9</b>	<b>30,474.6</b>

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**FINANCIAL INFORMATION**

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We use interest rate sensitivity analysis as the principal tool to monitor our interest rate risk. Our use of interest rate sensitivity analysis assumes all other variables remain constant. Assuming a shift in market interest rates across the board, and without taking into consideration our risk management activities to reduce interest rate risk, the impact of such a shift on our profit before income tax and other comprehensive income before income tax based on our interest rate sensitivity analysis is as follows:

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Profit before income tax for the year</b>			
+100 basis points .....	(37.1)	(42.7)	77.2
-100 basis points .....	37.1	42.7	(77.2)

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Other comprehensive income before income tax</b>			
+ 100 basis points .....	(155.9)	(367.1)	(448.2)
- 100 basis points .....	179.6	403.0	471.1

We use derivatives, including interest rate swaps, to hedge our interest rate risk exposure. Our ability to hedge against market risk in China, however, is limited by the developing derivatives market in China. This constrains the number of derivative products and other hedging products we can use to manage our interest risk exposure.

**Currency Risk**

Currency risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from fluctuations in foreign exchange rates. As the majority of business transactions we undertake and income we earn are denominated in RMB and our foreign currency denominated assets and liabilities are a relatively minor portion of our total assets and liabilities, we do not consider the effect of currency risk on our operations to be significant.

**Price Risk**

Price risk is the risk of fluctuation in the fair value of one or more financial instruments or future cash flows arising from fluctuations in market prices (other than interest rates or foreign exchange rates). We use VaR, risk sensitivity indicators and stress testing indicators to monitor our price risk.

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**FINANCIAL INFORMATION**

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The analysis below shows the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, funds, derivatives and CAM schemes by 10%, assuming all other variables remain unchanged. A positive result indicates an increase in profit before income tax and other comprehensive income before income tax, while a negative result indicates otherwise.

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Profit before income tax for the year</b>			
+ 10%.....	868.7	318.1	559.9
- 10%.....	(868.7)	(318.1)	(559.5)

	Year ended December 31,		
	2012	2013	2014
	(RMB in millions)		
<b>Other comprehensive income before income tax</b>			
+ 10%.....	354.8	310.7	650.9
- 10%.....	(354.8)	(310.7)	(650.9)

**Liquidity Risk**

Liquidity risk is the risk that our capital or funds will be insufficient to meet our financial obligations in a timely manner. We have established internal controls, described in more details in note 66 of the Accountants’ Report in Appendix I to this [Redacted], to ensure that we have, for each period in which our financial obligations become due, sufficient assets to meet those obligations. As of January 31, 2015, we had adjusted current assets (excluding accounts payable to customers) of RMB174,028.6 million and adjusted current liabilities (excluding accounts payable to customers) of RMB100,741.3 million. We have historically maintained a high level of net current assets as a safeguard against liquidity risk. Please see “Financial Information — Liquidity and Capital Resources — Assets and Liabilities”.



**FINANCIAL INFORMATION**

The tables below present the cash flows payable by us within the remaining contractual maturities as of the dates indicated:

As of December 31, 2014						
	On Demand	Less than three months	Three months to one year	One year to five year	Five year and above	Total
(RMB in millions)						
Borrowings .....	—	1,287.7	—	—	—	1,287.7
Short-term financing payables ..	—	13,173.3	16,963.4	—	—	30,136.7
Due to banks and other financial institutions .....	—	1,133.1	—	—	—	1,133.1
Accounts payable to brokerage clients .....	71,465.6	—	—	—	—	71,465.6
Other financial liabilities .....	1,206.4	167.9	76.0	40.0	—	1,490.3
Other liabilities .....	764.4	3,451.8	67.1	—	—	4,283.3
Financial assets sold under repurchase agreements .....	—	33,896.5	17,811.7	4,426.7	—	56,134.9
Bonds payable.....	—	—	1,317.8	21,728.8	10,836.0	33,882.6
Long-term loans.....	—	51.8	158.2	3,373.2	—	3,583.2
	<u>73,436.4</u>	<u>53,162.1</u>	<u>36,394.2</u>	<u>29,568.7</u>	<u>10,836.0</u>	<u>203,397.4</u>
Derivative financial liabilities ..	0.1	50.1	12.8	44.1	—	107.1

As of December 31, 2013						
	On Demand	Less than three months	Three months to one year	One year to five year	Five year and above	Total
(RMB in millions)						
Borrowings .....	414.8	—	30.2	—	—	445.0
Short-term financing payables ..	—	9,139.7	—	—	—	9,139.7
Due to banks and other financial institutions .....	—	5,303.0	—	—	—	5,303.0
Accounts payable to brokerage clients .....	31,609.2	—	—	—	—	31,609.2
Other financial liabilities .....	562.4	951.9	62.2	40.0	—	1,616.5
Other liabilities .....	20.2	—	349.7	—	—	369.9
Financial assets sold under repurchase agreements .....	—	19,416.4	28.0	—	—	19,444.4
Bonds payable.....	—	—	597.8	5,391.0	11,295.0	17,283.8
	<u>32,606.6</u>	<u>34,811.0</u>	<u>1,067.9</u>	<u>5,431.0</u>	<u>11,295.0</u>	<u>85,211.5</u>
Derivative financial liabilities ..	—	11.0	28.0	82.6	—	121.6

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As of December 31, 2012						
	On Demand	Less than three months	Three months to one year	One year to five year	Five year and above	Total
(RMB in millions)						
Borrowings .....	246.1	—	—	—	—	246.1
Short-term financing payables..	—	7,575.4	—	—	—	7,575.4
Due to banks and other financial institutions .....	—	3,342.4	—	—	—	3,342.4
Accounts payable to brokerage clients .....	34,287.6	—	—	—	—	34,287.6
Other financial liabilities .....	269.4	26.3	35.0	40.0	—	370.7
Other liabilities .....	469.6	—	—	—	—	469.6
Financial assets sold under repurchase agreements .....	—	8,859.6	0.7	—	—	8,860.3
	<u>35,272.7</u>	<u>19,803.7</u>	<u>35.7</u>	<u>40.0</u>	<u>—</u>	<u>55,152.1</u>
Derivative financial liabilities..	0.1	0.1	—	—	—	0.2

**DIVIDEND POLICY**

Our Board of Directors is responsible for submitting proposals in respect of dividend payments to the shareholders’ general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our results of operations, cash flow, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board deems relevant. We may distribute dividends in the form of cash, shares or a combination of cash and shares. All of our shareholders have equal rights to dividends and other distributions proportionate to their shareholding. According to PRC law and our Articles of Association, we shall pay dividends out of our after-tax profit only after we have made the following allocations:

- recovery of accumulated losses from previous years, if any;
- allocations to statutory reserve fund equal to 10% of our after-tax profit until the amount in the statutory reserve fund reaches 50% of the Company’s registered capital;
- allocations to a general risk reserve fund equal to 10% of our after-tax profit; and
- allocations to a transaction risk reserve fund equal to 10% of the Company’s after-tax profit.

## **FINANCIAL INFORMATION**

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Furthermore, under CSRC rules, as a securities firm, we are not allowed to distribute as cash dividends the gains from fair value changes of financial assets that are included in distributable profits. Our Articles of Association require us to distribute in any three consecutive fiscal years cash dividends in an amount equal to at least 30% of the average annual distributable profits in the same period if there are no significant investment or capital expenditure plans. We may also distribute stock dividends and interim dividends based on our financial performance and working capital requirements.

After completion of the [Redacted], dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. Any distributable profits that are not distributed in any given year will be retained and become available for distribution in subsequent years.

We declared cash dividends for 2012, 2013 and 2014 in the aggregate amount of RMB887.9 million, RMB1,183.9 million and RMB1,183.9 million, respectively, representing RMB1.5, RMB2.0 and RMB2.0 per 10 A Shares, respectively. Our A Share dividend payout ratio (calculated by dividing dividend declared for the year by profit for the year attributable to owners of the company) was 40.5%, 42.1% and 23.6%, respectively. Only our A shareholders are entitled to the cash dividends declared for 2014, which will be paid after the Listing with internal resources, including cash in our bank balances. Our historical dividends may not be indicative of future dividend payments.

### **DISTRIBUTABLE RESERVES**

As of December 31, 2014, we had RMB11,564.7 million in retained profits, as determined under IFRS, available for distribution to our shareholders.

### **LISTING EXPENSES**

Listing expenses represent professional fees, underwriting commissions and other fees incurred in connection with the Listing and the [Redacted]. Listing expenses to be borne by us are estimated to be approximately RMB[Redacted] million, of which approximately RMB[Redacted] million is directly attributable to the [Redacted] to the public and to be capitalized, and approximately RMB[Redacted] million has been or is expected to be reflected in our consolidated income statements. None of the listing expenses were reflected in our consolidated income statements during the Track Record Period. Our Directors do not expect such expenses to materially impact our results of operations for 2015.

**FINANCIAL INFORMATION**

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**UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our company which has been prepared for the purpose of illustrating the effect of the [Redacted] as if it had taken place on December 31, 2014, based on our audited consolidated net tangible assets attributable to the owners of our company as of December 31, 2014 as shown in the Accountants’ Report, the text of which is set forth in Appendix I to this [Redacted], and adjusted as follows. No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transactions of our Company entered into subsequent to December 31, 2014.

[Redacted]

**FINANCIAL INFORMATION**

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[Redacted]

**DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES**

Our Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Hong Kong Listing Rules.

As a company listed on the Shenzhen Stock Exchange, we are required to publish our quarterly (for the first and third quarters of each year), interim (for the first six months of each year) and annual reports with respect to our A Shares under the listing rules of the Shenzhen Stock Exchange. These reports will be prepared in conformity with PRC GAAP. Our quarterly financial information in both English and Chinese will also be released in Hong Kong simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our Listing on the Hong Kong Stock Exchange. We will publish annual and semi-annual financial information under IFRS for H Share disclosure purpose and annual, semi-annual and quarterly financial information under PRC GAAP for A Share disclosure purpose simultaneously.

In addition, as a listed PRC securities firm, we are required to publish certain monthly financial data prepared based on PRC GAAP of our Company and GF Asset Management, including operating income, net profit and net assets, on an unconsolidated basis. We will release the monthly unconsolidated financial data of our Company and GF Asset Management in both English and Chinese simultaneously pursuant to Rule 13.10B of the Hong Kong Listing Rules subsequent to our Listing on the Hong Kong Stock Exchange.

**DIRECTORS’ CONFIRMATION OF NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that there has been no material adverse change in our financial or trading position or prospects since December 31, 2014 (being the date of our latest audited financial statements) and there has been no event since December 31, 2014 which would materially affect the information shown in the Accountants’ Report set out in Appendix I to this [Redacted].

## **FUTURE PLANS AND USE OF PROCEEDS**

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### **FUTURE PLANS**

Please see “Business — Business Strategies” in this [Redacted] for a detailed discussion of our future plans.

### **USE OF PROCEEDS**

Assuming an [Redacted] of HK\$[Redacted] per H Share (being the mid-point of the stated range of the [Redacted] of between HK\$[Redacted] and HK\$[Redacted] per H Share), we estimate that we will receive net proceeds of approximately HK\$[Redacted] million from the [Redacted] (after deducting the underwriting commissions and other estimated expenses) if the [Redacted] is not exercised.

In line with our business strategies, we aim to become the first-choice provider of comprehensive capital market services in China and abroad to quality SMEs and affluent individuals in the PRC, especially high-net-worth individuals. We intend to use the net proceeds from the [Redacted] for the following purposes and in the amounts set out below:

- approximately [Redacted]%, or HK\$[Redacted] million, in our wealth management business: primarily developing our margin financing and securities lending business, strategically building an Internet finance platform and wealth management platform, continually improving client penetration and further enhancing our leading position in this business;
- approximately [Redacted]%, or HK\$[Redacted] million, in our investment management, investment banking and trading and institutional client services businesses: primarily providing M&A financing for SMEs, developing investment management products and increasing investment in seed funding to enhance the AUM of our investment management business, and actively striving to become a leading market maker for various financial products and providing liquidity support to enhance our pricing ability and market influence; and
- Approximately [Redacted]%, or HK\$[Redacted] million, in international operations to further globalize and strengthen our business: primarily investing greater resources in overseas wealth management business in selected countries and/or regions where affluent individuals with PRC background gathered, including but not limited to Hong Kong, Canada and UK; strengthening overseas acquisitions and mergers, investment management and trading and institutional client services businesses; establishing new business platforms through making strategic investments; and advancing our comprehensive services globally by satisfying the needs of clients with PRC backgrounds. Currently, we do not have any specific acquisition or investment target.

If the [Redacted] is exercised in full, we estimate that the additional net proceeds will be approximately HK\$[Redacted] million, after deducting the underwriting commissions and other estimated expenses, assuming an [Redacted] of HK\$[Redacted] per H Share (being the mid-point of the stated range of the [Redacted] of between HK\$[Redacted] and HK\$[Redacted] per H Share). We intend to use all the additional net proceeds proportionately as earmarked above.

## **FUTURE PLANS AND USE OF PROCEEDS**

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The allocation of the proceeds used for the above will be adjusted in the event that the [Redacted] is fixed at a higher or lower level compared to the mid-point of the estimated [Redacted] range. If the [Redacted] is fixed at HK\$[Redacted] per H Share, being the high end of the stated [Redacted] range, our net proceeds will be (i) increased by approximately HK\$[Redacted], assuming the [Redacted] is not exercised; and (ii) increased by approximately HK\$[Redacted], assuming the [Redacted] is exercised in full. In such circumstances, we presently intend to use such additional proceeds to increase the net proceeds applied for the same purposes as set out above on a pro rata basis. If the [Redacted] is fixed at HK\$[Redacted] per H Share, being the low end of the stated [Redacted] range, our net proceeds will be (i) decreased by approximately HK\$[Redacted], assuming the [Redacted] is not exercised; and (ii) decreased by approximately HK\$[Redacted], assuming the [Redacted] is exercised in full. In such circumstances, we presently intend to reduce the net proceeds applied for the same purposes as set out above on a pro rata basis.

To the extent that the net proceeds of the [Redacted] are not immediately required for the above purposes, and to the extent permitted by applicable laws and regulations, we intend to apply our net proceeds to short-term investment such as liquid assets classes.

**OUR CORNERSTONE INVESTORS**

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[Redacted]

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**OUR CORNERSTONE INVESTORS**

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**OUR CORNERSTONE INVESTORS**

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## **UNDERWRITING**

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### **HONG KONG UNDERWRITERS**

[Redacted]

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

[Redacted]

#### ***Hong Kong Underwriting Agreement***

Pursuant to the Hong Kong Underwriting Agreement, our Company is [Redacted] initially [Redacted] for subscription by the public in Hong Kong on and subject to the terms and conditions of this [Redacted] and the [Redacted] at the [Redacted]. Subject to the Listing Committee granting listing of, and permission to deal in, our H Shares to be [Redacted] pursuant to the [Redacted] as mentioned herein (including any additional H Shares which may be issued pursuant to the exercise of the [Redacted]) and to certain other conditions set out in the Hong Kong Underwriting Agreement

## **UNDERWRITING**

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(which is expected to be entered into on or around the date of this [Redacted]), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the [Redacted] now being [Redacted] which are not taken up under the [Redacted] on and subject to the terms and conditions of this [Redacted], the [Redacted] and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

[Redacted]

**UNDERWRITING**

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[Redacted]

**UNDERWRITING**

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[Redacted]



**UNDERWRITING**

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[Redacted]

## **UNDERWRITING**

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[Redacted]

### **Undertakings to the Hong Kong Stock Exchange pursuant to the Hong Kong Listing Rules**

#### ***Undertakings by us***

We are expected to undertake to the Hong Kong Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules or pursuant to the [Redacted], no further shares or securities convertible into securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

### **Undertakings pursuant to the Hong Kong Underwriting Agreement**

#### ***Undertakings by us***

[Redacted]

## UNDERWRITING

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[Redacted]

### **The [Redacted]**

In connection with the [Redacted], it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the [Redacted], failing which they agree to subscribe for or purchase their respective proportions of the [Redacted] which are not taken up under the [Redacted].

We will grant to the International Underwriters the [Redacted], exercisable by the [Redacted] on behalf of the International Underwriters during the 30-day period from the last day for lodging of applications under the [Redacted], which is ended on [Redacted], to require us to issue up to an aggregate of [Redacted] additional H Shares, representing approximately [Redacted]% of the H Shares initially available under the [Redacted], at the [Redacted], among other things, to cover over-allocations in the [Redacted], if any. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the [Redacted] will not proceed.

## **UNDERWRITING**

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### **Total Commission and Expenses**

According to the Hong Kong Underwriting Agreement, the Hong Kong Underwriters will receive an underwriting commission of [Redacted]% on the [Redacted] of the [Redacted] initially [Redacted] under the [Redacted], out of which they will pay any sub-underwriting commission, if any. For unsubscribed [Redacted] reallocated to the [Redacted], our Company will pay an underwriting commission at the rate applicable to the [Redacted] and such commission will be paid to the [Redacted] and the relevant International Underwriters (but not the Hong Kong Underwriters). In addition, our Company may, in its sole and absolute discretion, pay any one or all of the Underwriters an incentive fee of up to [Redacted]% of the [Redacted] per [Redacted].

Based on an [Redacted] of HK\$[Redacted] per H Share (being the mid-point of the indicative [Redacted] range of HK\$[Redacted] to HK\$[Redacted] per H Share), the aggregate commission and fee, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by our Company relating to the [Redacted] (collectively the “Commission and Fee”) are estimated to be approximately HK\$[Redacted] in total (assuming the [Redacted] is not exercised).

### **Underwriting**

We are expected to agree to indemnify the Hong Kong Underwriters and International Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreements and any breach by our Company of the Underwriting Agreements.

### **Hong Kong Underwriters’ Interests in our Company**

Except as disclosed in this [Redacted] and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company.

Following the completion of the [Redacted], the Underwriters and their affiliated companies may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

### **[Redacted] and Stabilization**

Details of the arrangements relating to the [Redacted] and stabilization are set forth in “Structure of the [Redacted].”

### **Joint Sponsors’ Independence**

GF Capital (Hong Kong), being one of the Joint Sponsors, is one of our subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsors set out in Rule 3.07 of the Hong Kong Listing Rules.

## **UNDERWRITING**

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Apart from GF Capital (Hong Kong), the other Joint Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Hong Kong Listing Rules.

[Redacted]

**UNDERWRITING**

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[Redacted]

**STRUCTURE OF THE [REDACTED]**

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**STRUCTURE OF THE [REDACTED]**

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[Redacted]



**STRUCTURE OF THE [REDACTED]**

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**HOW TO APPLY FOR [REDACTED]**

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**HOW TO APPLY FOR [REDACTED]**

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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

*The following is the text of a report, prepared for the purpose of incorporation in this [Redacted], received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.*

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

[Date]

The Directors  
GF Securities Co., Ltd.  
GF Capital (Hong Kong) Limited  
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding GF Securities Co., Ltd. (廣發証券股份有限公司) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2012, 2013 and 2014 (the “Relevant Periods”) for inclusion in the [Redacted] of the Company dated \_\_\_\_ (the “[Redacted]”) in connection with the initial listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

With the approval of the People’s Bank of China, Guangdong Development Bank (廣東發展銀行) (now known as China Guangfa Bank) established a securities department on 9 April 1991. With the approval of the Guangdong Administration for Industry and Commerce, the Company was duly established as the Securities Department of Guangdong Development Bank (廣東發展銀行証券業務部) on 21 May 1993. On 25 January 1994, the Company converted into Guangdong Guangfa Securities Company (廣東廣發証券公司) whose capital was contributed by Guangdong Development Bank with its own funds. On 26 December 1996, the Company converted into a limited liability company and changed its name to Guangfa Securities Limited Liability Company (廣發証券有限責任公司). On 26 August 1999, the Company was spun off from Guangdong Development Bank as required by the sectoral regulation of the financial industries under the PRC laws. On 25 July 2001, the Company converted into a joint stock company and changed its name to GF Securities Co., Ltd. (廣發証券股份有限公司). On 12 February 2010, the Company became listed on the Shenzhen Stock Exchange by completing a reverse takeover of Yan Bian Road Construction Co., Ltd. (延邊公路建設股份有限公司) (“Yan Bian Road”), a company then listed on the Shenzhen Stock Exchange with the stock code 000776.

The Company and all its subsidiaries have adopted 31 December as their financial year end dates. During the Relevant Periods and as at the date of this report, the Company has direct or indirect interests in subsidiaries as set out in note 22 of section G of this report.

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**APPENDIX I**

**ACCOUNTANTS’ REPORT**

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The consolidated financial statements of the Group prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the People’s Republic of China (the “PRC Financial Statements”) for the years ended 31 December 2012, 2013 and 2014 were audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所(特殊普通合夥)) (“DTT PRC”), a firm of certified public accountants registered in the PRC. The statutory financial statements of the subsidiaries, directly or indirectly controlled by the Company, were audited by independent auditors as set out in note 22 of section G of this report.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group for the Relevant Periods, in accordance with the International Financial Reporting Standards (“IFRSs”) (the “Underlying Financial Statements”). The Underlying Financial Statements were audited by DTT PRC in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments are deemed necessary to the Underlying Financial Statements in preparing our report for inclusion in the [Redacted].

For the purpose of this report, we have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation of the Underlying Financial Statements and the contents of the [Redacted] in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, for the purpose of this report, the Financial Information together with the notes thereon give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012, 2013 and 2014, and of the consolidated results and consolidated cash flows of the Group for each of the three years ended 31 December 2012, 2013 and 2014.

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**A. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

	Notes	Year ended 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>Revenue</b>				
Commission and fee income.....	5	4,001,547	4,399,385	8,217,320
Interest income .....	6	1,541,235	2,349,217	4,324,638
Net investment gains.....	7	<u>1,688,087</u>	<u>2,525,131</u>	<u>3,604,956</u>
Total revenue .....		7,230,869	9,273,733	16,146,914
Other income and gains.....	8	<u>49,651</u>	<u>58,114</u>	<u>16,581</u>
Total revenue and other income.....		<u>7,280,520</u>	<u>9,331,847</u>	<u>16,163,495</u>
Depreciation and amortisation .....	9	(251,628)	(246,891)	(257,364)
Staff costs .....	10	(2,435,257)	(2,947,619)	(4,345,926)
Commission and fee expenses.....	11	(150,259)	(105,542)	(240,813)
Interest expenses .....	12	(500,383)	(1,378,567)	(2,757,676)
Other operating expenses.....	13	(1,341,620)	(1,451,877)	(2,100,342)
Impairment losses.....	14	<u>(290,634)</u>	<u>(117,060)</u>	<u>(149,944)</u>
Total expenses.....		<u>(4,969,781)</u>	<u>(6,247,556)</u>	<u>(9,852,065)</u>
Share of results of associates and joint ventures..		<u>374,480</u>	<u>393,022</u>	<u>337,165</u>
Profit before income tax.....		2,685,219	3,477,313	6,648,595
Income tax expense .....	15	<u>(494,880)</u>	<u>(664,747)</u>	<u>(1,503,082)</u>
Profit for the year .....		<u>2,190,339</u>	<u>2,812,566</u>	<u>5,145,513</u>
Attributable to: .....				
Owners of the Company.....		2,191,457	2,812,501	5,022,568
Non-controlling interests.....		<u>(1,118)</u>	<u>65</u>	<u>122,945</u>
		<u>2,190,339</u>	<u>2,812,566</u>	<u>5,145,513</u>
<b>Earnings per share attributable to owners of the Company (Expressed in RMB Yuan per share) .</b>				
- Basic .....	16	<u>0.37</u>	<u>0.48</u>	<u>0.85</u>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**B. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Note	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
Profit for the year		2,190,339	2,812,566	5,145,513
Other comprehensive income/(expense): .....	51			
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Available-for-sale financial assets				
Net fair value changes during the year.....		451,315	120,072	1,836,145
Reclassification adjustment to profit or loss on disposal .....		(99,805)	(586,906)	(240,958)
Reclassification adjustment to profit or loss on impairment .....		290,840	116,562	12,063
Income tax impact.....		(89,597)	87,333	(414,450)
Subtotal.....		<u>552,753</u>	<u>(262,939)</u>	<u>1,192,800</u>
Share of fair value gain on available-for-sale financial assets of associates.....		57,040	44,852	32,225
Reclassification of investment revaluation upon deemed disposal of an associate .....		—	—	(13,506)
Exchange differences arising on translation .....		513	(37,902)	4,991
Share of exchange differences arising on translation of associates .....		39	3,060	(6,976)
Reclassification of exchange differences upon deemed disposal of an associate .....		—	—	3,290
Reclassification of exchange differences to profit or loss on disposal of subsidiary .....		—	(9,614)	—
Other comprehensive income/ (expense) for the year, net of income tax .....		<u>610,345</u>	<u>(262,543)</u>	<u>1,212,824</u>
Total comprehensive income for the year.....		<u><u>2,800,684</u></u>	<u><u>2,550,023</u></u>	<u><u>6,358,337</u></u>
Attributable to:				
Owners of the Company.....		2,801,802	2,549,936	6,189,956
Non-controlling interests.....		(1,118)	87	168,381
		<u><u>2,800,684</u></u>	<u><u>2,550,023</u></u>	<u><u>6,358,337</u></u>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**C. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Notes	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>Non-current assets</b>				
Property and equipment.....	17	991,741	1,043,274	1,287,461
Prepaid lease payments .....	18	346,598	336,970	327,342
Investment properties .....	19	23,904	28,747	27,011
Goodwill.....	20	—	2,040	2,047
Other intangible assets .....	21	65,260	100,812	152,556
Interests in associates.....	23	1,995,364	2,321,798	1,548,796
Interests in joint ventures.....	24	—	27,795	35,369
Available-for-sale financial assets .....	26	1,508,728	1,913,569	2,109,902
Loan and receivable investments .....	27	—	270,566	206,000
Financial assets held under resale agreements ..	34	—	1,450,696	431,864
Pledged and restricted bank deposits .....	39	80,000	80,000	80,000
Deferred tax assets.....	28	181,449	415,815	230,185
<b>Total non-current assets.....</b>		<b>5,193,044</b>	<b>7,992,082</b>	<b>6,438,533</b>
<b>Current assets</b>				
Advances to customers.....	29	5,246,504	20,490,654	64,695,844
Due from banks .....	43	—	—	1,000,000
Prepaid lease payments .....	18	9,628	9,628	9,628
Accounts receivable .....	30	337,584	322,555	1,267,371
Other accounts receivable, other receivables and prepayments .....	31	677,050	1,516,389	1,893,399
Amounts due from associates .....	33	12,292	16,081	8,292
Available-for-sale financial assets .....	26	11,781,016	19,690,347	32,300,214
Loan and receivable investments .....	27	—	50,000	402,692
Financial assets held under resale agreements ..	34	74,215	3,375,217	11,800,690
Financial assets at fair value through profit or loss.....	35	21,787,560	23,610,259	26,936,662
Derivative financial assets.....	36	107	57,384	91,293
Deposits with exchanges and non-bank financial institutions .....	37	2,958,026	2,581,683	3,029,862
Clearing settlement funds.....	38	5,018,165	5,656,267	22,624,796
Pledged and restricted bank deposits .....	39	381,829	549,514	401,148
Bank balances .....	39	36,378,786	31,374,111	67,199,352
<b>Total current assets.....</b>		<b>84,662,762</b>	<b>109,300,089</b>	<b>233,661,243</b>
<b>Total assets .....</b>		<b>89,855,806</b>	<b>117,292,171</b>	<b>240,099,776</b>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

	Notes	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>Current liabilities</b>				
Borrowings .....	41	246,013	444,054	1,285,907
Short-term financing payables .....	42	7,546,428	9,044,455	29,536,739
Due to banks and other financial institutions....	43	3,340,000	5,300,000	1,123,000
Accounts payable to brokerage clients.....	44	34,287,577	31,609,231	71,465,563
Accrued staff costs.....	45	1,198,490	1,665,986	3,201,902
Other accounts payable, other payables and accruals .....	46	501,913	2,151,491	2,714,123
Provisions .....	47	49,247	47,936	33,360
Current tax liabilities .....		321,502	399,267	1,081,182
Other liabilities.....	48	469,635	369,946	4,283,311
Derivative financial liabilities .....	36	209	79,490	87,304
Financial assets sold under repurchase agreements.....	49	<u>8,850,471</u>	<u>19,399,797</u>	<u>50,717,726</u>
<b>Total current liabilities .....</b>		<b><u>56,811,485</u></b>	<b><u>70,511,653</u></b>	<b><u>165,530,117</u></b>
<b>Net current assets .....</b>		<b><u>27,851,277</u></b>	<b><u>38,788,436</u></b>	<b><u>68,131,126</u></b>
<b>Total assets less current liabilities .....</b>		<b><u>33,044,321</u></b>	<b><u>46,780,518</u></b>	<b><u>74,569,659</u></b>
<b>Equity</b>				
Share capital .....	50	5,919,291	5,919,291	5,919,291
Capital reserve .....		8,587,701	8,587,701	8,587,817
Investment revaluation reserve .....	51	1,003,721	785,634	1,952,136
Translation reserve.....		(50,120)	(94,598)	(93,712)
General reserves.....	52	7,238,345	7,951,745	9,247,211
Retained profits .....	53	<u>10,243,686</u>	<u>11,454,893</u>	<u>13,998,137</u>
<b>Equity attributable to owners of the Company .....</b>		<b>32,942,624</b>	<b>34,604,666</b>	<b>39,610,880</b>
<b>Non-controlling interests .....</b>		<b><u>12,154</u></b>	<b><u>138,310</u></b>	<b><u>1,766,576</u></b>
<b>Total equity .....</b>		<b><u>32,954,778</u></b>	<b><u>34,742,976</u></b>	<b><u>41,377,456</u></b>
<b>Non-current liabilities</b>				
Financial assets sold under repurchase agreements.....	49	—	—	4,050,000
Deferred tax liabilities .....	28	89,543	57,802	111,539
Bonds payable.....	54	—	11,979,740	26,030,664
Long-term loans.....	55	—	—	3,000,000
<b>Total non-current liabilities .....</b>		<b><u>89,543</u></b>	<b><u>12,037,542</u></b>	<b><u>33,192,203</u></b>
<b>Total equity and non-current liabilities .....</b>		<b><u>33,044,321</u></b>	<b><u>46,780,518</u></b>	<b><u>74,569,659</u></b>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**D. STATEMENTS OF FINANCIAL POSITION**

	Notes	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>Non-current assets</b>				
Property and equipment.....	17	949,960	992,384	1,018,469
Prepaid lease payments .....	18	346,598	336,970	327,342
Investment properties .....	19	23,904	28,747	27,011
Goodwill.....	20	—	—	—
Other intangible assets .....	21	60,831	95,289	116,345
Investments in subsidiaries.....	22	4,701,305	5,201,305	7,060,327
Investments in associates .....	23	1,669,501	1,702,001	798,948
Available-for-sale financial assets .....	26	206,732	510,021	169,333
Financial assets held under resale agreements ..	34	—	1,450,696	431,864
Pledged and restricted bank deposits .....	39	80,000	80,000	80,000
Deferred tax assets.....	28	175,268	408,719	229,813
<b>Total non-current assets.....</b>		<b>8,214,099</b>	<b>10,806,132</b>	<b>10,259,452</b>
<b>Current assets</b>				
Advances to customers.....	29	4,982,046	19,753,588	63,655,226
Due from banks .....	43	—	—	1,000,000
Prepaid lease payments .....	18	9,628	9,628	9,628
Accounts receivable .....	30	99,088	114,006	336,144
Other accounts receivable, other receivables and prepayments .....	31	579,954	1,202,545	1,662,567
Amounts due from subsidiaries .....	32	525,230	752,654	331,473
Amounts due from associates .....	33	12,292	16,081	8,292
Available-for-sale financial assets .....	26	10,503,967	18,456,609	29,173,642
Financial assets held under resale agreements ..	34	74,215	3,259,209	11,349,090
Financial assets at fair value through profit or loss.....	35	20,542,441	22,552,691	21,034,126
Derivative financial assets.....	36	107	57,383	91,293
Deposits with exchanges and non-bank financial institutions .....	37	517,562	127,348	268,504
Clearing settlement funds.....	38	4,378,244	4,904,674	21,487,640
Pledged and restricted bank deposits .....	39	—	20,000	2,000
Bank balances .....	39	31,766,880	26,194,263	59,857,231
<b>Total current assets.....</b>		<b>73,991,654</b>	<b>97,420,679</b>	<b>210,266,856</b>
<b>Total assets .....</b>		<b>82,205,753</b>	<b>108,226,811</b>	<b>220,526,308</b>



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**ACCOUNTANTS’ REPORT**

	Notes	As at 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>Current liabilities</b>				
Short-term financing payables .....	42	7,546,428	9,044,455	29,536,739
Due to banks and other financial institutions....	43	3,340,000	5,300,000	1,123,000
Accounts payable to brokerage clients.....	44	28,855,229	25,705,946	63,928,591
Accrued staff costs.....	45	1,139,626	1,560,554	2,790,750
Other accounts payable, other payables and accruals .....	46	392,910	2,025,188	2,264,921
Amounts due to subsidiaries.....	32	101,498	—	4,327
Provisions .....	47	49,247	59,458	33,360
Current tax liabilities .....		271,708	362,907	942,399
Derivative financial liabilities .....	36	123	79,490	87,218
Financial assets sold under repurchase agreements.....	49	8,850,471	19,399,797	49,935,136
<b>Total current liabilities .....</b>		<b>50,547,240</b>	<b>63,537,795</b>	<b>150,646,441</b>
<b>Net current assets .....</b>		<b>23,444,414</b>	<b>33,882,884</b>	<b>59,620,415</b>
<b>Total assets less current liabilities .....</b>		<b>31,658,513</b>	<b>44,689,016</b>	<b>69,879,867</b>
<b>Equity</b>				
Share capital .....	50	5,919,291	5,919,291	5,919,291
Capital reserve .....		8,587,701	8,587,701	8,587,817
Investment revaluation reserve .....	51	509,269	315,946	1,495,533
General reserves.....	52	7,223,015	7,936,415	9,231,881
Retained profits .....	53	9,419,237	9,949,923	11,564,681
<b>Total equity .....</b>		<b>31,658,513</b>	<b>32,709,276</b>	<b>36,799,203</b>
<b>Non-current liabilities</b>				
Financial assets sold under repurchase agreement .....	49	—	—	4,050,000
Bonds payable.....	54	—	11,979,740	26,030,664
Long-term loans.....	55	—	—	3,000,000
<b>Total non-current liabilities .....</b>		<b>—</b>	<b>11,979,740</b>	<b>33,080,664</b>
<b>Total equity and non-current liabilities .....</b>		<b>31,658,513</b>	<b>44,689,016</b>	<b>69,879,867</b>

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ACCOUNTANTS’ REPORT

E CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company									
	Note	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total equity
		RMB'000 (Note 50)	RMB'000 (i)	RMB'000 (Note 51)	RMB'000	RMB'000	RMB'000 (Note 52)	RMB'000	RMB'000	RMB'000
At 1 January 2012.....		2,959,646	11,547,346	393,928	(50,672)	6,634,052	10,136,345	31,620,645	32,404	31,653,049
Profit for the year.....		—	—	—	—	—	2,191,457	2,191,457	(1,118)	2,190,339
Other comprehensive income for the year .....		—	—	609,793	552	—	—	610,345	—	610,345
Total comprehensive income/(expense) for the year .....		—	—	609,793	552	—	2,191,457	2,801,802	(1,118)	2,800,684
Capital injection from non-controlling shareholders.....		—	—	—	—	—	—	—	3,771	3,771
Appropriation to general reserves.....		—	—	—	—	604,293	(604,293)	—	—	—
Dividends recognised as distribution.....	56	—	—	—	—	—	(1,479,823)	(1,479,823)	—	(1,479,823)
Capitalisation of the share premium account .....		2,959,645	(2,959,645)	—	—	—	—	—	—	—
Others.....		—	—	—	—	—	—	—	(22,903)	(22,903)
At 31 December 2012 .....		5,919,291	8,587,701	1,003,721	(50,120)	7,238,345	10,243,686	32,942,624	12,154	32,954,778
Profit for the year.....		—	—	—	—	—	2,812,501	2,812,501	65	2,812,566
Other comprehensive (expense)/income for the year .....		—	—	(218,087)	(44,478)	—	—	(262,565)	22	(262,543)
Total comprehensive (expense)/income for the year .....		—	—	(218,087)	(44,478)	—	2,812,501	2,549,936	87	2,550,023
Capital injection from non-controlling shareholders.....		—	—	—	—	—	—	—	126,069	126,069
Appropriation to general reserves.....		—	—	—	—	713,400	(713,400)	—	—	—
Dividends recognised as distribution.....	56	—	—	—	—	—	(887,894)	(887,894)	—	(887,894)
At 31 December 2013 .....		5,919,291	8,587,701	785,634	(94,598)	7,951,745	11,454,893	34,604,666	138,310	34,742,976

Equity attributable to owners of the Company									
Notes	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal	Non-controlling interests	Total equity
	RMB'000 (Note 50)	RMB'000 (i)	RMB'000 (Note 51)	RMB'000	RMB'000 (Note 52)	RMB'000	RMB'000	RMB'000	RMB'000
	—	—	—	—	—	5,022,568	5,022,568	122,945	5,145,513
	—	—	1,166,502	886	—	—	1,167,388	45,436	1,212,824
	—	—	1,166,502	886	—	5,022,568	6,189,956	168,381	6,358,337
	—	116	—	—	—	—	116	—	116
	—	—	—	—	—	—	—	49,025	49,025
	—	—	—	—	—	—	—	4,036	4,036
22	—	—	—	—	—	—	—	1,516,701	1,516,701
22	—	—	—	—	—	—	—	(104,070)	(104,070)
	—	—	—	—	—	—	—	(5,807)	(5,807)
	—	—	—	—	1,295,466	(1,295,466)	—	—	—
56	—	—	—	—	—	(1,183,858)	(1,183,858)	—	(1,183,858)
	5,919,291	8,587,817	1,952,136	(93,712)	9,247,211	13,998,137	39,610,880	1,766,576	41,377,456

(i) Capital reserve of the Group represents cash paid for subscription of ordinary shares less the nominal value of issued ordinary shares.

(ii) GF Tarena Ltd., a subsidiary of the Company, reduced its share capital by 50% in 2014.

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**ACCOUNTANTS’ REPORT**

**F. CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Note	Year ended 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>OPERATING ACTIVITIES</b>				
Profit before income tax.....		2,685,219	3,477,313	6,648,595
Adjustments for:				
Interest expenses.....		500,383	1,378,567	2,757,676
Share of results of associates and joint ventures.....		(374,480)	(393,022)	(337,165)
Depreciation and amortisation.....		251,628	246,891	257,364
Impairment losses.....		290,634	117,060	149,944
Gain on disposal of property and equipment and other intangible assets.....		(614)	(3,255)	(116)
(Gain) loss on disposal of a subsidiary.....	22	—	(9,431)	576
Gain on deemed disposal of an associate.....		—	—	(44,004)
Foreign exchange (gains) losses, net.....		(8,613)	(12,606)	16,331
Net realised gains from disposal of available-for-sale financial assets.....		(99,805)	(587,839)	(235,193)
Dividend income and interest income from available-for-sale financial assets.....		(522,348)	(796,418)	(1,128,422)
Gain on other investment.....		—	—	(1,190)
Interest income and net realised gains from loan and receivable investments.....		—	(14,406)	(40,134)
Unrealised fair value changes in financial assets at fair value through profit or loss.....		(473,667)	573,668	(693,817)
Unrealised fair value changes in derivatives.....		103	22,004	(27,591)
Operating cash flows before movements in working capital.....		2,248,440	3,998,526	7,322,854
Increase in advances to customers.....		(2,411,266)	(15,244,150)	(44,205,190)
Increase in due from banks.....		—	—	(1,000,000)
(Increase) decrease in other current assets.....		(175,625)	(268,916)	577,237
Increase in interest receivables.....		(248,168)	(402,466)	(283,091)
Increase in financial assets held under resale agreements.....		(74,215)	(4,751,698)	(7,397,041)
Increase in financial assets at fair value through profit or loss.....		(8,443,634)	(3,015,525)	(1,434,250)
(Increase) decrease in deposits with exchanges and non-bank financial institutions.....		(660,922)	376,343	(397,353)
(Increase) decrease in pledged and restricted bank deposits.....		(80,000)	(30,000)	30,058

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	Note	Year ended 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
Increase in clearing settlement funds-clients.....		(464,775)	(433,698)	(16,680,204)
Decrease (increase) in cash held on behalf of customers.....		2,399,320	2,118,093	(23,768,504)
(Decrease) increase in accounts payable to brokerage clients.....		(1,265,508)	(2,678,346)	39,856,332
Increase in accrued staff costs.....		227,131	467,496	1,399,786
Increase in other accounts payable, other payables and accruals and other liabilities.....		380,694	1,717,699	2,027,445
Increase in financial assets sold under repurchase agreements.....		1,132,073	10,549,326	35,302,930
Increase (decrease) in due to banks and other financial institutions.....		3,340,000	1,960,000	(4,177,000)
Increase (decrease) in provisions.....		42,686	(1,311)	(14,576)
Cash used in operations.....		(4,053,769)	(5,638,627)	(12,840,567)
Income taxes paid.....		(513,817)	(765,811)	(1,019,154)
Interest paid.....		(453,679)	(620,069)	(1,180,775)
<b>NET CASH USED IN OPERATING ACTIVITIES.....</b>		<b>(5,021,265)</b>	<b>(7,024,507)</b>	<b>(15,040,496)</b>
<b>INVESTING ACTIVITIES</b>				
Dividends and interest received from investments.....		686,946	726,068	1,288,280
Purchases of property and equipment and other intangible assets.....		(338,242)	(238,867)	(234,736)
Proceeds from disposal of property and equipment and other intangible assets.....		1,323	4,981	2,314
Capital injection to an associate.....		—	(32,500)	(177,840)
Capital injection to a joint venture.....		—	—	(6,000)
Disposal of an associate.....		3,028	—	—
Disposal of a subsidiary.....	22	—	124,366	(9,405)
Acquisition of a subsidiary.....	22	—	(29,718)	1,382,961
Purchase or proceeds on disposal of available-for-sale financial assets, net.....		(957,416)	(8,229,577)	(10,497,186)
Purchase of loan and receivable investment.....		—	(472,294)	(609,620)
Disposal of loan and receivable investment.....		36,000	150,000	332,045
Payment on other investment activities.....		—	(25,000)	(254,671)
Proceeds from other investment activities.....		—	—	60,478
<b>NET CASH USED IN INVESTING ACTIVITIES.....</b>		<b>(568,361)</b>	<b>(8,022,541)</b>	<b>(8,723,380)</b>

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**ACCOUNTANTS’ REPORT**

	Note	Year ended 31 December		
		2012	2013	2014
		RMB’000	RMB’000	RMB’000
<b>FINANCING ACTIVITIES</b>				
Dividends paid to shareholders .....		(1,479,823)	(887,894)	(1,225,858)
Repayment of short-term loan interest .....		(3,824)	(4,018)	(15,124)
Repayment of bonds and short-term financing payables interest .....		—	(400,623)	(1,166,119)
Repayment of long-term loans interest.....		—	—	(51,870)
Capital injection from non-controlling shareholders .....		3,771	126,069	49,025
Reduction of share capital paid to non-controlling shareholders .....		—	—	(5,807)
Net proceeds from bonds and short-term financing payables issued.....		7,500,000	13,478,266	34,580,960
Net proceeds from borrowings.....		52,590	198,041	822,991
Net proceeds from long-term loans.....		—	—	3,000,000
(Increase) decrease in pledged and restricted bank deposits .....		(58,615)	(137,685)	118,308
Proceeds from sale of scrap shares .....		—	—	116
<b>NET CASH FROM FINANCING ACTIVITIES....</b>		<b><u>6,014,099</u></b>	<b><u>12,372,156</u></b>	<b><u>36,106,622</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....</b>		<b><u>424,473</u></b>	<b><u>(2,674,892)</u></b>	<b><u>12,342,746</u></b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR.....</b>				
		8,886,518	9,310,688	6,628,510
Effect of foreign exchange rate changes .....		(303)	(7,286)	2,316
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR .....</b>	40	<b><u><u>9,310,688</u></u></b>	<b><u><u>6,628,510</u></u></b>	<b><u><u>18,973,572</u></u></b>

**G. NOTES TO THE FINANCIAL INFORMATION**

**1. GENERAL INFORMATION OF THE GROUP**

With the approval of the People’s Bank of China, Guangdong Development Bank (廣東發展銀行) (now known as China Guangfa Bank) established a securities department on 9 April 1991. With the approval of the Guangdong Administration for Industry and Commerce, the Company was duly established as the Securities Department of Guangdong Development Bank (廣東發展銀行證券業務部) on 21 May 1993. On 25 January 1994, the Company converted into Guangdong Guangfa Securities Company (廣東廣發證券公司) whose capital was contributed by Guangdong Development Bank with its own funds. On 26 December 1996, the Company converted into a limited liability company and changed its name to Guangfa Securities Limited Liability Company (廣發證券有限責任公司). On 26 August 1999, the Company was spun off from Guangdong Development Bank as required by the sectoral regulation of the financial industries under the PRC laws. On 25 July 2001, the Company converted into a joint stock company and changed its name to GF Securities Co., Ltd. (廣發證券股份有限公司). On 12 February 2010, the Company became listed on the Shenzhen Stock Exchange by completing a reverse takeover of Yan Bian Road Construction Co., Ltd. (延邊公路建設股份有限公司) (“Yan Bian Road”), a company then listed on the Shenzhen Stock Exchange with the stock code 000776.

The registered office of the Company is located at 43rd Floor (Room 4301-4316), Metro Plaza, No. 183-187, Tianhe North Road, Tianhe District, Guangzhou, the People’s Republic of China (“PRC”).

The Group and the Company are principally engaged in securities brokerage, securities investment consultation, financial advisory business relating to securities trading and securities investment, securities underwriting and sponsorship, securities proprietary trading, proxy sale of securities investment fund, provision of futures intermediary services for futures companies, margin financing and securities lending, proxy sale of financial products, securities investment fund custodian, stock options market making, asset management, project and investment management and commodity futures brokerage, financial futures brokerage and futures investment advisory.

The Financial Information is presented in Renminbi (“RMB”), which is also the functional currency of the Company.

**2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For the purpose of preparing and presenting the Financial Information, the Group has consistently applied International Accounting Standards (“IASs”), International Financial Reporting Standards (“IFRSs”), amendments and the related Interpretations (“IFRICs”) (herein collectively referred to as the “IFRSs”) which are effective for the accounting period beginning on 1 January 2014 throughout the Relevant Periods.

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**ACCOUNTANTS’ REPORT**

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The Group has not early applied the following new and revised IFRSs which are relevant to the Group that have been issued but are not yet effective.

IFRS 9	Financial instruments <sup>1</sup>
IFRS 14	Regulatory deferral accounts <sup>2</sup>
IFRS 15	Revenue from contracts with customers <sup>3</sup>
Amendments to IAS 1	Disclosure Initiative <sup>5</sup>
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation <sup>5</sup>
Amendments to IAS 16 and IAS 41	Agriculture: Bearer plants <sup>5</sup>
Amendments to IAS 19	Defined benefit plans: Employee contributions <sup>4</sup>
Amendments to IAS 27	Equity method in separate financial statements <sup>5</sup>
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>5</sup>
Amendments to IFRS 10, 12 and IAS 28	Investment entities: Applying the consolidation exception <sup>5</sup>
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations <sup>5</sup>
Amendments to IFRSs	Annual improvements to IFRSs 2010-2012 cycle <sup>6</sup>
Amendments to IFRSs	Annual improvements to IFRSs 2011-2013 cycle <sup>4</sup>
Amendments to IFRSs	Annual improvements to IFRSs 2012-2014 cycle <sup>5</sup>

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1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for first annual IFRS financial statements beginning on or after 1 January 2016.

3 Effective for annual periods beginning on or after 1 January 2017.

4 Effective for annual periods beginning on or after 1 July 2014.

5 Effective for annual periods beginning on or after 1 January 2016.

6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

Except as described below, the application of the new and revised IFRSs will have no material impact on the Group’s and Company’s financial statements.

**IFRS 9 Financial instruments**

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.



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

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have 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, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.

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

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group’s consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance which for the Relevant Periods continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangement for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit,” which are set out in the sections 76 to 87 of Schedule 11 of that Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

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Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group’s voting rights in an investee are sufficient to give it power, including:

- the size of the Group’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group’s ownership interests in existing subsidiaries*

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

The Group served as the manager of collective asset management schemes and funds. These collective asset management schemes and funds invest mainly in equities, debt securities and cash and cash equivalents. The Group’s percentage ownership in these structured entities can fluctuate from day to day according to the Group’s and third-party participation in them. Where the Group is deemed to control such collective asset management schemes and funds, with control determined based on an analysis of the guidance in IFRS 10 Consolidated financial statements, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes and funds for cash. These are presented as “Third-party interests in consolidated investment funds” within other liabilities in the consolidated statement of financial position.

### **Business combinations**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

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Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognised amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company’s statement of financial position at cost less accumulated impairment losses, if any.

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first

to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group’s policy for goodwill arising on the acquisition of associates and joint ventures is described below.

### **Investments in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in the Financial Information using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group’s share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group’s share of losses of an associate or a joint venture exceeds the Group’s interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group’s net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group’s share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group’s share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.



The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment (or a portion thereof) is classified as held for sale. Any retained portion of an interest in an associate or a joint venture that has not been classified as held for sale is accounted for using the equity method.

Upon disposal or partial disposal of the Group’s interest in an associate or a joint venture in which the Group lost significant influence or joint control and discontinued the use of equity method, any retained interest that is within the scope of IAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate or joint venture at the date, and the proceeds from disposing of such interest (or partial interest) in the associate or joint venture and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in their comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related asset or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group’s consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

When an investment in an associate or a joint venture is held by, or is held indirectly through, a group entity that is a venture capital organisation and similar entities, the Group may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IAS 39 Financial instruments: Recognition and measurement.



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**Property and equipment**

Property and equipment including buildings and leasehold land (classified as finance leases) for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

The estimated residual value rates and useful lives of each class of property and equipment are as follows:

<u>Classes</u>	<u>Estimated residual value rates</u>	<u>Useful lives</u>
Leasehold land and buildings .....	nil	30 - 35 years
Electronic and communication equipment.....	nil	5 years
Motor vehicles .....	nil	4 - 6 years
Office equipment .....	nil	5 - 11 years
Improvements .....	nil	5 years

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

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Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

**Intangible assets**

*Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives (i.e. trading rights) that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

The estimated useful lives of each class of intangible assets are as follows:

<u>Classes</u>	<u>Useful lives</u>
Computer software .....	5 years
Others .....	5 years

*Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Alternatively, intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Impairment on tangible and intangible assets other than goodwill and financial assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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*The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

*Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment and investment properties.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

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- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group’s foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group’s entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Employee benefits**

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits expenses for those services in profit or loss.

*Social welfare*

Social welfare expenditure refers to payments for employees’ social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees’ salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group’s liabilities in respect of these funds are limited to the contribution payable in the reporting period.

*Annuity scheme*

The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants’ total salary when employees have rendered service entitling them to the contributions. The contribution is recognised in profit or loss.

*Early retirement benefits*

The Group provides early retirement benefits to those employees in Mainland China who accepted an early retirement arrangement.

The liability related to early retirement benefits is recognised when the employees voluntarily retired before the normal retirement date, as approved by the management. Management recognised the early retirement benefits liability as at each reporting date with the changes recognised in profit or loss.

*Mandatory Provident Fund*

Payments to the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

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The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, available-for-sale financial assets and held-to-maturity investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

***Financial assets at fair value through profit or loss***

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.



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A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is reported in the net investment gains line item.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including advances to customers, accounts receivable, other receivables, amounts due from subsidiaries, amount due from associates, loan and receivable investments, financial assets held under resale agreements, deposits with exchanges and non-bank financial institutions, clearing settlement funds, pledged and restricted bank deposits, bank balances are measured at amortised cost using the effective interest method, less any identified impairment losses (see the accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the effect of discounting would be immaterial.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets as at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy on impairment loss on financial assets below).

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For available-for-sale equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it is probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as advances to customers and accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group’s past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

Collective impairment allowances cover credit losses inherent in portfolios of loans receivable and other accounts with similar economic and credit risk characteristics where objective evidence for individual impaired items cannot be identified. In assessing the collective impairment, management makes assumptions both to define the way the Group assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the financial asset’s original effective interest rate.

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For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of advances to customers, accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. When an advance to customers, an account receivable or an other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

***Financial liabilities and equity instruments***

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group’s financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Group entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

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*Financial liabilities at FVTPL*

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss for the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

*Other financial liabilities*

Other financial liabilities including borrowings, short-term financing payables, due to banks and other financial institutions, accounts payable to brokerage clients, other accounts payable, other payables and accruals, long-term loans, bonds payable and financial assets sold under repurchase agreements are subsequently measured at amortised cost, using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

*Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

*Financial assets sold under repurchase agreements and financial assets held under resale agreements*

Financial assets sold subject to repurchase agreements, which do not result in derecognition of the financial assets, are continued to be recorded as “financial assets at fair value through profit or loss” or “available-for-sale financial assets” as appropriate. The corresponding liability is included in “financial assets sold under repurchase agreements”. Consideration paid for financial assets held under agreements to resell are recorded as “financial assets held under resale agreements”. Financial assets sold under repurchase agreements and financial assets held under resale agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

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***Securities lending***

The Group lends securities to clients and the cash collateral balances required under the securities lending agreements and the interests arisen from such agreements are included in “accounts payable to brokerage clients”. For those securities held by the Group that are lent to clients, they are not derecognised and are continued to be recorded as “available-for-sale financial assets”.

***Derecognition***

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- (i) Commission income for broking business is recorded as income on a trade date basis, and service fees arising from broking business are recognised when services are rendered;
- (ii) Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- (iii) Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a timely basis using the effective interest

method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition;

- (iv) Consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered;
- (v) Asset and fund management fee income is recognised when management services are provided; and
- (vi) Dividend income from investments is recognised when the shareholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

### **Provision**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## **4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group’s accounting policies, which are described in note 3 of section G of this report, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**Critical judgements in applying accounting policies**

The following is the critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the Group’s accounting policies and that has the most significant effect on the amounts recognised in the Financial Information.

***Determination of consolidation scope***

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

For collective asset management schemes and investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that is of such significance that it indicates that the Group is a principal. The collective asset management schemes and investment funds are consolidated if the Group acts in the role of principal.

**Key sources of estimation uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

***Fair value of financial instruments***

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.



***Fair value of available-for-sale equity investments with restriction on disposal***

For available-for-sale equity investments which are subject to legally enforceable restriction that prevents the holders from disposing them within the specified period, the fair value of these listed shares is determined with reference to the quoted market prices with an adjustment of discount to reflect the effect of the restriction. The estimation of fair value of these shares includes assumptions that are not based on observable data. Changes in assumptions could affect the fair value of the available-for-sale equity investments. Details are set out in note 26 of section G of this report.

***Impairment of advances to customers and accounts receivable***

The Group reviews its advances to customers and accounts receivable to assess impairment on a periodic basis. When there is objective evidence of impairment loss for advance to customers and accounts receivable, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

The policy for collective impairment allowances for advances to customers and accounts receivable of the Group is based on the evaluation of probability of default, loss given default and exposure at default of accounts and on management’s judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these loans and advances, including the current creditworthiness, and the past collection history of each loan. Details are set out in note 29 and note 30 of section G of this report.

The amount of the impairment loss for accounts receivable is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

***Impairment of available-for-sale financial assets***

The determination of whether available-for-sale financial assets are impaired requires significant judgement. For listed available-for-sale equity investments, funds and collective asset management schemes, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economies or the law, as well as industry and sector performance and the financial information regarding the investee that provide evidence that the cost of the equity securities may not be recoverable. For available-for-sale debt instruments, trust investment, wealth management and targeted management products, the Group makes the judgments as to whether there is an objective



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evidence of impairment which indicates a measurable decrease in the estimated future cash flows of these debt instruments. This requires a significant level of management judgement which would affect the amount of impairment losses in profit or loss. Details are set out in note 26 of section G of this report.

***Income taxes***

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

The realisation of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in note 28 of section G of this report.

**5. COMMISSION AND FEE INCOME**

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Commission on securities dealing and broking and handling fee income .....	2,396,006	3,439,365	4,949,888
Underwriting and sponsors fees.....	1,027,072	308,086	1,552,291
Commission on futures and options contracts dealing and broking and handling fee income .....	296,967	279,306	230,531
Asset management and fund management fee income.....	111,985	205,079	1,124,488
Consultancy and financial advisory fee income.....	161,751	146,075	327,325
Others.....	7,766	21,474	32,797
	<u>4,001,547</u>	<u>4,399,385</u>	<u>8,217,320</u>

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**6. INTEREST INCOME**

The following is the analysis excluding interest income from investments reported under net investment gains in note 7:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Deposits with exchanges and non-bank financial institutions and bank balances..	1,159,683	989,650	1,235,138
Advances to customers and securities lending .....	378,131	1,166,335	2,636,161
Financial assets held under resale agreements .....	536	182,440	423,535
Due from banks .....	—	—	16,320
Others .....	2,885	10,792	13,484
	<u>1,541,235</u>	<u>2,349,217</u>	<u>4,324,638</u>

**7. NET INVESTMENT GAINS**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net realised gains from disposal of available-for-sale financial assets .....	99,805	587,839	235,193
Dividend income and interest income from available-for-sale financial assets .....	522,348	796,418	1,128,422
Net realised (losses) gains from disposal of financial assets at fair value through profit or loss .....	(131,308)	111,607	1,302,445
Dividend income and interest income from financial assets at fair value through profit or loss .....	736,052	899,617	1,157,622
Interest income and net realised gains from loan and receivable investments .....	—	14,406	40,134
Net realised gains (losses) from derivatives .....	366,379	483,228	(685,456)
Unrealised fair value change of financial instruments at fair value through profit or loss			
- financial assets at fair value through profit or loss .....	473,666	(573,668)	693,817
- derivatives .....	(378,855)	205,684	(268,047)
Others .....	—	—	826
	<u>1,688,087</u>	<u>2,525,131</u>	<u>3,604,956</u>

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**8. OTHER INCOME AND GAINS**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Foreign exchange gains (losses), net .....	8,613	12,606	(16,331)
Rental income .....	3,784	8,025	9,647
Government grants .....	14,443	3,624	82,608
Gain on disposal of property and equipment and other intangible assets .....	614	3,255	116
Commission from tax withholding and remitting .....	8,654	9,514	17,518
Gain (loss) on disposal of a subsidiary (note 22) .....	—	9,431	(576)
Gain on deemed disposal of an associate (note 22) .....	—	—	44,004
Third-party interest in consolidated collective asset management schemes and funds .....	(14,630)	(15,394)	(139,827)
Others .....	28,173	27,053	19,422
	<u>49,651</u>	<u>58,114</u>	<u>16,581</u>

The government grants were mainly received unconditionally by the Group from the local governments to support operations in the designated locations.

**9. DEPRECIATION AND AMORTISATION**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Depreciation of property and equipment .....	224,118	210,623	210,607
Depreciation of investment properties .....	409	2,751	1,736
Amortisation of prepaid lease payments .....	9,628	9,628	9,628
Amortisation of other intangible assets .....	17,473	23,889	35,393
	<u>251,628</u>	<u>246,891</u>	<u>257,364</u>

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**10. STAFF COSTS**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Salaries, bonus and allowances .....	1,863,460	2,342,071	3,603,140
Social welfare .....	272,873	285,329	328,121
Contributions to annuity schemes.....	61,269	88,630	113,887
Early retirement benefits.....	46,339	20,046	10,905
Others.....	191,316	211,543	289,873
	<u>2,435,257</u>	<u>2,947,619</u>	<u>4,345,926</u>

The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, health care insurance, housing funds and other social welfare contributions, operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated and paid to the relevant labour and social welfare authorities on a regular basis. These social welfare plans are defined contribution plans and contributions to the plans are expensed as incurred.

In addition to the above social welfare plans, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees’ and the Group’s contributions for the annuity schemes are calculated based on certain percentage of employees’ salaries and recognised in profit or loss as expense. These annuity schemes are defined contribution plans.

The Group also operates the Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

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**11. COMMISSION AND FEE EXPENSES**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Securities and futures dealing and broking expenses.....	55,202	74,550	126,963
Underwriting and sponsors fee expenses .....	59,999	12,015	89,642
Other service expenses.....	35,058	18,977	24,208
	<u>150,259</u>	<u>105,542</u>	<u>240,813</u>

**12. INTEREST EXPENSES**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Interest on liabilities that are wholly repayable within five years:			
- Accounts payable to brokerage clients..	140,246	111,779	138,194
- Financial assets sold under repurchase agreements .....	202,218	438,940	843,368
- Borrowings .....	3,450	4,027	16,316
- Due to banks and other financial institutions .....	108,018	93,508	212,034
- Short-term financing bills .....	46,428	398,650	544,246
- Corporate bonds.....	—	75,857	213,108
- Subordinated bonds.....	—	—	168,986
- Long-term loans .....	—	—	54,747
- Principals of structured notes .....	—	—	51,062
- Principals and deposits of equity return swaps.....	—	2,543	35,450
- Others .....	23	3,387	19,535
Interest on liabilities that are not wholly repayable within five years:			
- Corporate bonds .....	—	249,876	460,630
	<u>500,383</u>	<u>1,378,567</u>	<u>2,757,676</u>

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**13. OTHER OPERATING EXPENSES**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Auditor’s remuneration .....	4,172	4,952	5,349
General and administrative expenses .....	388,174	401,255	621,170
Business taxes and surcharges .....	301,761	387,831	763,802
Operating lease rentals in respect of rented premises .....	287,216	287,767	298,894
Data transmission expenses .....	125,866	126,224	141,957
Securities and futures investor protection funds .....	40,008	48,387	68,117
Business travel expenses .....	51,165	57,482	77,593
Provision (note 47) .....	42,686	14,576	—
Compensation for early termination of contracts .....	453	—	2,055
Sundry expenses .....	100,119	123,403	121,405
	<u>1,341,620</u>	<u>1,451,877</u>	<u>2,100,342</u>

**14. IMPAIRMENT LOSSES**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Allowance for impairment loss in respect of accounts receivable .....	891	—	—
Allowance for impairment loss in respect of other accounts receivable (note 31) .....	—	—	50,938
Impairment loss in respect of intangible assets .....	1,393	831	159
Impairment loss in respect of available-for-sale financial assets .....	290,840	116,562	37,864
Impairment loss in respect of advance to customers (note 29) .....	—	—	53,515
Impairment loss in respect of amount due from trading business clients (note 31) .....	—	—	7,468
Reversal of impairment loss in respect of deposits with non-bank financial institutions .....	(2,490)	(333)	—
	<u>290,634</u>	<u>117,060</u>	<u>149,944</u>

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**15. INCOME TAX EXPENSE**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Current tax:			
PRC Enterprise Income Tax .....	623,045	834,444	1,692,017
Hong Kong Profits Tax .....	6,025	8,748	8,443
(Over) under provision in prior years:			
PRC Enterprise Income Tax .....	(2,335)	633	3,269
Hong Kong Profit Tax .....	(1,415)	(249)	(2,660)
Subtotal .....	625,320	843,576	1,701,069
Deferred income tax (note 28) .....	(130,440)	(178,829)	(197,987)
	<u>494,880</u>	<u>664,747</u>	<u>1,503,082</u>

Under the Enterprise Income Tax of the PRC (the “EIT Law”) and the Implementation Regulation of the EIT Law, the tax rate of the Company and its subsidiaries in the PRC is 25%, except for as mentioned below.

Upon the approval of the “Circular of Tax Reduction from the Municipal Tax Department of Urumqi Economic and Technological Development Zone” (「烏魯木齊經濟技術開發區地方稅務局減稅備案通知書」(烏經濟區地稅股備字[2012]25號)), GF Xinde Investment Management Co., Ltd., a wholly owned subsidiary, is subject to a tax rate of 12% from 25 May 2012 to 31 December 2015.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Relevant Periods. Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Profit before income tax .....	<u>2,685,219</u>	<u>3,477,313</u>	<u>6,648,595</u>
Tax at the statutory tax rate of 25%.....	671,305	869,328	1,662,149
Tax effect of share of profit of associates and joint ventures.....	(93,620)	(98,255)	(84,292)
Tax effect of expenses not deductible for tax purpose .....	32,003	26,956	28,239
Tax effect of income not taxable for tax purpose ....	(44,407)	(58,284)	(70,180)
Tax effect of tax losses not recognised .....	2,741	2,057	13,170
Utilisation of tax losses previously not recognised..	(521)	(865)	(3,542)
Decrease in opening deferred tax assets resulting from a decrease in applicable tax rate .....	974	—	—
Effect of different tax rates of subsidiaries .....	(30,761)	(35,401)	(38,241)
(Over) under provision in prior years.....	(3,750)	384	609
Others.....	<u>(39,084)</u>	<u>(41,173)</u>	<u>(4,830)</u>
Income tax expense for the year .....	<u>494,880</u>	<u>664,747</u>	<u>1,503,082</u>

**16. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The calculation of basic earnings per share attributable to owners of the Company is as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share:			
Profit for the year attributable to owners of the Company.....	<u>2,191,457</u>	<u>2,812,501</u>	<u>5,022,568</u>
Number of shares:			
Number of shares in issue (in thousand).....	<u>5,919,291</u>	<u>5,919,291</u>	<u>5,919,291</u>
Earnings per share:			
Earnings per share (RMB) .....	<u>0.37</u>	<u>0.48</u>	<u>0.85</u>

For the years ended 31 December 2012, 2013 and 2014, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.



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**17. PROPERTY AND EQUIPMENT**

**Group**

	<b>Leasehold land and buildings</b>	<b>Electronic and communication equipment</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Improvements</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
<b>Cost</b>							
As at 1 January 2012.....	478,171	694,883	91,204	132,733	472,499	21,943	1,891,433
Additions.....	169,498	54,292	6,249	15,777	67,879	77,594	391,289
Disposals/written-off.....	—	(56,567)	(4,554)	(9,002)	(46,605)	—	(116,728)
Reclassified as investment properties.....	(28,356)	—	—	—	—	—	(28,356)
As at 31 December 2012.....	<u>619,313</u>	<u>692,608</u>	<u>92,899</u>	<u>139,508</u>	<u>493,773</u>	<u>99,537</u>	<u>2,137,638</u>
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2012.....	204,255	435,508	51,809	76,243	282,501	—	1,050,316
Charge for the year.....	20,329	103,626	13,158	18,326	68,679	—	224,118
Eliminated on disposals/written-off.	—	(56,291)	(4,369)	(8,712)	(46,405)	—	(115,777)
Reclassified as investment properties.....	(12,760)	—	—	—	—	—	(12,760)
As at 31 December 2012.....	<u>211,824</u>	<u>482,843</u>	<u>60,598</u>	<u>85,857</u>	<u>304,775</u>	<u>—</u>	<u>1,145,897</u>
<b>Carrying values</b>							
As at 31 December 2012.....	<u>407,489</u>	<u>209,765</u>	<u>32,301</u>	<u>53,651</u>	<u>188,998</u>	<u>99,537</u>	<u>991,741</u>
<b>Cost</b>							
As at 1 January 2013.....	619,313	692,608	92,899	139,508	493,773	99,537	2,137,638
Additions.....	—	105,998	11,886	15,464	50,289	85,214	268,851
Disposals/written-off.....	(1,437)	(78,752)	(4,056)	(16,283)	(40,516)	—	(141,044)
Reclassified as investment properties.....	(8,324)	—	—	—	—	—	(8,324)
Effect of foreign currency exchange differences.....	—	758	—	(877)	(84)	—	(203)
As at 31 December 2013.....	<u>609,552</u>	<u>720,612</u>	<u>100,729</u>	<u>137,812</u>	<u>503,462</u>	<u>184,751</u>	<u>2,256,918</u>
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2013.....	211,824	482,843	60,598	85,857	304,775	—	1,145,897
Charge for the year.....	20,498	88,131	12,373	18,103	71,518	—	210,623
Eliminated on disposals/written-off.	(555)	(78,369)	(3,933)	(16,083)	(40,355)	—	(139,295)
Reclassified as investment properties.....	(3,879)	—	—	—	—	—	(3,879)
Effect of foreign currency exchange differences.....	—	208	42	(153)	225	—	322
Reversal of impairment losses recognised in profit or loss .....	(24)	—	—	—	—	—	(24)
As at 31 December 2013.....	<u>227,864</u>	<u>492,813</u>	<u>69,080</u>	<u>87,724</u>	<u>336,163</u>	<u>—</u>	<u>1,213,644</u>
<b>Carrying values</b>							
As at 31 December 2013.....	<u>381,688</u>	<u>227,799</u>	<u>31,649</u>	<u>50,088</u>	<u>167,299</u>	<u>184,751</u>	<u>1,043,274</u>

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	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Improvements	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Cost</b>							
As at 1 January 2014.....	609,552	720,612	100,729	137,812	503,462	184,751	2,256,918
Additions.....	—	68,440	12,497	21,126	46,230	94,018	242,311
Acquired on acquisition of a subsidiary.....	193,189	10,615	3,102	1,866	8,011	—	216,783
Disposals/written-off.....	—	(128,778)	(7,765)	(11,855)	(42,271)	—	(190,669)
Effect of foreign currency exchange differences.....	—	(220)	(52)	(20)	(280)	—	(572)
As at 31 December 2014.....	<u>802,741</u>	<u>670,669</u>	<u>108,511</u>	<u>148,929</u>	<u>515,152</u>	<u>278,769</u>	<u>2,524,771</u>
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2014.....	227,864	492,813	69,080	87,724	336,163	—	1,213,644
Charge for the year.....	27,088	87,131	11,601	17,942	66,845	—	210,607
Eliminated on disposals/written-off.	—	(127,955)	(7,739)	(10,456)	(40,170)	—	(186,320)
Effect of foreign currency exchange differences.....	—	(236)	(56)	(37)	(292)	—	(621)
As at 31 December 2014.....	<u>254,952</u>	<u>451,753</u>	<u>72,886</u>	<u>95,173</u>	<u>362,546</u>	<u>—</u>	<u>1,237,310</u>
<b>Carrying values</b>							
As at 31 December 2014.....	<u><u>547,789</u></u>	<u><u>218,916</u></u>	<u><u>35,625</u></u>	<u><u>53,756</u></u>	<u><u>152,606</u></u>	<u><u>278,769</u></u>	<u><u>1,287,461</u></u>

**Company**

	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Improvements	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Cost</b>							
As at 1 January 2012.....	477,284	660,134	83,517	128,423	462,777	21,943	1,834,078
Additions.....	169,498	45,059	3,573	13,222	54,197	77,594	363,143
Disposals/written-off.....	—	(55,855)	(4,328)	(8,365)	(43,244)	—	(111,792)
Reclassified as investment properties.....	(28,356)	—	—	—	—	—	(28,356)
As at 31 December 2012.....	<u>618,426</u>	<u>649,338</u>	<u>82,762</u>	<u>133,280</u>	<u>473,730</u>	<u>99,537</u>	<u>2,057,073</u>
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2012.....	203,890	415,862	47,991	73,770	275,164	—	1,016,677
Charge for the year.....	20,303	97,646	11,811	17,515	64,617	—	211,892
Eliminated on disposals/written-off.	—	(55,533)	(4,193)	(8,145)	(40,825)	—	(108,696)
Reclassified as investment properties.....	(12,760)	—	—	—	—	—	(12,760)
As at 31 December 2012.....	<u>211,433</u>	<u>457,975</u>	<u>55,609</u>	<u>83,140</u>	<u>298,956</u>	<u>—</u>	<u>1,107,113</u>
<b>Carrying values</b>							
As at 31 December 2012.....	<u><u>406,993</u></u>	<u><u>191,363</u></u>	<u><u>27,153</u></u>	<u><u>50,140</u></u>	<u><u>174,774</u></u>	<u><u>99,537</u></u>	<u><u>949,960</u></u>

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	Leasehold land and buildings	Electronic and communication equipment	Motor vehicles	Office equipment	Improvements	Construction in progress	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Cost</b>							
As at 1 January 2013.....	618,426	649,338	82,762	133,280	473,730	99,537	2,057,073
Additions.....	—	93,299	9,546	10,119	45,837	85,214	244,015
Disposals/written-off.....	(1,437)	(74,042)	(3,637)	(16,178)	(36,182)	—	(131,476)
Reclassified as investment properties.....	(8,324)	—	—	—	—	—	(8,324)
As at 31 December 2013.....	<u>608,665</u>	<u>668,595</u>	<u>88,671</u>	<u>127,221</u>	<u>483,385</u>	<u>184,751</u>	<u>2,161,288</u>
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2013.....	211,433	457,975	55,609	83,140	298,956	—	1,107,113
Charge for the year.....	20,473	81,362	10,789	17,240	65,557	—	195,421
Eliminated on disposals/written-off.	(555)	(73,658)	(3,514)	(15,977)	(36,023)	—	(129,727)
Reclassified as investment properties.....	(3,879)	—	—	—	—	—	(3,879)
Reversal of impairment losses recognised in profit or loss .....	(24)	—	—	—	—	—	(24)
As at 31 December 2013.....	<u>227,448</u>	<u>465,679</u>	<u>62,884</u>	<u>84,403</u>	<u>328,490</u>	<u>—</u>	<u>1,168,904</u>
<b>Carrying values</b>							
As at 31 December 2013.....	<u>381,217</u>	<u>202,916</u>	<u>25,787</u>	<u>42,818</u>	<u>154,895</u>	<u>184,751</u>	<u>992,384</u>
<b>Cost</b>							
As at 1 January 2014.....	608,665	668,595	88,671	127,221	483,385	184,751	2,161,288
Additions.....	—	50,836	10,159	17,044	37,621	94,018	209,678
Disposals/written-off.....	—	(128,796)	(6,554)	(10,544)	(39,203)	—	(185,097)
As at 31 December 2014.....	<u>608,665</u>	<u>590,635</u>	<u>92,276</u>	<u>133,721</u>	<u>481,803</u>	<u>278,769</u>	<u>2,185,869</u>
<b>Accumulated depreciation and impairment</b>							
As at 1 January 2014.....	227,448	465,679	62,884	84,403	328,490	—	1,168,904
Charge for the year.....	20,453	76,432	9,260	15,711	58,733	—	180,589
Eliminated on disposals/written-off.	—	(126,261)	(6,529)	(10,123)	(39,180)	—	(182,093)
As at 31 December 2014.....	<u>247,901</u>	<u>415,850</u>	<u>65,615</u>	<u>89,991</u>	<u>348,043</u>	<u>—</u>	<u>1,167,400</u>
<b>Carrying values</b>							
As at 31 December 2014.....	<u>360,764</u>	<u>174,785</u>	<u>26,661</u>	<u>43,730</u>	<u>133,760</u>	<u>278,769</u>	<u>1,018,469</u>

The carrying amount of Group and Company’s property, plant and equipment included the leasehold interest in land as the leasehold payments cannot be allocated reliably between the land and building elements, as such the entire lease is classified as finance lease and accounted for as property, plant and equipment.

The Group is still in the process of applying for the title certificates for its leasehold land and buildings with a carrying value of RMB34.65 million, RMB32.47 million, RMB21.45 million as at 31 December 2012, 2013 and 2014, respectively. The directors of the Company consider that this will not have significant impact on the Financial Information for the Relevant Periods.

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The Company is still in the process of applying for the title certificates for its leasehold land and buildings with a carrying value of RMB34.65 million, RMB32.47 million, RMB21.00 million as at 31 December 2012, 2013 and 2014, respectively. The directors of the Company consider that this will not have significant impact on the Financial Information for the Relevant Periods.

The carrying value of leasehold land and buildings of the Group and the Company comprise properties located on:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Land in PRC			
Long lease (over 50 years) .....	22,041	20,142	18,999
Medium-term lease (10 to 50 years) .....	385,448	361,546	528,790
	<u>407,489</u>	<u>381,688</u>	<u>547,789</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Land in PRC			
Long lease (over 50 years) .....	22,041	20,142	18,999
Medium-term lease (10 to 50 years) .....	384,952	361,075	341,765
	<u>406,993</u>	<u>381,217</u>	<u>360,764</u>

**18. PREPAID LEASE PAYMENTS**

**Group and Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Analysed for reporting purposes as:			
Current assets .....	9,628	9,628	9,628
Non-current assets .....	346,598	336,970	327,342
	<u>356,226</u>	<u>346,598</u>	<u>336,970</u>
The Group’s and the Company’s prepaid lease payments comprise:			
Leasehold land in PRC			
Medium-term lease (10 to 50 years) .....	356,226	346,598	336,970

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**19. INVESTMENT PROPERTIES**

**Group and Company**

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
<b>Cost</b>			
At beginning of the year.....	12,258	40,614	52,087
Additions.....	—	3,149	—
Reclassified from property and equipment .....	28,356	8,324	—
At end of the year .....	<u>40,614</u>	<u>52,087</u>	<u>52,087</u>
<b>Accumulated depreciation</b>			
At beginning of the year.....	3,541	16,710	23,340
Provided for the year.....	409	2,751	1,736
Reclassified from property and equipment .....	12,760	3,879	—
At end of the year .....	<u>16,710</u>	<u>23,340</u>	<u>25,076</u>
<b>Carrying values</b>			
At end of the year .....	<u>23,904</u>	<u>28,747</u>	<u>27,011</u>

As at 31 December 2012, 2013 and 2014, the fair values of the Group’s and the Company’s investment properties were RMB99.74 million, RMB107.96 million and RMB114.70 million, respectively. The fair value has been arrived at based on a valuation carried out by Yangcheng Appraisal Co., Ltd., independent valuers not connected with the Group. The address of Yangcheng Appraisal Co., Ltd., is 24/F, City Construction Building, No.189, Ti Yu Xi Road, Guangzhou, PRC. The fair value was determined by the directors of the Company by reference to recent market prices for similar properties in same or similar conditions, and adjusted to reflect the condition of the Group’s and Company’s investment properties, including property age and floor level, etc.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

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Details of the Group’s and Company’s investment properties and information about the fair value hierarchy as at 31 December 2012, 2013 and 2014 are as follows:

	<u>Level 3</u>	<u>Fair value as at 31.12.2012</u>
	<b>RMB’000</b>	<b>RMB’000</b>
Commercial property units located in PRC.....	<u>99,743</u>	<u>99,743</u>
	<u>Level 3</u>	<u>Fair value as at 31.12.2013</u>
	<b>RMB’000</b>	<b>RMB’000</b>
Commercial property units located in PRC.....	<u>107,956</u>	<u>107,956</u>
	<u>Level 3</u>	<u>Fair value as at 31.12.2014</u>
	<b>RMB’000</b>	<b>RMB’000</b>
Commercial property units located in PRC.....	<u>114,696</u>	<u>114,696</u>

The above investment properties are depreciated over their estimated useful lives of 30 years and after taking into account their estimated residual value of nil, using the straight-line method.

The carrying amount of Group and Company’s investment properties included the leasehold interest in land as the leasehold payments cannot be allocated reliably between the land and building elements, as such the entire lease is classified as finance lease and accounted for as investment properties. The Group’s and Company’s investment properties are situated on land in the PRC under medium-term lease.

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**20. GOODWILL**

**Impairment testing on goodwill**

For the purpose of impairment testing, goodwill has been allocated into two individual cash generating units (CGUs), including securities brokerage branches acquired by the Company (“Unit A”) and GF Financial Markets (UK) Limited acquired by a subsidiary of the Company (“Unit B”). The carrying amounts of goodwill as at 31 December 2012, 2013 and 2014 allocated to these units are as follows:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Cost</b>			
At beginning of the year			
Unit A - securities brokerage branches .....	76,574	76,574	76,574
Unit B - GF Financial Markets (UK) Limited .....	—	2,040	2,040
At end of the year .....	<u>76,574</u>	<u>78,614</u>	<u>78,614</u>
<b>Accumulated impairment losses</b>			
At beginning and end of the year			
Unit A - securities brokerage branches .....	76,574	76,574	76,574
Unit B - GF Financial Markets (UK) Limited .....	—	—	—
	<u>76,574</u>	<u>76,574</u>	<u>76,574</u>
<b>Carrying values</b>			
At beginning of the year			
Unit A - securities brokerage branches .....	—	—	—
Unit B - GF Financial Markets (UK) Limited .....	—	2,040	2,040
Unit B - effect of foreign currency exchange differences .....	—	—	7
At end of the year .....	<u>—</u>	<u>2,040</u>	<u>2,047</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Cost</b>			
At beginning and end of the year			
Unit A - securities brokerage branches .....	<u>76,574</u>	<u>76,574</u>	<u>76,574</u>
<b>Accumulated impairment losses</b>			
At beginning and end of the year			
Unit A - securities brokerage branches .....	<u>76,574</u>	<u>76,574</u>	<u>76,574</u>
<b>Carrying values</b> .....	<u>—</u>	<u>—</u>	<u>—</u>

Unit A is the securities brokerage CGU acquired, the acquisition cost exceeds the fair value of net identifiable assets. The commercial registration of these securities brokerage branches were changed. As the CGU no longer generated future cash flows, Unit A was fully impaired.

Unit B is the CGU of GF Financial Markets (UK) Limited (note 22 of section G) by GF Futures (Hong Kong) Co., Limited, a wholly owned subsidiary of the Company. As at 31 December 2013 and 2014, management of the Group determined that there was no impairment of the CGU as the recoverable amount of the CGU exceeded its carrying amount.

The recoverable amount of the Unit B has been determined on the basis of value in use calculation. The calculation used cash flow projections based on financial budgets approved by management. The key assumptions include the discount rate which reflects the risk specific to Unit B, budgeted income and gross margin estimated based on the past performance and management’s expectations for the market development.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed its recoverable amount.

**21. OTHER INTANGIBLE ASSETS**

**Group**

	Trading rights	Computer software	Others	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Cost</b>				
As at 1 January 2012 .....	75,596	105,493	2,448	183,537
Additions .....	353	32,040	—	32,393
Disposals/written-off .....	—	(4,425)	—	(4,425)
As at 31 December 2012 .....	<u>75,949</u>	<u>133,108</u>	<u>2,448</u>	<u>211,505</u>



**APPENDIX I**

**ACCOUNTANTS’ REPORT**

	<u>Trading rights</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2012 .....	71,122	60,107	222	131,451
Charge for the year .....	353	16,948	489	17,790
Impairment loss recognised in the year .....	1,393	—	—	1,393
Eliminated on disposals/written-off ..	—	(4,389)	—	(4,389)
As at 31 December 2012 .....	<u>72,868</u>	<u>72,666</u>	<u>711</u>	<u>146,245</u>
<b>Carrying values</b>				
As at 31 December 2012 .....	<u>3,081</u>	<u>60,442</u>	<u>1,737</u>	<u>65,260</u>
<b>Cost</b>				
As at 1 January 2013 .....	75,949	133,108	2,448	211,505
Additions .....	—	60,294	—	60,294
Disposals/written-off .....	—	(1,927)	—	(1,927)
Effect of foreign currency exchange differences .....	(11)	—	—	(11)
As at 31 December 2013 .....	<u>75,938</u>	<u>191,475</u>	<u>2,448</u>	<u>269,861</u>
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2013 .....	72,868	72,666	711	146,245
Charge for the year .....	—	23,399	490	23,889
Eliminated on disposals/written-off ..	—	(1,927)	—	(1,927)
Impairment loss recognised in the year .....	831	—	—	831
Effect of foreign currency exchange differences .....	11	—	—	11
As at 31 December 2013 .....	<u>73,710</u>	<u>94,138</u>	<u>1,201</u>	<u>169,049</u>
<b>Carrying values</b>				
As at 31 December 2013 .....	<u>2,228</u>	<u>97,337</u>	<u>1,247</u>	<u>100,812</u>

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**ACCOUNTANTS’ REPORT**

	<u>Trading rights</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
<b>Cost</b>				
As at 1 January 2014 .....	75,938	191,475	2,448	269,861
Additions .....	500	66,757	—	67,257
Acquired on acquisition of a subsidiary .....	—	20,038	—	20,038
Disposals/written-off .....	—	(1,287)	—	(1,287)
Effect of foreign currency exchange differences .....	(8)	(2)	—	(10)
As at 31 December 2014 .....	<u>76,430</u>	<u>276,981</u>	<u>2,448</u>	<u>355,859</u>
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2014 .....	73,710	94,138	1,201	169,049
Charge for the year .....	—	34,903	490	35,393
Eliminated on disposals/written-off ..	—	(1,287)	—	(1,287)
Impairment loss recognised in the year .....	159	—	—	159
Effect of foreign currency exchange differences .....	(11)	—	—	(11)
As at 31 December 2014 .....	<u>73,858</u>	<u>127,754</u>	<u>1,691</u>	<u>203,303</u>
<b>Carrying values</b>				
As at 31 December 2014 .....	<u>2,572</u>	<u>149,227</u>	<u>757</u>	<u>152,556</u>

**Company**

	<u>Trading rights</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
<b>Cost</b>				
As at 1 January 2012 .....	73,482	99,187	2,448	175,117
Additions .....	353	31,680	—	32,033
Disposals/written-off .....	—	(4,425)	—	(4,425)
As at 31 December 2012 .....	<u>73,835</u>	<u>126,442</u>	<u>2,448</u>	<u>202,725</u>
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2012 .....	71,122	56,483	222	127,827
Charge for the year .....	352	16,222	489	17,063
Impairment loss recognised in the year .....	1,393	—	—	1,393
Eliminated on disposals/written-off ..	—	(4,389)	—	(4,389)
As at 31 December 2012 .....	<u>72,867</u>	<u>68,316</u>	<u>711</u>	<u>141,894</u>
<b>Carrying values</b>				
As at 31 December 2012 .....	<u>968</u>	<u>58,126</u>	<u>1,737</u>	<u>60,831</u>

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**ACCOUNTANTS’ REPORT**

	<u>Trading rights</u>	<u>Computer software</u>	<u>Others</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Cost</b>				
As at 1 January 2013 .....	73,835	126,442	2,448	202,725
Additions .....	—	58,362	—	58,362
Disposals/written-off .....	—	(1,927)	—	(1,927)
As at 31 December 2013 .....	<u>73,835</u>	<u>182,877</u>	<u>2,448</u>	<u>259,160</u>
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2013 .....	72,867	68,316	711	141,894
Charge for the year .....	—	22,583	490	23,073
Impairment loss recognised in the year .....	831	—	—	831
Eliminated on disposals/written-off ..	—	(1,927)	—	(1,927)
As at 31 December 2013 .....	<u>73,698</u>	<u>88,972</u>	<u>1,201</u>	<u>163,871</u>
<b>Carrying values</b>				
As at 31 December 2013 .....	<u>137</u>	<u>93,905</u>	<u>1,247</u>	<u>95,289</u>
<b>Cost</b>				
As at 1 January 2014 .....	73,835	182,877	2,448	259,160
Additions .....	500	56,096	—	56,596
Disposals/written-off .....	—	(8,513)	—	(8,513)
As at 31 December 2014 .....	<u>74,335</u>	<u>230,460</u>	<u>2,448</u>	<u>307,243</u>
<b>Accumulated amortisation and impairment</b>				
As at 1 January 2014 .....	73,698	88,972	1,201	163,871
Charge for the year .....	—	29,368	489	29,857
Eliminated on disposals/written-off ..	—	(2,989)	—	(2,989)
Impairment loss recognised in the year .....	159	—	—	159
As at 31 December 2014 .....	<u>73,857</u>	<u>115,351</u>	<u>1,690</u>	<u>190,898</u>
<b>Carrying values</b>				
As at 31 December 2014 .....	<u>478</u>	<u>115,109</u>	<u>758</u>	<u>116,345</u>

Trading rights mainly comprise the trading rights in Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange and the Hong Kong Futures Exchange Limited. These rights allow the Group to trade securities and futures contracts on or through these exchanges.

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**ACCOUNTANTS’ REPORT**

**Impairment testing on trading rights with indefinite useful lives**

The trading rights held by the Group are considered by the directors of the Company as having indefinite useful lives because they are expected to contribute net cash inflows indefinitely. The trading rights will not be amortised until their useful lives are determined to be finite. Instead, they will be tested for impairment annually and whenever there is an indication that they may be impaired. The trading rights are being used in the following CGUs and the carrying amount of trading rights is allocated as follows:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Securities brokerage-GF Securities Co., Ltd.....	968	137	478
Securities brokerage-GF Securities (Hong Kong) Brokerage Limited.....	348	338	339
Futures brokerage .....	<u>1,765</u>	<u>1,753</u>	<u>1,755</u>
	<u>3,081</u>	<u>2,228</u>	<u>2,572</u>

During the years ended 31 December 2012, 2013 and 2014, the Group recognised an impairment loss of RMB1.39 million, RMB0.83 million and RMB0.16 million, respectively in relation to the trading rights arising from above three CGUs.

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Securities brokerage.....	<u>968</u>	<u>137</u>	<u>478</u>

During the years ended 31 December 2012, 2013 and 2014, the Company recognised an impairment loss of RMB1.39 million, RMB0.83 million and RMB0.16 million, respectively in relation to the trading rights arising from above CGU.

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**ACCOUNTANTS’ REPORT**

**22. INVESTMENTS IN SUBSIDIARIES**

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Unlisted shares, at cost .....	4,701,305	5,201,305	7,060,327
Less: allowance for impairment losses .....	—	—	—
	<u>4,701,305</u>	<u>5,201,305</u>	<u>7,060,327</u>

At the end of each reporting period and at date of this report, the Company has the following subsidiaries comprising the Group:

Name of principal subsidiary	Place and date of incorporation/ establishment	Effective equity interest held by the Group				Share capital/registered and paid-up capital as at 31 December 2014	Principal activities	Auditors <sup>(2)</sup> GAAP
		As at 31 December			At date of this report			
		2012	2013	2014				
廣發控股(香港)有限公司 GF Holdings (Hong Kong) Corporation Limited <sup>(1)</sup> (Note 1) .....	Hong Kong 14 June 2006	100%	100%	100%	100%	HKD1,440,000,000	Investment holding	DTT HK <sup>(8)</sup> HKFRSs
廣發融資(香港)有限公司 GF Capital (Hong Kong) Limited ...	Hong Kong 14 July 2006	100%	100%	100%	100%	HKD70,000,000	Advisory services	DTT HK <sup>(8)</sup> HKFRSs
廣發證券(香港)經紀有限公司 GF Securities (Hong Kong) Brokerage Limited .....	Hong Kong 14 July 2006	100%	100%	100%	100%	HKD800,000,000	Securities brokerage	DTT HK <sup>(8)</sup> HKFRSs
廣發資產管理(香港)有限公司 GF Asset Management (Hong Kong) Limited (Note 3) .....	Hong Kong 14 July 2006	100%	100%	100%	100%	HKD175,000,000	Asset management	DTT HK <sup>(8)</sup> HKFRSs
廣發期貨有限公司 GF Futures Co., Ltd. <sup>(1)</sup> .....	PRC 23 March 1993	100%	100%	100%	100%	RMB1,100,000,000	Commodity futures brokerage, financial futures brokerage, investment consulting and asset management	DTT PRC PRC GAAP
廣發期貨(香港)有限公司 GF Futures (Hong Kong) Co., Limited .....	Hong Kong 8 May 2006	100%	100%	100%	100%	HKD310,000,000	Futures brokerage	DTT HK <sup>(8)</sup> HKFRSs
廣發信德投資管理有限公司 GF Xinde Investment Management Co., Ltd. <sup>(1)</sup> .....	PRC 3 December 2008	100%	100%	100%	100%	RMB2,300,000,000	Equity investment, equity investment management and advisory	DTT PRC PRC GAAP
廣發投資(香港)有限公司 GF Investments (Hong Kong) Company Limited (Note 2) .....	Hong Kong 21 September 2011	100%	100%	100%	100%	HKD5,000,000	Investment holding	DTT HK <sup>(8)</sup> HKFRSs
廣發投資(開曼)有限公司 GF Investments (Cayman) Company Limited .....	Cayman Islands 8 September 2011	100%	100%	100%	100%	USD600,000	Advisory services	N/A <sup>(3)</sup>
廣發投資管理(香港)有限公司 GF Investment Management (Hong Kong) Co., Limited .....	Hong Kong 7 October 2011	100%	100%	100%	100%	HKD3,800,000	Advisory services	DTT HK <sup>(8)</sup> HKFRSs
廣發合夥有限公司 GF Partners Ltd. (Note 2) .....	Cayman Islands 26 May 2011	51%	51%	51%	51%	USD1	Investment trading	N/A <sup>(3)</sup>

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Name of principal subsidiary	Place and date of incorporation/ establishment	Effective equity interest held by the Group				Share capital/registered and paid-up capital as at 31 December 2014	Principal activities	Auditors <sup>(2)</sup> GAAP
		As at 31 December			At date of this report			
		2012	2013	2014				
廣發中國優勢基金 GF China Advantage Fund L.P. (Note 2).....	Cayman Islands 2 June 2011	57.12%	57.12%	57.12%	57.12%	USD5,118,000	Investment trading	DTT HK <sup>(8)</sup> IFRSs
廣發乾和投資有限公司 GF Qianhe Investment Co., Ltd. <sup>(1)</sup>	PRC 11 May 2012	100%	100%	100%	100%	RMB1,000,000,000	Project investment, investment management, and financial advisory	DTT PRC PRC GAAP
深圳廣發金控投資諮詢有限公司 Shenzhen GF Financial Holding Investment Consulting Co., Limited <sup>(9)*</sup> .....	PRC 23 July 2012	100%	100%	100%	—	RMB4,089,100	Consultancy services	DTT PRC PRC GAAP
GF Tarena Ltd. (formerly known as “GF China Advantage CAS Polymetallic Limited”).....	British Virgin Islands 9 August 2012	57.09%	63%	63%	63%	USD50,000	Investment trading	N/A <sup>(3)</sup>
GF Global (UK) Limited <sup>(6)</sup> .....	UK 21 June 2011	100%	100%	—	—	GBP50,000	Futures brokerage	DTT UK UK GAAP
廣發商貿有限公司 GF Commodity Markets Co., Ltd....	PRC 3 April 2013	—	100%	100%	100%	RMB200,000,000	Trading and trading agent	GUANGZHOU Dagong CPA <sup>(8)</sup> PRC GAAP
新疆廣發信德穩勝投資管理有限公司 Xinjiang GF Xinde Wensheng Investment Management Co., Ltd.* <sup>(Note 2)</sup> .....	PRC 25 March 2013	—	100%	100%	100%	RMB20,500,000	Equity investment	China Regal CPA <sup>*</sup> PRC GAAP
廣發信德醫療資本管理有限公司 GF Xinde Healthcare Management Co., Ltd.*.....	PRC 12 September 2013	—	60%	55%	55%	RMB30,000,000	Investment management	China Regal CPA <sup>*</sup> PRC GAAP
廣發信德(珠海)醫療產業投資中心(有限 合夥) GF Xinde (Zhuhai) Medical Industrial Investment Center L.P.* (Note 6).....	PRC 17 October 2013	—	60%	—	—	RMB889,850,000	Equity investment	China Regal CPA <sup>*</sup> PRC GAAP
GF Financial Markets (UK) Limited (formerly known as “Natixis Commodity Markets Limited”)..... (Note 5).....	UK 2 February 1976	—	100%	100%	100%	GBP20,000,000	Dealing in commodities and futures brokerage	DTT UK <sup>(8)</sup> UK GAAP
廣發證券資產管理(廣東)有限公司 GF Securities Asset Management (Guangdong) Co., Ltd. <sup>(1) (4)*</sup> .....	PRC 2 January 2014	—	—	100%	100%	RMB500,000,000	Asset management	DTT PRC PRC GAAP
廣發金控(深圳)投資管理有限公司 GF Jinkong (Shenzhen) Investment Management Co., Ltd. <sup>(4)*</sup> .....	PRC 1 April 2014	—	—	100%	100%	RMB10,000,000	Investment advisory	DTT PRC <sup>(8)</sup> PRC GAAP
廣發證券(加拿大)有限公司 GF Securities (Canada) Co., Ltd. <sup>(4)</sup> .....	Canada 10 March 2014	—	—	100%	100%	CAD2,864,629	Financial management	DTT CAN <sup>(8)</sup> IFRSs
廣發財富管理(香港)有限公司 GF Wealth Management (Hong Kong) Limited <sup>(4)</sup> .....	Hong Kong 20 November 2014	—	—	100%	100%	HKD3,000,000	Financial management	DTT HK HKFRSs
珠海廣發信德厚源投資企業(有限合夥) Zhuhai GF Xinde Hou Yuan Investment Enterprise L.P. <sup>(4)*</sup> (Note 2).....	PRC 27 November 2014	—	—	65.67%	65.67%	RMB25,025,000	Equity investment, equity investment management and advisory	N/A <sup>(5)</sup>
廣發信德智勝投資管理有限公司 GF Xinde Zhisheng Investment Management Co., Ltd. <sup>(4)*</sup> .....	PRC 18 November 2014	—	—	100%	100%	—	Equity investment and trust management	N/A <sup>(5)</sup>

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Name of principal subsidiary	Place and date of incorporation/ establishment	Effective equity interest held by the Group				Share capital/registered and paid-up capital as at 31 December 2014	Principal activities	Auditors <sup>(2)</sup> GAAP
		As at 31 December			At date of this report			
		2012	2013	2014				
廣發基金管理有限公司 GF Fund Management Co., Ltd. (Note 3) (Note 5) .....	PRC 5 August 2003	—	—	51.13%	51.13%	RMB126,880,000	Fund raising, fund sales and fund management	DTT PRC PRC GAAP
廣發國際資產管理有限公司 GF International Investment Management Limited <sup>(7)</sup> (Note 1) (Note 3).....	Hong Kong 10 December 2010	—	—	51.13%	51.13%	HKD300,000,000	Asset management	DTT HK IFRSs
瑞元資本管理有限公司 Ruiyuan Capital Asset Management Co., Ltd. <sup>(7)</sup> (Note 2) (Note 3).....	PRC 4 June 2013	—	—	28.12%	28.12%	RMB50,000,000	Project investment, investment management, investment advisory	DTT PRC PRC GAAP
珠海瑞元祥和股權投資基金合夥企業(有限合夥) Zhuhai Ruiyuan Xianghe Equity Investment Fund Partnership Enterprise L.P. <sup>(4)(7)</sup> (Note 2).....	PRC 9 April 2014	—	—	10.47%	10.47%	RMB54,000,000	Non-listed company investment, non-public offering of stock investment	DTT PRC <sup>(8)</sup> PRC GAAP
廣發信德資本管理有限公司 GF Xinde Capital Management Limited <sup>(4)</sup> .....	British Virgin Islands 3 September 2014	—	—	100%	100%	USD100	Investment management	N/A <sup>(3)</sup>

Name of principal scheme	Place and date of incorporation/ establishment	Effective equity interest held by the Group				Share capital/registered and paid-up capital as at 31 December 2014	Principal activities	Auditors <sup>(2)</sup> GAAP
		As at 31 December			At date of this report			
		2012	2013	2014				
廣發金管家睿利債券分級1號集合資產管理計劃 GF Golden Majordomo RUILI No. 1 Debt Obligation Asset Management Scheme* (Note 4).....	PRC 9 April 2013	—	34.77%	10.01%	10.16%	RMB35,480,548.56	Bond investment	DTT PRC <sup>(8)</sup> PRC GAAP
廣發金管家弘利債券集合資產管理計劃 GF Golden Majordomo Hongli Fixed Income Asset Management Scheme*(Note 4) .....	PRC 9 August 2012	—	—	49.88%	50.73%	RMB342,852,015.30	Bond investment	DTT PRC <sup>(8)</sup> PRC GAAP
廣發中資企業海外高收益債券分級1期集合資產管理計劃 GF Chinese Corporate Oversea High Yield Bond Structured Collective Asset Management Scheme Series 1 <sup>(4)</sup> (Note 4).....	PRC 28 August 2014	—	—	20.71%	20.71%	RMB83,783,164.45	Bond investment	DTT PRC <sup>(8)</sup> PRC GAAP
廣發量子對沖15號資產管理計劃 GF Quantitative Market Neutral Fund Series 15 <sup>(4)(7)</sup> * (Note 3).....	PRC 10 June 2014	—	—	12.78%	12.78%	RMB123,620,490.10	Securities investment	N/A <sup>(3)</sup>
廣發量子對沖17號資產管理計劃 GF Quantitative Market Neutral Fund Series 17 <sup>(4)(7)</sup> * (Note 3).....	PRC 27 June 2014	—	—	25.57%	25.57%	RMB34,200,000.00	Securities investment	N/A <sup>(3)</sup>
廣發主題投資資產管理計劃12號 GF Subject Asset Management Product No. 12 <sup>(7)</sup> * (Note 3) .....	PRC 16 April 2013	—	—	37.58%	29.20%	RMB19,539,319.57	Securities investment	N/A <sup>(3)</sup>
廣發主題投資分類管理計劃13號 GF Subject Structured Asset Management Product No. 13 <sup>(7)</sup> * (Note 3).....	PRC 6 November 2013	—	—	37.78%	37.78%	RMB400,044,000.00	Securities investment	N/A <sup>(3)</sup>
廣發主題投資資產管理計劃15號 GF Subject Asset Management Product No. 15 <sup>(7)</sup> * (Note 3) .....	PRC 12 October 2013	—	—	31.73%	26.89%	RMB24,174,178.18	Securities investment	N/A <sup>(3)</sup>
廣發量子對沖19號資產管理計劃 GF Quantitative Market Neutral Fund Series 19 <sup>(4)</sup> * (Note 3) .....	PRC 21 November 2014	—	—	19.59%	19.60%	RMB30,007,380.00	Securities investment	N/A <sup>(3)</sup>
瑞元股票精選對沖1號資產管理計劃 Ruiyuan Selective Stock Market Neutral Series 1 <sup>(4)</sup> * (Note 3).....	PRC 29 September 2014	—	—	16.00%	16.00%	RMB41,540,790.10	Securities investment	N/A <sup>(3)</sup>

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Name of principal scheme	Place and date of incorporation/ establishment	Effective equity interest held by the Group				At date of this report	Share capital/registered and paid-up capital as at 31 December 2014	Principal activities	Auditors <sup>(2)</sup> GAAP
		As at 31 December							
		2012	2013	2014					
廣發分級特定多客戶資產管理計劃1號 GF Structure Specific Multiple Client Asset Management Product No. 1 <sup>(4)*</sup> (Note 3) .....	PRC 31 October 2014	—	—	10.23%	10.23%	RMB250,000,000.00	Securities investment	N/A <sup>(3)</sup>	
廣發主題投資資產管理計劃20號 GF Subject Asset Management Product No. 20 <sup>(4)(7)*</sup> (Note 3) .....	PRC 18 April 2014	—	—	19.81%	37.39%	RMB77,447,608.45	Securities investment	N/A <sup>(3)</sup>	
瑞元資本鑫瑞5號資產管理計劃 Xinrui Asset Management Product No. 5 <sup>(4)(7)*</sup> (Note 3) .....	PRC 26 February 2014	—	—	30.66%	30.66%	RMB36,383,487.92	Securities investment	N/A <sup>(3)</sup>	

Name of fund	Place and date of incorporation/ establishment	Class of share	Effective equity interest held by the Group				At date of this report	Share capital/registered and paid-up capital as at 31 December 2014	Principal activities	Auditors <sup>(2)</sup> GAAP
			As at 31 December							
			2012	2013	2014					
廣發中國成長基金 GF China Growth Fund (Note 1) .....	Cayman Islands 27 July 2009	Participating	72.77%	83.78%	85.28%	86.77%	Class-A - USD74,820,912 shares Class-B - HKD26,753,741 shares	Investment trading	DTT Cayman <sup>(8)</sup> IFRSs	
		Management	100%	100%	100%	100%	- USD100 shares			
廣發中國價值基金 GF Investment Series SPC - GF China Value Fund (Segregated Portfolio) (Note 1) .....	Cayman Islands 11 April 2011	Participating	98.13%	95.16%	94.12%	94.12%	Class-A - USD67,999,364 shares	Investment trading	DTT Cayman <sup>(8)</sup> IFRSs	
廣發人民幣聚焦基金 GF Investment Series SPC - GF RMB Focus Fund (Segregated Portfolio) (Note 1) .....	Cayman Islands 11 April 2011	Participating	86.33%	86.33%	100%	100%	Class-A - RMB204,406,918 shares - USD154,537 shares - HKD121,256 shares	Investment trading	DTT Cayman <sup>(8)</sup> IFRSs	
黃金財富機會基金 Gold Fortune Opportunity Fund <sup>(7)</sup> (Note 1) .....	Cayman Islands 6 November 2013	Participating	—	—	21.60%	21.51%	USD236,667 shares	Investment trading	DTT HK <sup>(8)</sup> IFRSs	
		Management	—	—	51.13%	51.13%	USD100 shares			
廣發人民幣固定收益基金 GF Investment Funds - GF China RMB Fixed Income Fund (Note 3) .....	Hong Kong 5 January 2012	Class 1	80.18%	—	—	—	—	Investment trading	DTT HK IFRSs	

\* These subsidiaries or accounting firms do not have official English names. English translated names are for identification only.

(1) These subsidiaries are directly held by the Company.

(2) Auditors of the respective subsidiaries of the Group are as follows:

- DTT PRC represents Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所 (特殊普通合夥)), it is a certified public accountants registered in PRC as appropriate;
- DTT HK represents Deloitte Touche Tohmatsu in Hong Kong, a firm of certified public accountants registered in Hong Kong;
- DTT UK represents Deloitte Touche Tohmatsu in United Kingdom, a firm of certified public accountants registered in United Kingdom;



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- DTT Cayman represents Deloitte Touche Tohmatsu in Cayman Islands, a firm of certified public accountants registered in Cayman Islands;
  - DTT CAN represents Deloitte Touche Tohmatsu in Canada, a firm of certified public accountants registered in Canada;
  - China Regal CPA represents Beijing Zhongruicheng United Certified Public Accountants Ltd. (北京中瑞誠聯合會計師事務所), a firm of certified public accountants registered in PRC.
  - GUANGZHOU Dagong CPA represents Guangzhou Dagong Certified Public Accountants Co. Ltd (廣州市大公會計師事務所有限公司), a firm of certified public accountants registered in PRC.
- (3) There is no statutory audit requirement for these subsidiaries and thus no audited financial statements were issued during the Relevant Periods.
- (4) These subsidiaries have been established in 2014.
- (5) These subsidiaries have just been established in 2014, no statutory financial statements have been issued as at the date of this report.
- (6) The subsidiary has been deregistered in 2014.
- (7) Being subsidiaries, principal schemes and a fund held by GF Fund Management Co., Ltd. and consolidated since acquisition by the Group.
- (8) As at the date of this report, these subsidiaries have not issued the audited financial statements for the year ended 31 December 2014.
- (9) The subsidiary has been deregistered and no audited financial statements is required to be issued for the year ended 31 December 2014.

Note 1: GF Holdings (Hong Kong) Corporation Limited (“GFHK”), a wholly owned subsidiary of the Company, is appointed as investment manager and holds all management shares of the GF China Growth Fund, the GF Investment Series SPC - GF China Value Fund (Segregated Portfolio), and the GF Investment Series SPC - GF RMB Focus Fund (Segregated Portfolio). The directors of the Company are of the opinion that the above mentioned funds are regarded as consolidated structured entities of GFHK as GFHK is able to exercise control over their operations.

GF International Investment Management Limited, a wholly owned subsidiary of GF Fund Management Co., Ltd., is appointed as investment manager and undertakes the management of the fund of Gold Fortune Opportunity Fund, and held significant financial interest in the fund. The effective equity interest in the subsidiary represents equity interest held directly or indirectly by the Group.

Note 2: GF Investments (Hong Kong) Company Limited, a wholly owned subsidiary of GFHK, is a limited partner of GF China Advantage Fund L.P. (the “China Advantage Fund”). GF Partners Ltd., a non-wholly owned subsidiary of GFHK, acts as the general partner of the China Advantage Fund. Xinjiang GF Xinde Wensheng Investment Management Co., Ltd., a wholly owned subsidiary of the Company, acts as the general partner of Zhuhai GF Xinde Hou Yuan Investment Enterprise L.P. Ruiyuan Capital Asset Management Co., Ltd., a non-wholly owned subsidiary of GF Fund Management Co., Ltd., acts as the general partner of Zhuhai Ruiyuan Xianghe Equity Investment Fund Partnership Enterprise L.P. The directors of the Company are of the opinion that the China Advantage Fund, Zhuhai GF Xinde Hou Yuan

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Investment Enterprise L.P. and Zhuhai Ruiyuan Xianghe Equity Investment Fund Partnership Enterprise L.P. are regarded as consolidated structured entities of the Group as the Group is able to exercise control over their operations. The effective equity interest in the subsidiary represents equity interest held directly or indirectly by the Group.

Note 3: GF Asset Management (Hong Kong) Limited (“GF Asset Management”), a wholly owned subsidiary of GFHK, is appointed as investment manager and undertakes the management of the assets of GF Investment Funds - GF China RMB Fixed Income Fund (the “RMB Fixed Income Fund”). The directors of the Company are of the opinion that the RMB Fixed Income Fund is regarded as a consolidated structured entity of the GF Asset Management as GF Asset Management is able to exercise control over its operation. In 2013, the Group disposed of all class of units as disclosed in Note 6 below.

GF International Investment Management Limited is a wholly owned subsidiary of GF Fund Management Co., Ltd., while Ruiyuan Capital Asset Management Co., Ltd. is a non-wholly owned subsidiary of GF Fund Management Co., Ltd. In addition, GF Fund Management Co., Ltd. is appointed as investment manager and undertakes the management of the assets of GF Quantitative Market Neutral Fund Series 15, GF Quantitative Market Neutral Fund Series 17, GF Subject Asset Management Product No. 12, GF Subject Structured Asset Management Product No. 13, GF Subject Asset Management Product No. 15, GF Quantitative Market Neutral Fund Series 19, GF Structure Specific Multiple Client Asset Management Product No. 1 and GF Subject Asset Management Product No. 20 and the Group holds significant financial interest in these schemes. Ruiyuan Capital Asset Management is appointed as investment manager and undertakes the management of the assets of Ruiyuan Selective Stock Market Neutral Series 1 and Xinrui Asset Management Product No. 5, and the Group holds significant financial interest in these schemes. The effective equity interest in the subsidiary represents equity interest held directly or indirectly by the Group.

Note 4: The GF Securities Asset Management (Guangdong) Co., Ltd. is appointed as investment manager and undertakes the management of the assets of the GF Golden Majordomo RUILI No.1 Debt Obligation Asset Management Scheme, GF Golden Majordomo Hongli Fixed Income Asset Management Scheme and GF Chinese Corporate Oversea High Yield Bond Structured Collective Asset Management Scheme Series 1 since their establishment, and the Group held significant financial interest in these schemes.

Note 5: Acquisition of subsidiaries

**GF Financial Markets (UK) Limited**

On 27 March 2013, the Company’s subsidiary, GF Futures (Hong Kong) Co., Limited, entered into a sale and purchase agreement with Natixis S.A. pursuant to which, Natixis S.A. agreed to sell and the Company agreed to purchase the entire allotted issued share capital of Natixis Commodity Markets Limited (“NCM”) for a consideration of USD 36.42 million (equivalent to RMB 224.63 million). NCM, a regulated financial services business in the United Kingdom, was renamed as GF Financial Markets (UK) Limited immediately after the completion of acquisition on 23 July 2013.

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This acquisition has been accounted for using the acquisition method of accounting.

	<u>RMB’000</u>
<u>Consideration transferred</u>	
Cash.....	224,632
<u>Assets acquired and liabilities recognised at the date of acquisition</u>	
Available-for-sale financial asset .....	17,067
Deposits with clearing houses.....	10,201
Deposits, prepayment and other receivables.....	386
Bank balances and cash.....	194,914
	<u>222,568</u>
<u>Goodwill arising on acquisition</u>	
Consideration transferred.....	224,632
Less: fair value of identifiable net assets acquired.....	<u>(222,568)</u>
	<u>2,064</u>

Goodwill arose in the acquisition of NCM because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of NCM. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

	<u>RMB’000</u>
<u>Net cash outflow on acquisition of subsidiary</u>	
Consideration paid in cash.....	224,632
Less: bank balances and cash acquired .....	<u>(194,914)</u>
	<u>29,718</u>

Included in the Group’s revenue and profit for the year ended 31 December 2013 are RMB0.1 million and an amount of loss of RMB12.3 million attributable to the additional business generated by GF Financial Markets (UK) Limited since acquisition respectively.

Had the acquisition been completed on 1 January 2013, the Group’s revenue for the year would have been RMB9,333.65 million, and Group’s profit for the year would have been RMB2,850.06 million. The pro forma financial information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2013, nor is it intended to be a projection of future results.

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**GF Fund Management Co., Ltd.**

Pursuant to the shareholders meeting of GF Fund Management Co., Limited (廣發基金管理有限公司) (“GF Fund”) in 2014, the Company subscribed for 6.88 million shares of GF Fund’s additional registered capital for a consideration of RMB155,969,600. The equity interest held by the Company increased from 48.33% to 51.13% after the above capital injection on 31 July 2014, at which time the Company gained control over GF Fund. The GF Fund has been reclassified from an associate to a subsidiary and consolidated in the Group’s financial statements thereafter.

This acquisition has been accounted for using the acquisition method of accounting.

	<u>RMB’000</u>
<u>Consideration transferred</u>	
Cash.....	155,970
	<u>155,970</u>
<u>Assets acquired and liabilities recognised at the date of acquisition</u>	
Properties and equipment.....	216,783
Deferred tax assets.....	12,913
Other non-current assets.....	37,294
Bank balances and cash.....	1,538,931
Available-for-sales investments.....	1,119,109
Accounts receivable.....	574,599
Financial assets at FVTPL held for trading.....	545,971
Other current assets.....	61,388
Deferred tax liabilities.....	(32,696)
Other liabilities.....	(528,551)
Accrued staff costs.....	(136,129)
Other current liabilities.....	(345,310)
	<u>3,064,302</u>
<u>Gains arising on acquisition</u>	
Consideration paid in cash.....	155,970
Fair value of previously held interests of 48.33% in GF Fund.....	1,387,470
Plus: non-controlling interests.....	1,516,701
Less: Net assets acquired.....	(3,064,302)
Gain on acquisition reported under other income and gains.....	<u>(4,161)</u>

The non-controlling interests at the acquisition date was measured at the proportionate share of the fair value of identifiable net assets of GF Fund.

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At the acquisition date, the Group’s 48.33% equity interest in GF Fund was remeasured at fair value based on a valuation carried out by an independent valuer, resulting in a gain on deemed disposal of an associate of RMB44.0 million, which included reclassification of translation reserve and investment revaluation reserve of RMB10.2 million to profit or loss.

In the opinion of the directors of the Company, the fair values of the receivables acquired (which principally comprised accounts receivable and other receivables) approximate to the gross contractual amounts, the best estimate at acquisition date of the contractual cash flows of the receivables which are expected to be collected.

	<u>RMB’000</u>
<u>Net cash inflow on acquisition of GF Fund</u>	
Consideration paid in cash.....	155,970
Less: Bank balances and cash acquired.....	<u>(1,538,931)</u>
	<u>(1,382,961)</u>

Included in the Group’s revenue and profit for the period from the date of acquisition to the 31 December 2014 are RMB848.6 million and RMB232.0 million attributable to the additional business generated by GF Fund.

Had the acquisition been completed on 1 January 2014, the Group’s revenue for the year would have been RMB17,141.8 million, and Group’s profit for the year would have been RMB5,331.8 million. The pro forma financial information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

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Note 6: Disposal of subsidiaries

**RMB Fixed Income Fund**

On 21 October 2013, the Group disposed of RMB Fixed Income Fund which carried out investment trading activities.

	<u>RMB’000</u>
<u>Consideration received</u>	
Cash .....	<u>166,595</u>
<u>Analysis of assets and liabilities over which control was lost</u>	
Accounts receivable .....	43,779
Financial assets at FVTPL - held for trading .....	528,457
Other receivables, deposits and prepayments .....	12,344
Bank balances and cash .....	42,229
Others .....	253
Other payables and accrued charges .....	(1,252)
Tax liabilities .....	(3,736)
Other liabilities .....	<u>(455,296)</u>
Net assets disposed of .....	<u>166,778</u>
<u>Gain on disposal of a subsidiary</u>	
Consideration received .....	166,595
Net assets disposed of .....	(166,778)
Cumulative exchange gain in respect of the net assets of the subsidiary reclassified from equity to profit or loss on loss of control of subsidiary .....	<u>9,614</u>
	<u>9,431</u>
<u>Net cash inflow arising on disposal</u>	
Consideration received in cash .....	166,595
Less: bank balances and cash disposed of .....	<u>(42,229)</u>
	<u>124,366</u>

**GF Xinde (Zhuhai) Medical Industrial Investment Center L.P.**

On 30 September 2014, other shareholders of GF Xinde (Zhuhai) Medical Industrial Investment Center L.P. (廣發信德(珠海)醫療產業投資中心(有限合夥)) (“Xinde Zhuhai Medical”), a subsidiary of the Company, injected an amount of capital of RMB 501,850,000, which increased Xinde Zhuhai Medical’s paid-in capital to RMB 761,850,000, and diluted the Group’s equity interest from 60% to 20.41%, at which time the Group lost control over Xinde Zhuhai Medical.

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	<u>RMB’000</u>
<u>Analysis of assets and liabilities over which control was lost before capital injection</u>	
Bank balances and cash.....	9,405
Other receivables.....	144,671
Other investments.....	110,000
Other payables and accrued charges .....	<u>(3,900)</u>
Net assets.....	<u>260,176</u>
Net asset attributable to non-controlling interest.....	104,070
Net asset attributable to the Company .....	156,106
Capital injection made by third parties .....	<u>501,850</u>
Net assets of Xinde Zhuhai Medical after capital injection .....	<u>762,026</u>
Loss on deemed disposal of a subsidiary	
Fair value of retained equity interest after capital injection .....	155,530
Less: Net asset attributable to the Company before capital injection.....	<u>(156,106)</u>
Loss on deemed disposal of a subsidiary .....	<u>(576)</u>

Fair value of retained equity interest after capital injection is determined based on the proportionate share of carrying amount of net assets of Xinde Zhuhai Medical at the time of deemed disposal as carrying amount of its net assets approximated its fair value.

	<u>RMB’000</u>
Net cash outflow arising on disposal	
Consideration received in cash .....	—
Less: Bank balances and cash disposed of .....	<u>(9,405)</u>
	<u>(9,405)</u>

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*Details of non-wholly owned subsidiaries that have material non-controlling interests*

The table below shows details of a non-wholly-owned subsidiary, GF Fund, which was acquired in 2014, and has material non-controlling interests before certain intragroup adjustments:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests			Profit (loss) allocated to non-controlling interests			Accumulated non-controlling interests		
		2012	2013	2014	2012	2013	2014	2012	2013	2014
					RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
GF Fund (i).....	PRC	N/A	N/A	48.87%	N/A	N/A	120,557	N/A	N/A	1,621,550

(i) GF Fund was accounted for as an associate of the Group prior to its acquisition by the Group in 2014.

Summarised financial information in respect of the GF Fund that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup adjustments.

	<b>As at 31 December 2014</b>
	<b>RMB'000</b>
Total assets .....	<u>5,076,995</u>
Total liabilities.....	<u>1,651,109</u>
Equity attributable to owners of GF Fund .....	<u>3,251,832</u>
Non-controlling interests of subsidiaries of GF Fund .....	<u>174,054</u>



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	<b>From the date of acquisition to 31 December 2014</b>
	<b>RMB’000</b>
Revenue.....	<u>848,564</u>
Expenses.....	<u>557,700</u>
Profit for the period.....	<u>232,004</u>
Profit attributable to owners of GF Fund .....	217,968
Profit attributable to the non-controlling interests of subsidiaries of GF Fund.....	<u>14,036</u>
Profit for the period.....	<u>232,004</u>
Other comprehensive income attributable to owners of GF Fund.....	73,324
Other comprehensive income attributable to the non-controlling interests of subsidiaries of GF Fund.....	<u>—</u>
Other comprehensive income for the period .....	<u>73,324</u>
Total comprehensive income attributable to owners of GF Fund.....	291,292
Total comprehensive income attributable to the non-controlling interests of subsidiaries of GF Fund.....	<u>14,036</u>
Total comprehensive income for the period .....	<u>305,328</u>
Dividends paid to non-controlling interests of GF Fund .....	<u>—</u>
Net cash inflow from operating activities.....	<u>398,978</u>
Net cash outflow from investing activities .....	<u>(348,869)</u>
Net cash outflow from financing activities.....	<u>(76,000)</u>
Effect of foreign exchange rate changes.....	394
Net cash outflow.....	<u>(25,497)</u>

*Change in ownership interest in a subsidiary*

During the year, the Group disposed of 5% of its interest in GF Xinde Healthcare Management Co., Ltd., reducing its continuing interest to 55%. The proceeds on disposal of RMB 1.50 million were received in cash. An amount of RMB 5.13 million (being the proportionate share of the carrying amount of the net assets of GF Xinde Healthcare Management Co., Ltd.) has been transferred to non-controlling interests.

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**23. INTERESTS/INVESTMENTS IN ASSOCIATES**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cost of unlisted investments in associates..	117,000	149,500	369,500
Share of post-acquisition profits and other comprehensive income, net of dividends received.....	<u>1,878,364</u>	<u>2,172,298</u>	<u>1,119,456</u>
	1,995,364	2,321,798	1,488,956
Unlisted investment in an associate at fair value through profit or loss (note) .....	<u>—</u>	<u>—</u>	<u>59,840</u>
	<u><u>1,995,364</u></u>	<u><u>2,321,798</u></u>	<u><u>1,548,796</u></u>

*Note:* The Group elects to measure its investment in YKS Holdings Limited held through a venture capital organisation, an indirect wholly owned subsidiary, at fair value through profit or loss as management measures the performance of this associate on a fair value basis. Note 67 set out for valuation process and fair value information for the associate measures at fair value through profit or loss.

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cost of unlisted investments in associates..	<u>1,669,501</u>	<u>1,702,001</u>	<u>798,948</u>

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At the end of each reporting period, the Group has the following associates:

Name of associates	Place and date of incorporation/ establishment	Equity interest held by the Group				Principal activities
		As at 31 December			At date of this report	
		2012	2013	2014		
易方達基金管理有限公司 E Fund Management Co., Ltd. (“E Fund”) .....	PRC 17 April 2001	25.00%	25.00%	25.00%	25.00%	Fund raising, fund selling, asset management, and other China Securities Regulatory Commission (“CSRC”) approved businesses
GF Fund .....	PRC 5 August 2003	48.33%	48.33%	— <sup>(2)</sup>	— <sup>(2)</sup>	Fund raising, fund selling, asset management, and other CSRC approved businesses
廣東金融高新區股權交易中心有限公司 Guangdong Equity Exchange Co., Ltd. <sup>(1)</sup> .....	PRC 29 October 2013	—	32.50%	32.50%	32.50%	Operates an exchange for the trading of unlisted equity investments and debt securities
珠海廣發信德奧飛產業投資基金一期 (有限合伙) GF Xinde-Alpha TMT Fund <sup>(1)</sup> .....	PRC 13 March 2014	—	—	23.62%	23.62%	Equity investment
深圳旺金金融信息服務有限公司 Shenzhen Wangjin Financial Information Service Co., Limited <sup>(1)</sup> .....	PRC 4 May 2012	—	—	25.53%	25.53%	Financial advisory service, guarantee business
Xinde Zhuhai Medical .....	PRC 17 October 2013	—	—	18.09% <sup>(3)</sup>	18.09% <sup>(3)</sup>	Equity investment
有棵樹控股有限公司 YKS Holdings Limited (“YKS”) <sup>(4)</sup> .....	Cayman Islands 19 June 2014	—	—	12.00%	12.00%	Equity investment
廣州廣發信德一期健康產業投資企業(有限合伙) Guangzhou GF Xinde Health Industry Investment Enterprise L.P. Phase I <sup>(1)</sup> .....	PRC 6 February 2015	—	—	—	26.32%	Investment <u>consultation, investment, investment management service and asset management</u>

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Name of associates	Place and date of incorporation/ establishment	Equity interest held by the Group			At date of this report	Principal activities
		As at 31 December				
		2012	2013	2014		
廣州廣發信德一期互聯網改造傳統產業投資企業(有限合伙) Guangzhou GF Xinde Traditional Industries Internet Transforming Investment Enterprise L.P. Phase I <sup>(1)</sup> .....	PRC 6 February 2015	=	=	=	31.11%	Investment consultation, investment investment management service and asset management

- (1) English translated name is for identification purpose only .
- (2) GF Fund become a subsidiary of the Company in 2014, details are set out in note 22.
- (3) Xinde Zhuhai Medical became an associate of the Group in 2014, details are set out in note 22. Subsequent to 30 September 2014, the Group’s equity interest was further diluted from 20.41% to 18.09% upon capital injection by other shareholders of Xinde Zhuhai Medical. The Group retains the power to exercise significant influence on Xinde Zhuhai Medical despite the dilution.
- (4) Pursuant to the shareholders’ agreement of YKS, the Group can appoint one of the three directors of YKS, as such, the Group is able to exercise significant influence over YKS.

The summarised financial information of GF Fund, E Fund, Xinde Zhuhai Medical and YKS prepared in accordance with IFRSs, which are individually significant associates to the Group that are accounted for using equity method, is set out below:

GF Fund

	As at 31 December	
	2012	2013
	RMB’000	RMB’000
Total assets .....	2,564,688	3,125,182
Total liabilities.....	361,052	517,106
Net assets .....	<u>2,203,636</u>	<u>2,608,076</u>

	Year ended 31 December		Up to the date of deemed disposal
	2012	2013	
	RMB’000	RMB’000	RMB’000
Total revenue .....	1,433,954	1,569,007	999,362
Profit for the year/period .....	479,171	496,152	362,454
Other comprehensive income (expense).....	34,345	65,788	(29,723)
Total comprehensive income .....	<u>513,516</u>	<u>561,940</u>	<u>332,731</u>

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E Fund

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Total assets .....	4,969,950	5,456,927	6,441,015
Total liabilities.....	<u>1,239,253</u>	<u>1,279,374</u>	<u>1,630,956</u>
Net assets .....	<u>3,730,697</u>	<u>4,177,553</u>	<u>4,810,059</u>
	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Total revenue .....	1,839,665	1,893,430	1,989,986
Profit for the year.....	576,847	614,117	653,982
Other comprehensive income.....	<u>139,570</u>	<u>42,739</u>	<u>175,893</u>
Total comprehensive income .....	<u>716,417</u>	<u>656,856</u>	<u>829,875</u>

Xinde Zhuhai Medical

	As at 31 December 2014
	RMB’000
Total assets .....	889,427
Total liabilities.....	—
Net assets .....	<u>889,427</u>
	From the date of acquisition to 31 December 2014
	RMB’000
Total revenue .....	7,409
Loss for the period .....	(313)
Other comprehensive income.....	—
Total comprehensive income .....	<u>(313)</u>

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YKS

	<b>As at 31 December 2014</b>
	<b>RMB’000</b>
Total assets .....	157,102
Total liabilities.....	<u>1,526</u>
Net assets .....	<u>155,576</u>
	<b>From the date of acquisition to 31 December 2014</b>
	<b>RMB’000</b>
Total revenue .....	48,966
Profit for the period.....	6,176
Other comprehensive income.....	<u>—</u>
Total comprehensive income .....	<u>6,176</u>

The reconciliation of the above summarised financial information to the carrying amounts of the interests in GF Fund, E Fund and Xinde Zhuhai Medical recognised in the Financial Information:

GF Fund

	<b>As at 31 December</b>		<b>Up to the date of deemed disposal</b>
	<b>2012</b>	<b>2013</b>	
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Net assets attributable to equity holders of the associate .....	2,203,636	2,586,589	2,800,916
Proportion of equity interest held by the Group .....	1,065,017	1,250,098	1,353,776
Other adjustments .....	<u>169</u>	<u>(385)</u>	<u>(93)</u>
Carrying values.....	<u>1,065,186</u>	<u>1,249,713</u>	<u>1,353,683</u>

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E Fund

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net assets attributable to equity holders of the associate .....	3,730,697	4,147,466	4,732,985
Proportion of equity interest held by the Group .....	932,674	1,036,866	1,183,246
Other adjustments .....	(2,496)	3,657	2,206
Carrying values .....	<u>930,178</u>	<u>1,040,523</u>	<u>1,185,452</u>

Xinde Zhuhai Medical

	As at 31 December 2014
	RMB’000
Net assets attributable to equity holders of the associate .....	889,427
Proportion of equity interest held by the Group .....	160,897
Other adjustments .....	8,989
Carrying values .....	<u>169,886</u>

Aggregate information of associates that are not individually material:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
The Group’s share of profit (loss) for the year .....	<u>1,454</u>	<u>(938)</u>	<u>(5,943)</u>
The Group’s share of total comprehensive income (expense) .....	<u>1,454</u>	<u>(938)</u>	<u>(5,943)</u>
Aggregate carrying amount of the Group’s interests in these associates .....	<u>—</u>	<u>31,562</u>	<u>133,618</u>

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**24. INTERESTS/INVESTMENTS IN JOINT VENTURES**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Cost of unlisted investments in joint ventures.....	—	27,795	33,795
Share of post-acquisition profits and other comprehensive income .....	—	—	1,574
	<u>—</u>	<u>27,795</u>	<u>35,369</u>

At the end of each reporting period, the Group has the following joint ventures:

Name of joint venture	Place and date of incorporation/ establishment	Equity interest held by the Group			At date of this report	Principal activities
		As at 31 December				
		2012	2013	2014		
新疆廣發魯信股權投資有限公司 Xinjiang GF Luxin Equity Investment Co., Ltd. (“Xinjiang GF”) ..	PRC 28 November 2013	—	51.00%	51.00%	<u>51.00%</u>	Equity investments in unlisted companies, and holding shares in listed companies through private placement or transfer of shareholders holding, etc.
珠海廣發信德奧飛資本管理有限公司 Zhuhai GF Xinde Alpha Investment Management Co., Ltd. (“Zhuhai GF”) .....	PRC 10 March 2014	—	—	60.00%	<u>60.00%</u>	Equity investments in unlisted companies, and holding shares in listed companies through private placement or transfer of shareholders holding, etc.

Although the proportion of the equity interest of Xinjiang GF held by the Group is 51%, the Xinjiang GF is classified as a joint venture because the approval of the relevant activities that significantly affect the returns of Xinjiang GF directed by its shareholders require two-third voting from shareholders in accordance with the memorandum of association of Xinjiang GF.

Although the proportions of the equity interest of Zhuhai GF held by the Group are 60%, the Zhuhai GF is classified as a joint venture because the approval of the relevant activities that significantly affect the returns of Zhuhai GF directed by its shareholders require two-third voting from shareholders in accordance with the memorandum of association of Zhuhai GF.



**25. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES**

The Group served as the investment manager of structured entities (including collective asset management schemes and investment funds), therefore had power over them during the Relevant Periods. Except for the structured entities the Group has consolidated as details in note 22, in the opinion of the directors of the Company, the variable returns the Group exposed to over these collective asset management schemes and investment funds that the Group has interests are not significant. The Group therefore did not consolidate these structured entities.

The size of unconsolidated collective asset management schemes managed by the Group amounted to RMB3,646.46 million, RMB6,440.75 million and RMB91,758.36 million as at 31 December 2012, 2013 and 2014, respectively. The Group classified its own investments in these unconsolidated collective asset management schemes as loan and receivable investments, available-for-sale financial assets and financial assets held for trading as appropriate. The Group’s interests in and exposure to these funds and collective asset management schemes are not significant.

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**26. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Measured at fair value:			
Equity securities .....	111,607	108,873	121,737
Funds .....	9,343	3,429	3,849
Other investments (Note 1).....	204,034	517,765	226,513
Measured at cost:			
Equity securities .....	1,190,985	1,284,830	1,784,335
	1,515,969	1,914,897	2,136,434
Less: Allowance for impairment losses.....	(7,241)	(1,328)	(26,532)
Total .....	<u>1,508,728</u>	<u>1,913,569</u>	<u>2,109,902</u>
<b>Analysed as:</b>			
Listed outside Hong Kong <sup>(i)</sup> .....	119,787	94,704	124,854
Unlisted .....	<u>1,388,941</u>	<u>1,818,865</u>	<u>1,985,048</u>
	<u>1,508,728</u>	<u>1,913,569</u>	<u>2,109,902</u>
<b>Current</b>			
Measured at fair value:			
Debt securities .....	7,847,431	14,906,340	23,121,954
Equity securities .....	3,163,051	2,275,200	3,814,870
Funds .....	350,987	212,124	1,943,527
Other investments (Note 1).....	703,742	2,457,024	3,580,589
	12,065,211	19,850,688	32,460,940
Less: Allowance for impairment losses.....	(284,195)	(160,341)	(160,726)
Total .....	<u>11,781,016</u>	<u>19,690,347</u>	<u>32,300,214</u>
<b>Analysed as:</b>			
Listed outside Hong Kong <sup>(i)</sup> .....	7,627,430	10,522,572	11,844,904
Unlisted .....	<u>4,153,586</u>	<u>9,167,775</u>	<u>20,455,310</u>
	<u>11,781,016</u>	<u>19,690,347</u>	<u>32,300,214</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Measured at fair value:			
Funds .....	9,343	3,429	3,849
Other investments (Note 1).....	204,033	507,323	166,216
Measured at cost:			
Equity securities .....	597	597	—
	213,973	511,349	170,065
Less: Allowance for impairment losses.....	(7,241)	(1,328)	(732)
Total .....	<u>206,732</u>	<u>510,021</u>	<u>169,333</u>
<b>Analysed as:</b>			
Listed outside Hong Kong <sup>(i)</sup> .....	8,179	2,697	3,117
Unlisted .....	<u>198,553</u>	<u>507,324</u>	<u>166,216</u>
	<u>206,732</u>	<u>510,021</u>	<u>169,333</u>

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Current</b>			
Measured at fair value:			
Debt securities.....	7,830,431	14,889,340	23,104,959
Equity securities .....	2,106,360	1,465,481	2,756,288
Funds .....	350,987	212,124	499,839
Other investments (Note 1).....	<u>500,384</u>	<u>2,050,005</u>	<u>2,973,282</u>
	10,788,162	18,616,950	29,334,368
Less: Allowance for impairment losses.....	(284,195)	(160,341)	(160,726)
Total .....	<u>10,503,967</u>	<u>18,456,609</u>	<u>29,173,642</u>
<b>Analysed as:</b>			
Listed outside Hong Kong <sup>(i)</sup> .....	6,553,739	9,695,854	10,675,802
Unlisted .....	<u>3,950,228</u>	<u>8,760,755</u>	<u>18,497,840</u>
	<u>10,503,967</u>	<u>18,456,609</u>	<u>29,173,642</u>

(i) Securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the “Listed outside Hong Kong” category.

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*Note 1:* Other investments mainly represent investments in collective asset management schemes issued and managed by the Company, wealth management products issued by banks and targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC and loans. The Group has committed to hold its investments in collective asset management schemes that managed by the Company till the end of the investment period.

The unlisted equity securities held by the Group are issued by private companies in, among others, the manufacturing industry, energy technology, and medical or electronic communication sectors. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period.

Fair value of the Group’s and the Company’s other available-for-sale investments are determined in the manner described in note 67.

As at 31 December 2012, 2013 and 2014, the listed equity securities of the Group included approximately RMB613.27 million, RMB378.90 million and RMB510.41 million of restricted shares, respectively. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period.

As at 31 December 2012, 2013 and 2014, the listed equity securities of the Company included approximately nil, RMB29.83 million and nil of restricted shares, respectively. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Company to dispose of within the specified period.

As at 31 December 2012, 2013 and 2014, the Group and the Company entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale equity securities and exchange-traded funds with total fair values of RMB206.86 million, RMB212.84 million and RMB580.59 million respectively, to clients. These securities continued to be recognised as financial assets of the Group and the Company.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are not expected to be realised within one year from the end of the respective reporting periods.

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**27. LOAN AND RECEIVABLE INVESTMENTS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Trust products <sup>(i)</sup> .....	—	160,000	—
Asset management schemes <sup>(iii)</sup> .....	—	1,000	206,000
Unsecured loan receivables <sup>(ii)</sup> .....	—	109,566	—
	<u>—</u>	<u>270,566</u>	<u>206,000</u>
	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Current</b>			
Trust products <sup>(i)</sup> .....	—	50,000	20,000
Asset management schemes <sup>(iii)</sup> .....	—	—	170,000
Unsecured loan receivables <sup>(ii)</sup> .....	—	—	212,692
	<u>—</u>	<u>50,000</u>	<u>402,692</u>

- 
- (i) The trust products were issued by a trust company bearing interest at 9% to 15% per annum and would be repaid within 1 to 3 years.
- (ii) As at 31 December 2013, the unsecured loan receivables bear interest at 10.5% to 19% per annum and would not be repaid within one year. As at 31 December 2014, the unsecured loan receivables bear interest at 8.25% to 19% per annum and would be repaid within one year.
- (iii) The collective asset management schemes were issued by asset management companies bearing interest at 5.7% per annum and would be repaid within 2 years as at 31 December 2013 and at 5.7% to 14% per annum and would be repaid within 1 to 3 years as at 31 December 2014.

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**28. DEFERRED TAXATION**

For presentation purpose, certain deferred tax assets and deferred tax liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Deferred tax assets.....	181,449	415,815	230,185
Deferred tax liabilities .....	<u>(89,543)</u>	<u>(57,802)</u>	<u>(111,539)</u>
	<u>91,906</u>	<u>358,013</u>	<u>118,646</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Deferred tax assets.....	<u>175,268</u>	<u>408,719</u>	<u>229,813</u>

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The following are the major deferred tax assets (liabilities) recognised and movements thereon in the Relevant Periods:

**Group**

	Financial assets at fair value through profit or loss/ derivatives		Available-for-sale investment	Allowance for impairment losses		Property and equipment	Others	Total
	Accrued staff cost							
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2012.....	(9,321)	209,960	(150,334)	792	—	(34)	51,063	
(Charge) credit to profit or loss...	(16,759)	71,892	—	72,710	—	2,597	130,440	
Charge to other comprehensive income.....	—	—	(89,597)	—	—	—	(89,597)	
At 31 December 2012.....	(26,080)	281,852	(239,931)	73,502	—	2,563	91,906	
Credit (charge) to profit or loss...	91,362	112,288	—	(32,442)	—	7,621	178,829	
Exchange differences.....	—	—	—	—	—	(55)	(55)	
Credit to other comprehensive income.....	—	—	87,333	—	—	—	87,333	
At 31 December 2013.....	65,282	394,140	(152,598)	41,060	—	10,129	358,013	
(Charge) credit to profit or loss...	(87,467)	304,722	(15,820)	16,572	1,218	(24,359)	194,866	
Charge to other comprehensive income.....	—	—	(414,450)	—	—	—	(414,450)	
Acquisition of a subsidiary (note 22) .....	—	10,786	(9,393)	603	(23,303)	1,524	(19,783)	
At 31 December 2014.....	(22,185)	709,648	(592,261)	58,235	(22,085)	(12,706)	118,646	

**Company**

	Financial assets at fair value through profit or loss/ derivatives		Available-for-sale investment	Allowance for impairment losses		Others	Total
	Accrued staff cost						
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January 2012.....	(9,321)	202,796	(61,383)	792	37	132,921	
(Charge) credit to profit or loss.....	(17,506)	70,995	—	72,710	2,317	128,516	
Charge to other comprehensive income.....	—	—	(86,169)	—	—	(86,169)	
At 31 December 2012.....	(26,827)	273,791	(147,552)	73,502	2,354	175,268	
Credit (charge) to profit or loss.....	92,043	105,230	—	(32,442)	4,178	169,009	
Credit to other comprehensive income.....	—	—	64,442	—	—	64,442	
At 31 December 2013.....	65,216	379,021	(83,110)	41,060	6,532	408,719	
(Charge) credit to profit or loss.....	(84,201)	305,732	—	13,475	(20,716)	214,290	
Charge to other comprehensive income.....	—	—	(393,196)	—	—	(393,196)	
At 31 December 2014.....	(18,985)	684,753	(476,306)	54,535	(14,184)	229,813	

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Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes, if any, and the taxes are to be levied by the same tax authority, and of the same taxable entity.

The Group has estimated unutilised tax losses of approximately RMB70.50 million, RMB78.93 million and RMB171.22 million as at 31 December 2012, 2013 and 2014, respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of estimated tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

**29. ADVANCES TO CUSTOMERS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Loans to margin clients.....	5,246,504	20,490,654	64,749,359
Less: Impairment on advances to customers .....	—	—	(53,515)
	<u>5,246,504</u>	<u>20,490,654</u>	<u>64,695,844</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Loans to margin clients.....	4,982,046	19,753,588	63,708,741
Less: Impairment on advances to customers .....	—	—	(53,515)
	<u>4,982,046</u>	<u>19,753,588</u>	<u>63,655,226</u>

Movements of impairment allowance during the year were as follows:

	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At 1 January .....	—	—	—
Amounts recognised in profit or loss.....	—	—	53,515
At 31 December.....	<u>—</u>	<u>—</u>	<u>53,515</u>



The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group and the Company.

The majority of the loans to margin clients which are secured by the underlying pledged securities and cash collateral as disclosed in note 44 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make up the difference.

Advances to customers as at 31 December 2012, 2013 and 2014 were secured by the customers' securities and cash collateral, which were pledged to the Group as collateral with undiscounted market values of approximately RMB19,270 million, RMB57,528 million and RMB177,960 million, respectively.

Advances to customers as at 31 December 2012, 2013 and 2014 were secured by the customers' securities and cash collateral, which were pledged to the Company as collateral with undiscounted market values of approximately RMB18,477 million, RMB52,672 million and RMB171,058 million, respectively.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed.

The Group determines the allowance for impaired debts based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgement. They include the assessment of changes in credit quality, collateral and the past collection history of each client. On an individual assessment basis, management considered that there were no impaired debts for the years ended 31 December 2012, 2013 and 2014.

As at 31 December 2014, the overall loans and advances to customers have been assessed for impairment allowances on a collective assessment basis, which are based on the evaluation of probability of default, loss given default, exposure at default of accounts and management's judgement, including the current creditworthiness and the past collection statistics of individual accounts or a portfolio of accounts in view of the overall growing loan balance and economic condition. On this basis, an impairment loss of RMB53.52 million has been made in 2014.

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

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**30. ACCOUNTS RECEIVABLE**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Accounts receivable from/related to:</b>			
Cash clients .....	133,313	87,647	234,126
Clearing house .....	82	11,812	9,595
Brokers .....	103,771	71,636	72,165
Asset management fee and trading seats commission.....	55,421	87,297	337,722
Advisory and financial planning fee.....	18,224	10,553	1,271
China Securities Investor Protection Fund Corporation for dormant accounts etc. ....	26,042	26,455	26,455
Principal and deposits of equity return swaps (Note) .....	—	150	201,680
Investment funds redemption receivable.....	—	—	283,000
Others .....	1,622	27,868	102,223
	<u>338,475</u>	<u>323,418</u>	<u>1,268,237</u>
Less: Allowance for doubtful debts .....	(891)	(863)	(866)
	<u><u>337,584</u></u>	<u><u>322,555</u></u>	<u><u>1,267,371</u></u>

*Note:* As at 31 December 2014, the amount represents the principal and deposits paid in relation to equity return swap contracts entered by the Group, and mature within one year from the end of the reporting period. These contracts contain non-closely related embedded derivatives as their returns are linked to the fluctuation in certain stock index. In the opinion of the directors, the fair values of these embedded derivatives of certain contracts are considered insignificant. Therefore, the related embedded derivatives being bifurcated from their respective host contracts are not accounted for in this Financial Information. For those embedded derivatives with significant fair values, they are accounted for in this Financial Information under note 36 after being bifurcated from their respective host contracts.

Ageing analysis of accounts receivable is as follows:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Within 1 year.....	311,352	295,587	1,229,631
Between 1 and 2 years .....	80	828	4,972
Between 2 and 3 years .....	3,665	80	2,751
More than 3 years.....	22,487	26,060	30,017
	<u>337,584</u>	<u>322,555</u>	<u>1,267,371</u>

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The movement in the allowance for doubtful debts is set out below:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year .....	—	891	863
Impairment losses recognised.....	891	—	—
Reversal of impairment losses.....	—	—	—
Effect of foreign currency exchange differences.....	—	(28)	3
At end of the year .....	<u>891</u>	<u>863</u>	<u>866</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Accounts receivable from/related to:</b>			
Asset management fee and trading seats commission.....	55,421	87,297	105,517
Advisory and financial planning fee.....	16,003	103	—
China Securities Investor Protection Fund Corporation for dormant accounts etc. ....	26,042	26,455	26,455
Principal and deposits of equity return swaps .....	—	150	201,680
Others.....	1,622	1	2,492
	<u>99,088</u>	<u>114,006</u>	<u>336,144</u>
Less: Allowance for doubtful debts.....	—	—	—
	<u>99,088</u>	<u>114,006</u>	<u>336,144</u>

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Ageing analysis of accounts receivable is as follows:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Within 1 year.....	72,856	87,038	308,768
Between 1 and 2 years.....	80	828	669
Between 2 and 3 years.....	3,665	80	590
More than 3 years.....	<u>22,487</u>	<u>26,060</u>	<u>26,117</u>
	<u>99,088</u>	<u>114,006</u>	<u>336,144</u>

The normal settlement terms of accounts receivable from clients, brokers and clearing house are within two days after trade date. Trading limits are set for clients. Normal settlement terms of accounts receivable from advisory and financial planning, asset and fund management are determined in accordance with the contract terms, ranging from three months to six months after the service was provided. The normal settlement terms of accounts receivable from China Securities Investor Protection Fund Corporation for dormant accounts etc. depend on the duration of the claiming process.

The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by the management.

The Group offsets certain financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously. Details are set out in note 64 of section G.

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**31. OTHER ACCOUNTS RECEIVABLE, OTHER RECEIVABLES AND PREPAYMENTS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Other accounts receivable <sup>(i)</sup> .....	—	—	50,938
Interest receivable.....	553,263	1,187,485	1,676,518
Other receivables .....	87,851	64,845	90,123
Bill receivables <sup>(ii)</sup> .....	—	50,000	—
Dividends receivables .....	6,482	6,780	6,482
Entrusted loan <sup>(iii)</sup> .....	—	25,000	—
Amount due from trading business clients <sup>(iv)</sup> .....	—	138,585	9,203
Investment prepayment.....	—	25,000	75,183
Others.....	34,884	24,124	48,789
	<u>682,480</u>	<u>1,521,819</u>	<u>1,957,235</u>
Less: Allowance for doubtful debts.....	<u>(5,430)</u>	<u>(5,430)</u>	<u>(63,836)</u>
	<u>677,050</u>	<u>1,516,389</u>	<u>1,893,399</u>

The movements in the allowance for doubtful debts are set out below:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year.....	5,430	5,430	5,430
Impairment losses recognised.....	—	—	58,406
At end of the year .....	<u>5,430</u>	<u>5,430</u>	<u>63,836</u>

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**ACCOUNTANTS’ REPORT**

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Other receivables and prepayment:</b>			
Interest receivable.....	505,188	1,136,970	1,526,506
Other receivables .....	62,323	49,331	56,264
Others.....	17,873	21,674	35,227
Investment prepayment.....	—	—	50,000
	<u>585,384</u>	<u>1,207,975</u>	<u>1,667,997</u>
Less: Allowance for doubtful debts .....	<u>(5,430)</u>	<u>(5,430)</u>	<u>(5,430)</u>
	<u>579,954</u>	<u>1,202,545</u>	<u>1,662,567</u>

The movements in the allowance for doubtful debts are set out below:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year .....	5,430	5,430	5,430
Impairment losses recognised.....	—	—	—
At end of the year .....	<u>5,430</u>	<u>5,430</u>	<u>5,430</u>

- (i) As at 31 December 2014, the balance represents amount arising from trading business, which is considered irrecoverable due to financial difficulties of counterparty and, therefore, is fully provided for allowance for doubtful debts.
- (ii) As at 31 December 2013, the balance of bill receivables comprises bank acceptance bills held by GF Commodity Markets Co., Limited, a wholly owned subsidiary of the Company, of which RMB30 million was pledged for obtaining RMB29.40 million of working capital loan from Industrial Bank Co., Ltd.
- (iii) As at 31 December 2013, the balance of entrusted loan comprises short-term loan whereby GF Xinde Investment Management Co., Limited, a wholly owned subsidiary of the Company, lent to a third-party named as Shenzhen Bellsent Intelligent System Co., Limited (深圳市貝爾信智能系統有限公司), which PingAn Bank Co., Ltd. acted as the entrusted bank. The principal of such loan is RMB25 million, with an interest rate of 8% per annum and was fully settled in 2014.
- (iv) The balance of amount due from trading business clients comprises trading-business-related funds of GF Commodity Co., Limited, a wholly owned subsidiary of the Company. Impairment loss of RMB7.47 million is made in respect of the estimated irrecoverable amount as at 31 December 2014.

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**ACCOUNTANTS’ REPORT**

**32. AMOUNTS DUE FROM/TO SUBSIDIARIES**

**Company**

*Amounts due from subsidiaries*

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Deposits for future transactions.....	421,487	664,514	310,366
Clearing settlement funds for future transactions .....	3,743	6,750	18,680
Dividends receivables .....	100,000	80,000	—
Asset management fee and trading seats commission.....	—	—	1,866
Others.....	—	1,390	561
<b>Total .....</b>	<b><u>525,230</u></b>	<b><u>752,654</u></b>	<b><u>331,473</u></b>

*Amounts due to subsidiaries*

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Accounts payable to brokerage clients .....	<u>101,498</u>	<u>—</u>	<u>4,327</u>

Amounts due from/to subsidiaries are unsecured, repayable on demand, and interest bearing. The Company expected to recover the amounts due from subsidiaries within one year from the end of respective reporting periods.

**33. AMOUNTS DUE FROM ASSOCIATES**

**Group and Company**

*Amounts due from associates*

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Others.....	<u>12,292</u>	<u>16,081</u>	<u>8,292</u>

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Amounts due from associates are unsecured, repayable on demand, and non-interest bearing. The Group and the Company expected to recover the amounts due from associates within one year from the end of respective reporting periods.

**34. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Analysed by collateral type:			
Stock <sup>(i)</sup> .....	—	1,450,696	431,864
Analysed by market:			
Stock exchanges.....	—	1,450,696	431,864
<b>Current</b>			
Analysed by collateral type:			
Stock <sup>(i)</sup> .....	74,215	3,026,623	6,481,515
Bond <sup>(ii)</sup> .....	—	343,207	5,315,855
Fund .....	—	5,387	3,320
	<u>74,215</u>	<u>3,375,217</u>	<u>11,800,690</u>
Analysed by market:			
Stock exchanges.....	74,215	3,148,019	7,296,435
Interbank bond market .....	—	227,198	4,504,255
	<u>74,215</u>	<u>3,375,217</u>	<u>11,800,690</u>



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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Analysed by collateral type:			
Stock <sup>(i)</sup> .....	—	1,450,696	431,864
Analysed by market:			
Stock exchanges.....	—	1,450,696	431,864
<b>Current</b>			
Analysed by collateral type:			
Stock <sup>(i)</sup> .....	74,215	3,026,623	6,141,515
Bond <sup>(ii)</sup> .....	—	227,199	5,204,255
Fund .....	—	5,387	3,320
	<u>74,215</u>	<u>3,259,209</u>	<u>11,349,090</u>
Analysed by market:			
Stock exchanges.....	74,215	3,032,011	6,844,835
Interbank bond market .....	—	227,198	4,504,255
	<u>74,215</u>	<u>3,259,209</u>	<u>11,349,090</u>

(i) The financial assets (pledged by stock) held under resale agreements are those resale agreements which qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price.

(ii) Mainly for inter-bank pledged resale agreement and inter-bank outright resale agreement.

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**ACCOUNTANTS’ REPORT**

**35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

*Financial assets held for trading*

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Debt securities .....	9,849,937	15,271,120	17,709,430
Equity securities .....	4,450,232	5,242,629	4,606,580
Funds .....	7,469,826	3,076,756	1,725,876
Other investments <sup>(i)</sup> .....	17,565	19,754	2,163,997
	<u>21,787,560</u>	<u>23,610,259</u>	<u>26,205,883</u>
<b>Analysed as:</b>			
Listed in Hong Kong .....	101,694	115,921	208,304
Listed outside Hong Kong <sup>(ii)</sup> .....	8,356,901	10,981,281	11,094,054
Unlisted <sup>(iii)</sup> .....	13,328,965	12,513,057	14,903,525
	<u>21,787,560</u>	<u>23,610,259</u>	<u>26,205,883</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Debt securities .....	9,113,448	15,034,414	13,626,770
Equity securities .....	4,348,538	5,126,709	3,554,573
Funds .....	7,080,455	2,391,568	1,081,685
Other investments <sup>(i)</sup> .....	—	—	2,139,785
	<u>20,542,441</u>	<u>22,552,691</u>	<u>20,402,813</u>
<b>Analysed as:</b>			
Listed outside Hong Kong <sup>(ii)</sup> .....	8,326,004	10,770,116	6,094,559
Unlisted <sup>(iii)</sup> .....	12,216,437	11,782,575	14,308,254
	<u>20,542,441</u>	<u>22,552,691</u>	<u>20,402,813</u>

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**ACCOUNTANTS’ REPORT**

*Financial assets designated at fair value through profit or loss*

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Convertible debt securities .....	—	—	730,779
	—	—	730,779
<b>Analysed as:</b>			
Listed in Hong Kong .....	—	—	—
Listed outside Hong Kong <sup>(ii)</sup> .....	—	—	730,779
	—	—	730,779

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Convertible debt securities .....	—	—	631,313
	—	—	631,313
<b>Analysed as:</b>			
Listed in Hong Kong .....	—	—	—
Listed outside Hong Kong <sup>(ii)</sup> .....	—	—	631,313
	—	—	631,313

(i) Other investments mainly represent investments in collective asset management schemes issued and managed by the Group.

(ii) Securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the “Listed outside Hong Kong” category.

(iii) Unlisted securities mainly comprise of debt securities traded on Interbank Bond Market.

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Total financial assets at fair value through profit or loss

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Group .....	<u>21,787,560</u>	<u>23,610,259</u>	<u>26,936,662</u>
Company.....	<u>20,542,441</u>	<u>22,552,691</u>	<u>21,034,126</u>

36. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	As at 31 December					
	2012		2013		2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
PRC stock index futures <sup>(i)</sup> .....	—	—	—	—	—	—
Treasury bond futures <sup>(ii)</sup> .....	—	—	—	—	—	—
Commodity futures <sup>(ii)</sup> .....	—	—	—	—	—	—
Interest rate swaps <sup>(iii)</sup> .....	107	123	57,373	79,480	84,679	75,046
Equity return swaps <sup>(iii)</sup> .....	—	—	10	10	6,614	12,107
HK stock index futures <sup>(iv)</sup> .....	—	86	1	—	—	—
America stock index futures <sup>(v)</sup> .....	—	—	—	—	—	86
Structured notes <sup>(vi)</sup> .....	—	—	—	—	—	65
	<u>107</u>	<u>209</u>	<u>57,384</u>	<u>79,490</u>	<u>91,293</u>	<u>87,304</u>

Company

	As at 31 December					
	2012		2013		2014	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
PRC stock index futures <sup>(i)</sup> .....	—	—	—	—	—	—
Treasury bond futures <sup>(ii)</sup> .....	—	—	—	—	—	—
Commodity futures <sup>(ii)</sup> .....	—	—	—	—	—	—
Interest rate swaps <sup>(iii)</sup> .....	107	123	57,373	79,480	84,679	75,046
Equity return swaps <sup>(iii)</sup> .....	—	—	10	10	6,614	12,107
Structured notes <sup>(vi)</sup> .....	—	—	—	—	—	65
	<u>107</u>	<u>123</u>	<u>57,383</u>	<u>79,490</u>	<u>91,293</u>	<u>87,218</u>

- 
- (i) PRC stock index futures: under the daily mark-to-market and settlement arrangement, any gains or losses of the Group’s and the Company’s position in the PRC stock index futures (the “PRC SIF”) were settled daily and the corresponding receipts and payments were included in “clearing settlement funds” as at 31 December 2012, 2013 and 2014. Accordingly, the net position of the PRC SIF contracts was nil at the end of each reporting period.
- (ii) Treasury bond futures and commodity futures: under the daily mark-to-market and settlement arrangement, any gains or losses of the Group’s and the Company’s position in treasury bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in “clearing settlement funds” as at 31 December 2012, 2013 and 2014. Accordingly, the net position of the treasury future contracts and commodity future contracts was nil at the end of each reporting period.
- (iii) Interest rate swaps and equity return swaps:

The notional principal amounts of the Group’s and Company’s interest rate swaps contracts as at 31 December 2012, 2013 and 2014 were RMB450 million, RMB5,250 million and RMB23,655 million, respectively.

The notional principal amounts of the Group’s and Company’s equity return swaps contracts as at 31 December 2012, 2013 and 2014 were nil, RMB1 million and RMB4,089 million, respectively. Details of equity return swaps contracts are set out in Notes 30 and 46.

- (iv) HK stock index futures: the notional principal amounts of the Group’s HK stock index futures contracts as at 31 December 2012, 2013 and 2014 were RMB8.36 million, RMB1.28 million and nil.
- (v) America stock index futures: the notional principal amounts of the Group’s America Stock Index futures contracts as at 31 December 2012, 2013 and 2014 were nil, nil and RMB 3.77 million.
- (vi) The amounts represent the fair value of embedded derivatives of structured notes, details set out in Notes 42 and 54.

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Details of the Group’s and Company’s PRC SIF are set out below:

**Group**

	As at 31 December					
	2012		2013		2014	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
PRC SIF .....	3,242,205	195,411	5,108,148	31,855	2,834,818	242,352
Less: settlement .....		<u>(195,411)</u>		<u>(31,855)</u>		<u>(242,352)</u>
Net position of PRC SIF contracts .....		<u>—</u>		<u>—</u>		<u>—</u>

**Company**

	As at 31 December					
	2012		2013		2014	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
PRC SIF .....	3,242,205	195,411	5,108,148	31,855	2,816,497	242,195
Less: settlement .....		<u>(195,411)</u>		<u>(31,855)</u>		<u>(242,195)</u>
Net position of PRC SIF contracts .....		<u>—</u>		<u>—</u>		<u>—</u>

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Details of the Group’s and Company’s treasury bond futures and commodity futures are set out below:

**Group**

	As at 31 December					
	2012		2013		2014	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Treasury bond futures .....	—	—	918	—	29,012	122
Commodity futures.....	—	—	113,214	422	—	—
Less: settlement .....		—		(422)		(122)
Net position of treasury bond future contracts and commodity future contracts .		—		—		—

**Company**

	As at 31 December					
	2012		2013		2014	
	Contract value	Fair value	Contract value	Fair value	Contract value	Fair value
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Treasury bond futures .....	—	—	918	—	29,012	122
Commodity futures.....	—	—	5,290	32	—	—
Less: settlement .....		—		(32)		(122)
Net position of treasury bond future contracts and commodity future contracts...		—		—		—

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**37. DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Deposits with stock exchanges:			
Shanghai Stock Exchange .....	22,595	67,525	124,680
Shenzhen Stock Exchange.....	462,658	51,395	77,779
Hong Kong Stock Exchange .....	684	4,393	28,345
Deposits with futures and commodity exchanges:			
Hong Kong Futures Exchange Limited....	1,279	1,481	1,604
Shanghai Futures Exchange .....	569,509	437,797	535,978
Zhengzhou Commodity Exchange .....	111,695	115,995	165,029
Dalian Commodity Exchange .....	432,628	244,775	263,381
China Financial Futures exchange.....	1,120,000	1,495,223	1,332,458
Intercontinental Exchange, Inc.....	—	6,097	6,119
China Securities Finance Corporation Limited.....	24,318	402	48,890
Shanghai Clearing House .....	7,991	8,138	25,847
HKFE Clearing Corporation Limited.....	3,465	9,856	19,077
LCH Clearnet Group Limited .....	—	4,571	6,372
Guarantee fund paid to China Financial Futures Exchange .....	20,000	20,000	20,157
China Beijing Equity Exchange.....	—	—	878
London Metal Exchange Clear .....	—	—	225,936
Others.....	181,204	114,035	147,332
	<u>2,958,026</u>	<u>2,581,683</u>	<u>3,029,862</u>



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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Deposits with stock exchanges:.....			
Shanghai Stock Exchange .....	22,595	67,413	119,797
Shenzhen Stock Exchange.....	462,658	51,395	73,092
China Securities Finance Corporation Limited.....	24,318	402	48,890
Shanghai Clearing House .....	7,991	8,138	25,847
China Beijing Equity Exchange.....	—	—	878
	<u>517,562</u>	<u>127,348</u>	<u>268,504</u>

**38. CLEARING SETTLEMENT FUNDS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Clearing settlement funds held with clearing houses for:			
House accounts.....	277,410	481,814	770,139
Clients.....	<u>4,740,755</u>	<u>5,174,453</u>	<u>21,854,657</u>
	<u>5,018,165</u>	<u>5,656,267</u>	<u>22,624,796</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Clearing settlement funds held with clearing houses for:			
House accounts.....	215,025	421,923	610,510
Clients.....	<u>4,163,219</u>	<u>4,482,751</u>	<u>20,877,130</u>
	<u>4,378,244</u>	<u>4,904,674</u>	<u>21,487,640</u>

These clearing settlement funds are held by the clearing houses for the Group and the Company and these balances carry interest at prevailing market interest rates.

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**ACCOUNTANTS’ REPORT**

**39. BANK BALANCES/PLEDGED AND RESTRICTED BANK DEPOSITS**

**Bank balances**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
House accounts .....	9,033,278	6,146,696	18,203,433
Cash held on behalf of customers <sup>(i)</sup> .....	<u>27,345,508</u>	<u>25,227,415</u>	<u>48,995,919</u>
	<u>36,378,786</u>	<u>31,374,111</u>	<u>67,199,352</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
House accounts .....	7,057,590	4,298,254	14,860,237
Cash held on behalf of customers <sup>(i)</sup> .....	<u>24,709,290</u>	<u>21,896,009</u>	<u>44,996,994</u>
	<u>31,766,880</u>	<u>26,194,263</u>	<u>59,857,231</u>

Bank balances comprise time and demand deposits at bank which bear interest at the prevailing market rates.

<sup>(i)</sup> The Group and the Company maintain bank accounts with banks to hold customers’ deposits arising from normal business transactions. The Group and the Company had recognised the corresponding amount in accounts payable to brokerage clients (note 44).

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**ACCOUNTANTS’ REPORT**

**Pledged and restricted bank deposits**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Restricted bank deposits for GF Securities Tower <sup>(ii)</sup> .....	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
<b>Current</b>			
Pledged bank deposits for borrowing <sup>(iii)</sup> .....	381,829	517,456	399,148
Restricted bank deposits for purchase of fund.....	—	30,000	—
Pledged bank deposits for letter of credit...	—	2,058	—
Restricted bank deposits for purchase of follow-on offerings .....	<u>—</u>	<u>—</u>	<u>2,000</u>
	<u>381,829</u>	<u>549,514</u>	<u>401,148</u>

<sup>(ii)</sup> The amount represents deposit pledged for the construction in progress disclosed in note 17 during the Relevant Periods.

<sup>(iii)</sup> Pledged bank deposits represent deposits pledged to banks to secure bank facilities granted to the Group.

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Restricted bank deposits for GF Securities Tower .....	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>
<b>Current</b>			
Restricted bank deposits for purchase of fund.....	—	20,000	—
Restricted bank deposits for purchase of follow-on offerings .....	<u>—</u>	<u>—</u>	<u>2,000</u>
	<u>—</u>	<u>20,000</u>	<u>2,000</u>

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**ACCOUNTANTS’ REPORT**

**40. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the followings:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Bank balances - house .....	9,033,278	6,146,696	18,203,433
Clearing settlement funds - house .....	277,410	481,814	770,139
	<u>9,310,688</u>	<u>6,628,510</u>	<u>18,973,572</u>

Cash and cash equivalent includes bank deposits with original maturity of more than three months held by the Group. As at 31 December 2012, 2013 and 2014, bank deposits with original maturity of more than three months, which can be withdrawn on demand without prior notice to banks, held by the Group were RMB2,910.00 million, RMB551.00 million and RMB790.12 million, respectively.

**41. BORROWINGS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Secured short-term bank loans .....	246,013	444,054	568,008
Unsecured short-term bank loans.....	—	—	717,899
	<u>246,013</u>	<u>444,054</u>	<u>1,285,907</u>

As at 31 December 2013, bills receivables of GF Commodity Markets Co., Limited were pledged as collateral for short-term loans of RMB29.40 million. The annual interest rate for the loan was 6.05% per annum. Amounts were fully repaid in 2014.

As at 31 December 2012, 2013 and 2014, the bank borrowings of GFHK were pledged by margin financing clients’ securities and bank deposits in note 39. As at 31 December 2012, 2013 and 2014, bank borrowings were repayable on demand and bear interest rates ranging from 1.16% to 1.20%, 1.19% to 1.69% and 1.10% to 2.65% per annum, respectively.

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No single borrowing is individually material, and terms and conditions of all borrowings are presented by appropriate groupings. The exposure of the Group’s fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Fixed-rate borrowings:			
Within one year .....	—	29,400	—

In addition, the Group has variable-rate borrowings which carry interest at HIBOR or LIBOR.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group’s borrowings are as follows:

	As at 31 December		
	2012	2013	2014
Effective interest rate:			
Variable-rate borrowings .....	HIBOR + 1% to HIBOR + 2% or LIBOR + 2.2%	HIBOR + 1% to HIBOR + 2% or LIBOR + 1%	HIBOR + 1% to HIBOR + 2.4% or LIBOR + 1%

The Group’s borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HKD
	RMB’000
As at 31 December 2014.....	1,285,907
As at 31 December 2013.....	414,654
As at 31 December 2012.....	246,013

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**42. SHORT-TERM FINANCING PAYABLES**

**Group and Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Unsecured and unguaranteed:			
Short-term financing bill payables			
(Note 1).....	7,546,428	9,044,455	11,900,000
Short-term bond payables (Note 2).....	—	—	15,492,249
Principals of structured notes (Note 3).....	—	—	2,144,490
	<u>7,546,428</u>	<u>9,044,455</u>	<u>29,536,739</u>

*Note 1:* Short-term financing bill payables

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Analysed as:			
Inter-bank.....	<u>7,546,428</u>	<u>9,044,455</u>	<u>11,900,000</u>

As at 31 December 2012, 2013 and 2014, short-term financing bills were debt securities issued in the PRC inter-bank market by the Company bearing interest rates ranging from 4.00% to 4.19%, 6.20% to 6.40% and 4.10% to 6.20% per annum, respectively, repayable within one to three months.

*Note 2:* Short-term bond payables

Name	Issue amount	Issue date	Maturity date	Coupon rate
	RMB			
GF1401.....	4,000,000,000	14/11/2014	31/05/2015	4.16% <sup>(i)</sup>
GF1402.....	5,000,000,000	21/11/2014	24/09/2015	4.50% <sup>(ii)</sup>
GF1403.....	3,000,000,000	27/11/2014	17/04/2015	4.55% <sup>(iii)</sup>
GF1404.....	3,500,000,000	27/11/2014	16/06/2015	4.60% <sup>(iv)</sup>

<sup>(i)</sup> Pursuant to the approval by the Shenzhen Stock Exchange (“SZSE”) and shareholders of the Company, the Company issued a 195-day short term bond with a face value of RMB4 billion on 14 November 2014.

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- (ii) Pursuant to the approval by the SZSE and shareholders of the Company, the Company issued a 304-day short term bond with a face value of RMB5 billion on 21 November 2014.
- (iii) Pursuant to the approval by the SZSE and shareholders of the Company, the Company issued a 140-day short term bond with a face value of RMB3 billion on 27 November 2014.
- (iv) Pursuant to the approval by the SZSE and shareholders of the Company, the Company issued a 200-day short term bond with a face value of RMB3.5 billion on 27 November 2014.

*Note 3:* Principals of structured notes

As at 31 December 2014, the amount represents principals received from investors for subscription of structured notes issued by the Company. The structured notes bear fixed rate interest ranging from 4.60% to 6.50% per annum or variable rate linked to certain stock index. The interests are repayable upon maturity within one year. The notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for in this Financial Information under note 36 after being bifurcated from their respective host contracts.

**43. DUE FROM/TO BANKS AND OTHER FINANCIAL INSTITUTIONS**

**Due from banks**

*Group and Company*

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Due from banks .....	<u>—</u>	<u>—</u>	<u>1,000,000</u>

As at 31 December 2014, the ranges of effective interest rate on due from banks are 3.74% to 4.77% per annum. The amount of due from banks is receivable within four days from the end of the reporting period.

**Due to banks and other financial institutions**

*Group and Company*

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Due to banks and other financial institutions.....	<u>3,340,000</u>	<u>5,300,000</u>	<u>1,123,000</u>

As at 31 December 2012, the ranges of effective interest rate on due to banks are 3.93% to 4.10% per annum. The amount of due to banks were repayable within seven days from the end of the reporting period.

As at 31 December 2013, the ranges of effective interest rate on due to banks are 3.20% to 6.70% per annum. The amount of due to banks were repayable within seven days from the end of the reporting period.

As at 31 December 2014, the ranges of effective interest rate on due to banks are 4.85% to 5.2% per annum. The amount of due to banks were repayable within seven days from the end of the reporting period. The effective interest rate on due to other financial institutions is 5.8% per annum. The amount of due to other financial institutions were repayable within three months from the end of the reporting period.

#### **44. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS**

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under the normal course of business. Only the excessive amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of these businesses. As a result, no ageing analysis is disclosed.

Accounts payable to brokerage clients mainly include money held on behalf of clients at banks and at clearing houses by the Group and the Company, and are interest-bearing at the prevailing market interest rate.

As at 31 December 2012, 2013 and 2014, included in the Group’s and Company’s accounts payable to brokerage clients were approximately RMB877.98 million, RMB1,573.65 million and RMB7,433.42 million of margin deposits and cash collateral received from clients for margin financing and securities lending arrangement.



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**45. ACCRUED STAFF COSTS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Salaries, bonus and allowances .....	1,013,978	1,484,252	3,001,478
Social welfare .....	1,972	1,988	2,081
Annuity schemes .....	25,192	33,486	36,817
Early retirement benefits <sup>(i)</sup> .....	113,988	124,369	122,647
Others .....	43,360	21,891	38,879
	<u>1,198,490</u>	<u>1,665,986</u>	<u>3,201,902</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Salaries, bonus and allowances .....	955,800	1,379,852	2,594,887
Social welfare .....	1,797	1,803	1,861
Annuity schemes .....	25,192	33,486	36,817
Early retirement benefits <sup>(i)</sup> .....	113,988	124,369	122,647
Others .....	42,849	21,044	34,538
	<u>1,139,626</u>	<u>1,560,554</u>	<u>2,790,750</u>

(i) In 2012, 2013 and 2014, the Group recognised RMB46.34 million, RMB20.05 million and RMB10.90 million, respectively, as staff costs and paid RMB8.36 million, RMB9.67 million and RMB12.63 million, respectively, in respect of the early retirement benefits.

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**46. OTHER ACCOUNTS PAYABLE, OTHER PAYABLES AND ACCRUALS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Current</b>			
<i>Other accounts payable</i>			
Principals and deposits of equity return swaps <sup>(i)</sup> .....	—	926,000	74,171
Payables for open-ended fund clearing .....	67,681	228,622	681,813
Commission payable and related accrued expenses for sale of funds .....	—	—	153,069
Others .....	30,688	59,794	70,985
	<u>98,369</u>	<u>1,214,416</u>	<u>980,038</u>
<i>Other payables and accruals</i>			
Business taxes and other taxes .....	75,024	131,265	355,299
Interest payable .....	9,614	364,005	756,797
Accrued expenses .....	46,536	45,893	77,100
Payables for securities and futures investor protection fund .....	19,596	24,436	43,906
Futures risk reserve .....	55,841	68,280	77,775
Funds risk reserve .....	—	—	34,923
Project quality deposits <sup>(ii)</sup> .....	40,000	40,000	40,000
Payable to R&F <sup>(iii)</sup> .....	82,470	144,568	233,526
Payable for equipment purchases .....	31,813	60,204	56,288
Others <sup>(iv)</sup> .....	42,650	58,424	58,471
	<u>403,544</u>	<u>937,075</u>	<u>1,734,085</u>
Total .....	<u>501,913</u>	<u>2,151,491</u>	<u>2,714,123</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Current</b>			
<i>Other accounts payable</i>			
Principals and deposits of equity return			
swaps <sup>(i)</sup> .....	—	926,000	74,171
Payables for open-ended fund clearing .....	49,305	228,622	611,629
Others .....	27,687	44,397	47,737
	<u>76,992</u>	<u>1,199,019</u>	<u>733,537</u>
<i>Other payables and accruals</i>			
Business taxes and other taxes .....	71,371	128,670	328,693
Interest payable .....	9,463	363,653	755,354
Accrued expenses .....	35,917	41,183	58,689
Payables for securities investor protection fund .....	13,303	18,434	35,128
Project quality deposits <sup>(ii)</sup> .....	40,000	40,000	40,000
Payable to R&F <sup>(iii)</sup> .....	82,470	144,568	233,526
Payable for equipment purchases .....	31,662	58,224	52,692
Others <sup>(iv)</sup> .....	31,732	31,437	27,302
	<u>315,918</u>	<u>826,169</u>	<u>1,531,384</u>
Total .....	<u>392,910</u>	<u>2,025,188</u>	<u>2,264,921</u>

(i) As at 31 December 2013, the balance represents principals received from investors for equity return swaps which returns the principals in addition to relevant proceeds in accordance with the contract terms when the trade terminates. The equity return swaps bearing interest at 6.00% to 8.50% per annum and the interests are repayable upon maturity within a year. As at 31 December 2014, the amount represents the deposits on equity return swaps mature within one year from the end of the reporting period. These instrument contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. In the opinion of the directors, the fair value of the embedded derivative is insignificant. Therefore, the related embedded derivatives being bifurcated form their respective host contracts are not accounted for in this Financial Information. For those embedded derivatives with significant fair values, they are accounted for in this Financial Information under note 36 after being bifurcated form their respective host contracts.

(ii) The balances represent the project quality deposits from Guangzhou R & F Properties Corporation Co., Ltd which is the construction agent of the GF Securities Tower, to ensure the construction quality of the GF Securities Tower.

(iii) The balances represent the construction expenditure of GF Securities Tower which Guangzhou R & F Properties Corporation Co., Ltd paid on behalf of the Company.

(iv) Others represent primarily accrued operating expenses which are non-interest bearing and are repayable within one year.

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**47. PROVISIONS**

**Group**

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
At beginning of the year .....	6,561	49,247	47,936
Addition for the year .....	42,686 <sup>(i)</sup>	14,576 <sup>(iii)</sup>	—
Reversal for the year .....	—	(15,887) <sup>(ii)</sup>	—
Utilisation of provision .....	—	—	(14,576) <sup>(iv)</sup>
At end of the year .....	<u>49,247</u>	<u>47,936</u>	<u>33,360</u>

**Company**

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
At beginning of the year .....	6,561	49,247	59,458
Addition for the year .....	42,686 <sup>(i)</sup>	26,098 <sup>(iii)</sup>	—
Reversal for the year .....	—	(15,887) <sup>(ii)</sup>	—
Utilisation of provision .....	—	—	(26,098) <sup>(iv)</sup>
At end of the year .....	<u>49,247</u>	<u>59,458</u>	<u>33,360</u>

<sup>(i)</sup> The addition of provision in 2012 was mainly due to provision made for repayment on behalf of a deregistered subsidiary of the Company, GF North Securities Brokerage Co., Ltd. (廣發北方證券經紀有限責任公司) for entrusted loan and relevant interests that had been written off.

<sup>(ii)</sup> The reversal of provision in 2013 was mainly due to compensation paid to the Tong Liang Branch of Chongqing Rural Commercial Bank (重慶農村商業銀行股份有限公司銅梁支行) in accordance with the Chongqing First Intermediate People’s Court civil order, and the remaining provision made in prior period had been reversed.

<sup>(iii)</sup> The addition of provision in 2013 was mainly due to the Company involvement in the entrusted GF Golden Majordomo RUILI No.1 Debt Obligation Asset Management Scheme (廣發金管家睿利債券分級1號集合資產管理計劃) with the Company’s own capital. Pursuant to the contract terms, the Company, as a subordinated investor, made provision for the expected losses of preferred shares undertaking.

<sup>(iv)</sup> The utilisation of provision in 2014 was mainly due to the Company involvement in the entrusted GF Golden Majordomo RUILI No. 1 Debt Obligation Asset Management Scheme (廣發金管家睿利債券分級1號集合資產管理計劃) with the Company’s own capital, provision made in prior period has been utilised.

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**48. OTHER LIABILITIES**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Third-party interests in consolidated collective asset management schemes and funds.....	469,635	369,946	4,283,311

Third-party interests in consolidated collective asset management schemes and funds consist of third-party unit holders’ interests in these consolidated structured entities which are reflected as a liability since they can be put back to the Group for cash.

The realisation of third-party interests in consolidated collective asset management schemes and funds cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated collective asset management schemes and funds held to back investment contract liabilities and are subject to market risk and the actions of third-party investors.

**49. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Analysed by collateral type:			
Rights and interests in margin loans .....	—	—	4,050,000
Analysed by market:			
Over the counter.....	—	—	4,050,000
<b>Current</b>			
Analysed by collateral type:			
Bonds .....	8,850,471	19,399,797	26,282,726
Rights and interests in margin loans .....	—	—	24,435,000
	<u>8,850,471</u>	<u>19,399,797</u>	<u>50,717,726</u>
Analysed by market:			
Stock exchanges .....	3,302,578	9,715,856	11,240,909
Interbank bond market.....	5,547,893	9,683,941	15,041,817
Over the counter.....	—	—	24,435,000
	<u>8,850,471</u>	<u>19,399,797</u>	<u>50,717,726</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Non-current</b>			
Analysed by collateral type:			
Rights and interests in margin loans .....	—	—	4,050,000
Analysed by market: .....			
Over the counter.....	—	—	4,050,000
<b>Current</b>			
Analysed by collateral type:			
Bonds .....	8,850,471	19,399,797	25,500,136
Rights and interests in margin loans .....	—	—	24,435,000
	<u>8,850,471</u>	<u>19,399,797</u>	<u>49,935,136</u>
Analysed by market:			
Stock exchanges .....	3,302,578	9,715,856	10,458,319
Interbank bond market.....	5,547,893	9,683,941	15,041,817
Over the counter.....	—	—	24,435,000
	<u>8,850,471</u>	<u>19,399,797</u>	<u>49,935,136</u>

Sales and repurchase agreements are transactions in which the Group and the Company sell a security or rights and interests in a margin loan and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group and the Company are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests sold. These securities and margin loans are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group and the Company retain substantially all the risks and rewards of these securities and margin loans.

As at 31 December 2012, 2013 and 2014, the Group and the Company entered into repurchase agreements with certain counterparties to sell debt securities recognised as financial assets at fair value through profit or loss with carrying amount of RMB6.04 billion, RMB9.17 billion and RMB9.16 billion, as available-for-sale financial assets with carrying amounts of RMB6.24 billion, RMB10.49 billion and RMB11.64 billion, and rights and interests in margin loans included in advances to customers with carrying amount of nil, nil and RMB30.98 billion, respectively, which are subject to the simultaneous agreements to repurchase these securities and margin loans at the agreed date and price.

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**50. SHARE CAPITAL**

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company’s number of shares issued and their nominal value are as follows:

**Group and Company**

	As at 31 December		
	2012	2013	2014
Registered, issued and fully paid ordinary shares of RMB1 each (in thousands):			
Domestic shares.....	<u>5,919,291</u>	<u>5,919,291</u>	<u>5,919,291</u>

**51. INVESTMENT REVALUATION RESERVE**

The movements of investment revaluation reserve of the Group and the Company are set out below:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year .....	393,928	1,003,721	785,634
Available-for-sale financial assets .....			
Net fair value changes during the year ...	451,315	120,072	1,781,146
Reclassification adjustment to profit or loss on disposal.....	(99,805)	(586,906)	(242,847)
Reclassification adjustment to profit or loss on impairment.....	290,840	116,562	12,063
Income tax impact .....	(89,597)	87,333	(402,579)
Share of fair value gain on available-for-sale financial assets of associates .....	57,040	44,852	32,225
Reclassification of investment revaluation upon deemed disposal of an associate.....	—	—	(13,506)
At end of the year .....	<u>1,003,721</u>	<u>785,634</u>	<u>1,952,136</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year .....	250,763	509,269	315,946
Available-for-sale financial assets			
Net fair value changes during the year ...	(74,025)	(268,179)	1,508,632
Reclassification adjustment to profit or loss on disposal.....	127,859	(106,147)	52,088
Reclassification adjustment to profit or loss on impairment.....	290,840	116,562	12,063
Income tax impact .....	(86,168)	64,441	(393,196)
At end of the year .....	<u>509,269</u>	<u>315,946</u>	<u>1,495,533</u>

**52. GENERAL RESERVES**

The general reserves comprise statutory reserve, discretionary reserve, reserve for general risk and transaction risk reserve.

Pursuant to the Company Law of the PRC and the Company’s articles of association, 10% of the net profit of the Company, as determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC (“PRC GAAP”), is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for expansion of business and capitalisation. If the statutory reserve is capitalised into share capital, the remaining reserve is required to be no less than 25% of the Company’s registered capital before capitalisation.

The Company may also make appropriations from its net profit to the discretionary reserve provided the appropriation is approved by a resolution of the shareholders. This reserve appropriated can be used for expansion of business and capitalisation.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as general risk reserve from retained profits.

Pursuant to the Securities Law of the PRC, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as transaction risk reserve from retained profits and cannot be distributed or transferred to share capital.



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The movements of general reserves of the Group and the Company are set out below:

**Group**

*As at 31 December 2012*

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Statutory reserve .....	1,970,223	201,431	2,171,654
Discretionary reserve .....	169,428	—	169,428
Reserve for general risk .....	2,346,982	201,431	2,548,413
Transaction risk reserve .....	<u>2,147,419</u>	<u>201,431</u>	<u>2,348,850</u>
	<u>6,634,052</u>	<u>604,293</u>	<u>7,238,345</u>

*As at 31 December 2013*

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Statutory reserve .....	2,171,654	237,800	2,409,454
Discretionary reserve .....	169,428	—	169,428
Reserve for general risk .....	2,548,413	237,800	2,786,213
Transaction risk reserve .....	<u>2,348,850</u>	<u>237,800</u>	<u>2,586,650</u>
	<u>7,238,345</u>	<u>713,400</u>	<u>7,951,745</u>

*As at 31 December 2014*

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Statutory reserve .....	2,409,454	431,822	2,841,276
Discretionary reserve .....	169,428	—	169,428
Reserve for general risk .....	2,786,213	431,822	3,218,035
Transaction risk reserve .....	<u>2,586,650</u>	<u>431,822</u>	<u>3,018,472</u>
	<u>7,951,745</u>	<u>1,295,466</u>	<u>9,247,211</u>

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**Company**

*As at 31 December 2012*

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Statutory reserve .....	1,954,893	201,431	2,156,324
Discretionary reserve .....	169,428	—	169,428
Reserve for general risk .....	2,346,982	201,431	2,548,413
Transaction risk reserve .....	2,147,419	201,431	2,348,850
	<u>6,618,722</u>	<u>604,293</u>	<u>7,223,015</u>

*As at 31 December 2013*

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Statutory reserve .....	2,156,324	237,800	2,394,124
Discretionary reserve .....	169,428	—	169,428
Reserve for general risk .....	2,548,413	237,800	2,786,213
Transaction risk reserve .....	2,348,850	237,800	2,586,650
	<u>7,223,015</u>	<u>713,400</u>	<u>7,936,415</u>

*As at 31 December 2014*

	<u>Opening</u>	<u>Addition</u>	<u>Closing</u>
	<u>RMB’000</u>	<u>RMB’000</u>	<u>RMB’000</u>
Statutory reserve .....	2,394,124	431,822	2,825,946
Discretionary reserve .....	169,428	—	169,428
Reserve for general risk .....	2,786,213	431,822	3,218,035
Transaction risk reserve .....	2,586,650	431,822	3,018,472
	<u>7,936,415</u>	<u>1,295,466</u>	<u>9,231,881</u>

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**53. RETAINED PROFITS**

The movements of retained profits of the Group and Company are set out below:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year .....	10,136,345	10,243,686	11,454,893
Profit for the year .....	2,191,457	2,812,501	5,022,568
Appropriation to general reserves.....	(604,293)	(713,400)	(1,295,466)
Dividends recognised as distribution .....	<u>(1,479,823)</u>	<u>(887,894)</u>	<u>(1,183,858)</u>
At end of the year .....	<u>10,243,686</u>	<u>11,454,893</u>	<u>13,998,137</u>

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
At beginning of the year .....	9,686,068	9,419,237	9,949,923
Profit for the year .....	1,817,285	2,131,980	4,094,082
Appropriation to general reserves.....	(604,293)	(713,400)	(1,295,466)
Dividends recognised as distribution .....	<u>(1,479,823)</u>	<u>(887,894)</u>	<u>(1,183,858)</u>
At end of the year .....	<u>9,419,237</u>	<u>9,949,923</u>	<u>11,564,681</u>

Details of the dividends are set out in note 56 of section G.

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**54. BONDS PAYABLE**

**Group and Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Unsecured and unguaranteed:			
Listed non-convertible <u>corporate</u> bonds			
(Note 1) .....	—	11,979,740	11,982,457
Subordinated bonds (Note 1) .....	—	—	12,178,367
Principals of structured notes (Note 2) ..	—	—	1,869,840
	<u>—</u>	<u>11,979,740</u>	<u>26,030,664</u>

Note 1:

Name	Issue amount	Value date	Maturity date	Coupon rate
	RMB			
13GF01 .....	1,500,000,000	17/06/2013	17/06/2018	4.50% <sup>(i)</sup>
13GF02 .....	1,500,000,000	17/06/2013	17/06/2018	4.75% <sup>(ii)</sup>
13GF03 .....	9,000,000,000	17/06/2013	17/06/2023	5.10% <sup>(iii)</sup>
14GF01 .....	3,000,000,000	24/07/2014	24/07/2018	5.70% <sup>(iv)</sup>
14GF02 .....	3,000,000,000	24/07/2014	24/07/2019	5.90% <sup>(v)</sup>
14GF03 .....	5,000,000,000	18/12/2014	18/12/2018	6.00% <sup>(vi)</sup>
14GF04 .....	1,200,000,000	19/12/2014	19/12/2017	6.00% <sup>(vii)</sup>

- (i) Pursuant to the approval from the CSRC and shareholders of the Company, the Company issued a 5-year bond with face value of RMB1.5 billion from 17 June to 19 June 2013. The issuer can choose whether to increase coupon rate within thirtieth working day before 17 June 2016, and the bond holders can choose whether to sell back at face value on 17 June 2016.
- (ii) Pursuant to the approval by the CSRC and shareholders of the Company, the Company issued a 5-year bond with a face value of RMB1.5 billion from 17 June to 19 June 2013.
- (iii) Pursuant to the approval by the CSRC and shareholders of the Company, the Company issued a 10-year bond with a face value of RMB9 billion from 17 June to 19 June 2013.
- (iv) Pursuant to the shareholders meeting held on 10 February 2014, the Company issued a 4-year bond with a face value of RMB3 billion on 24 July 2014. The issuer can choose whether to redeem at face value on 24 July 2016.
- (v) Pursuant to the shareholders meeting held on 10 February 2014, the Company issued a 5-year bond with a face value of RMB3 billion on 24 July 2014. The issuer can choose whether to redeem at face value on 24 July 2017.

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- (vi) Pursuant to the shareholders meeting held on 10 February 2014, the Company issued a 4-year bond with a face value of RMB5 billion on 18 December 2014. The issuer can choose whether to redeem at face value on 18 December 2015.
- (vii) Pursuant to the shareholders meeting held on 10 February 2014, the Company issued a 3-year bond with a face value of RMB1.2 billion on 19 December 2014. The issuer can choose whether to redeem at face value on 19 December 2015.

Note 2: Principals of structured notes

As at 31 December 2014, the amount represent principals received from investors for subscription of structured notes issued by the Company. The structured notes bearing fixed rate interest ranging from 6.30% to 6.97% per annum, the interests are repayable at maturity within two years.

**55. LONG-TERM LOANS**

**Group and Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Long-term loans.....	<u>—</u>	<u>—</u>	<u>3,000,000</u>

On 27 June 2014, the Group obtained a new long-term unsecured and unguaranteed loan from a financial institution amounting to RMB1,000 million. The loan carries interest at fixed market rate of 7% per annum, and the interest is repayable quarterly. The principal is repayable in full in 2017, the Group can choose whether to repay RMB1,000 million or part of the principal from 16 May 2016 to 13 June 2016.

On 25 November 2014, the Group obtained a new long-term unsecured and unguaranteed loan from a financial institution amounting to RMB2,000 million. the loan carries interest at fixed market rate of 7% per annum, and the interest is repayable quarterly. The principal is repayable in full in 2017, the Group can choose whether to repay RMB2,000 million or part of the principal from 17 October 2016 to 11 November 2016.

**56. DIVIDENDS**

**Group and Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Dividends recognised as distribution.....	<u>1,479,823</u>	<u>887,894</u>	<u>1,183,858</u>

Pursuant to the resolution of the shareholders meeting held on 7 May 2012, the Company distributed cash dividends of RMB 5.00 for every 10 shares (tax included) based on 2.96 billion shares held amounting to RMB 1.48 billion in total; capitalisation of 10 bonus shares upon each 10 shares amounting to RMB 2.96 billion for the year ended 31 December 2011.

Pursuant to the resolution of the shareholders meeting held on 13 May 2013, the Company distributed cash dividends of RMB 1.50 for every 10 shares (tax included) based on 5.92 billion shares held amounting to RMB0.89 billion in total for the year ended 31 December 2012.

Pursuant to the resolution of the shareholders meeting held on 12 May 2014, the Company distributed cash dividends of RMB2.00 for every 10 shares (tax included) based on 5.92 billion shares held amounting to RMB1.18 billion in total for the year ended 31 December 2013.

## **57. TRANSFER OF FINANCIAL ASSETS**

### **Repurchase agreements**

As at 31 December 2012, 2013 and 2014, the Group and the Company entered into repurchase agreements with certain counterparties to sell Group’s debt securities classified as available-for-sale financial assets with carrying amounts of RMB6.24 billion, RMB10.49 billion and RMB11.64 billion, respectively; Group’s debt securities classified as financial assets at fair value through profit or loss with the carrying amounts of RMB6.04 billion, RMB9.17 billion and RMB9.16 billion, respectively; and rights and interests in margin loans classified as advances to customers with the carrying amounts of nil, nil and RMB30.98 billion, respectively.

Sales and repurchase agreements are transactions in which the Group and the Company sell a security or rights and interests in a margin loan and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group and the Company are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests sold. These securities and margin loans are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group and the Company retain substantially all the risks and rewards of these securities and margin loans.

The proceeds from selling such securities and rights and interests are presented as financial assets sold under repurchase agreements. Because the Group and the Company sell the contractual rights to the cash flows of the securities and rights and interests, it does not have the ability to use the transferred securities and transferred margin loans during the term of the arrangement.

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The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and the associated liabilities:

**Group and Company**

*As at 31 December 2012*

	Financial asset at fair value through profit or loss	Available- for-sale financial assets	Securities lending arrangements	Financial assets held under resale arrangements	Advances to customers	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount of transferred assets...	6,038,169	6,242,302	—	—	—	12,280,471
Carrying amount of associated liabilities .....	(4,532,146)	(4,318,325)	—	—	—	(8,850,471)
Net position .....	<u>1,506,023</u>	<u>1,923,977</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,430,000</u>

**Group and Company**

*As at 31 December 2013*

	Financial asset at fair value through profit or loss	Available- for-sale financial assets	Securities lending arrangements	Financial assets held under resale arrangements	Advances to customers	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Carrying amount of transferred assets .	9,170,767	10,491,715	3,419,818	18,592	—	23,100,892
Carrying amount of associated liabilities .....	(7,880,752)	(8,257,129)	(3,243,916)	(18,000)	—	(19,399,797)
Net position .....	<u>1,290,015</u>	<u>2,234,586</u>	<u>175,902</u>	<u>592</u>	<u>—</u>	<u>3,701,095</u>

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**Group**

*As at 31 December 2014*

	<b>Financial asset at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Securities lending arrangements</b>	<b>Financial assets held under resale arrangements</b>	<b>Advances to customers</b>	<b>Total</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Carrying amount of transferred assets .	9,161,739	11,635,038	7,057,542	99,365	30,984,196	58,937,880
Carrying amount of associated liabilities .....	<u>(8,492,154)</u>	<u>(10,517,739)</u>	<u>(7,172,748)</u>	<u>(100,085)</u>	<u>(28,485,000)</u>	<u>(54,767,726)</u>
Net position .....	<u>669,585</u>	<u>1,117,299</u>	<u>(115,206)</u>	<u>(720)</u>	<u>2,499,196</u>	<u>4,170,154</u>

**Company**

*As at 31 December 2014*

	<b>Financial asset at fair value through profit or loss</b>	<b>Available-for-sale financial assets</b>	<b>Securities lending arrangements</b>	<b>Financial assets held under resale arrangements</b>	<b>Advances to customers</b>	<b>Total</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Carrying amount of transferred assets .	8,313,583	11,635,038	7,057,542	99,365	30,984,196	58,089,724
Carrying amount of associated liabilities .....	<u>(7,709,564)</u>	<u>(10,517,739)</u>	<u>(7,172,748)</u>	<u>(100,085)</u>	<u>(28,485,000)</u>	<u>(53,985,136)</u>
Net position .....	<u>604,019</u>	<u>1,117,299</u>	<u>(115,206)</u>	<u>(720)</u>	<u>2,499,196</u>	<u>4,104,588</u>



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**Securities lending arrangements**

The Group and the Company entered into securities lending agreements with clients to lend out its equity securities and exchange-traded funds classified as available-for-sale financial assets of carrying amount totaling RMB206.86 million, RMB212.84 million and RMB580.59 million as at 31 December 2012, 2013 and 2014, respectively, which are secured by client’s securities and deposits held as collateral. As stipulated in the securities lending agreements, the legal ownership of these equity securities and exchange-traded funds is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group and the Company at specified future dates and the maximum covered period is 180 days. The Group and the Company have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognised these securities in the Financial Information.

As at 31 December 2012, 2013 and 2014, the type and fair values of securities the Group and the Company borrowed from banks through inter-bank securities market trading platform are as follows:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Type of securities</b>			
Government bonds .....	—	3,588,343	7,058,691
Financial bonds .....	—	—	391,074
Total .....	<u>—</u>	<u>3,588,343</u>	<u>7,449,765</u>

The above securities as at 31 December 2013 and 2014 are due before 28 February 2014 and 29 January 2015, respectively.

**58. CAPITAL COMMITMENTS**

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Capital expenditure in respect of acquisition of property and equipment:			
- Contracted but not provided for .....	<u>18,032</u>	<u>672,373</u>	<u>609,222</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Capital expenditure in respect of acquisition of property and equipment:			
- Contracted but not provided for .....	<u>17,285</u>	<u>672,124</u>	<u>592,349</u>

**59. OPERATING LEASE COMMITMENTS**

**The Group as lessee**

At the end of respective reporting periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Within one year .....	166,760	172,824	199,285
In the second to fifth years inclusive .....	368,591	318,434	324,893
Over five years .....	<u>65,640</u>	<u>47,597</u>	<u>43,510</u>
Total .....	<u>600,991</u>	<u>538,855</u>	<u>567,688</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease of rented premises are negotiated with fixed lease term for 1 to 20 years.

**The Company as lessee**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Within one year .....	144,026	148,215	168,390
In the second to fifth years inclusive .....	310,566	290,176	283,055
Over five years .....	<u>64,509</u>	<u>44,897</u>	<u>41,019</u>
Total .....	<u>519,101</u>	<u>483,288</u>	<u>492,464</u>

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**The Group and the Company as lessor**

During the Relevant Periods, the Group and the Company did not have material lease commitment as lessor.

**60. DIRECTORS’ AND SUPERVISORS’ EMOLUMENTS**

The emoluments of the Directors and Supervisors of the Company paid and/or payable by the Group for each of the years ended 31 December 2012, 2013 and 2014 are set out below:

**For the year ended 31 December 2012**

Name	Director fee	Salary and allowances	Employer’s contribution	Bonuses	Total <sup>(i)</sup>
			to pension schemes		
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive Directors:					
Sun Shuming <sup>(ii)</sup> .....	—	698	94	3,190	3,982
Lin Zhihai <sup>(vii)</sup> .....	—	1,445	162	5,004	6,611
Li Jianyong <sup>(iii)</sup> .....	—	653	108	908	1,669
Qin Li.....	—	1,371	166	4,161	5,698
Ying Gang <sup>(iv)</sup> .....	—	790	61	2,899	3,750
Non-executive Directors: .....					
Shang Shuzhi.....	120	—	—	—	120
Chen Aixue.....	120	—	—	—	120
Independent Non-executive Directors:					
Wang Fushan <sup>(v)</sup> .....	180	—	—	—	180
Zuo Xingping <sup>(vi)</sup> .....	180	—	—	—	180
Liu Jiwei .....	180	—	—	—	180
Supervisors: .....					
Wu Zhaoming .....	—	1,186	168	3,434	4,788
Chak Mei Hing <sup>(xi)</sup> .....	100	—	—	—	100
Zhao Jin .....	100	—	—	—	100
Zhan Lingzhi .....	100	—	—	—	100
Cheng Huaiyuan.....	—	717	143	734	1,594
	<u>1,080</u>	<u>6,860</u>	<u>902</u>	<u>20,330</u>	<u>29,172</u>

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**For the year ended 31 December 2013**

Name	Director fee	Salary and allowances	Employer’s contribution to pension schemes	Bonuses	Total <sup>(i)</sup>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive Directors:					
Sun Shuming <sup>(ii)</sup> .....	—	1,405	42	6,356	7,803
Lin Zhihai <sup>(vii)</sup> .....	—	1,256	55	5,716	7,027
Qin Li.....	—	1,294	57	5,214	6,565
Non-executive Directors:					
Shang Shuzhi.....	120	—	—	—	120
Ying Gang <sup>(iv)</sup> .....	120	37	10	2,788	2,955
Chen Aixue .....	120	—	—	—	120
Independent Non-executive Directors:					
Wang Fushan <sup>(v)</sup> .....	180	—	—	—	180
Zuo Xingping <sup>(vi)</sup> .....	180	—	—	—	180
Liu Jiwei .....	180	—	—	—	180
Supervisors: .....					
Wu Zhaoming .....	—	1,119	57	2,844	4,020
Chak Mei Hing <sup>(xi)</sup> .....	100	—	—	—	100
Zhao Jin .....	100	—	—	—	100
Zhan Lingzhi .....	100	—	—	—	100
Cheng Huaiyuan.....	—	703	46	1,060	1,809
	<u>1,200</u>	<u>5,814</u>	<u>267</u>	<u>23,978</u>	<u>31,259</u>

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**For the year ended 31 December 2014**

Name	Director fee	Salary and allowances	Employer’s contribution to pension schemes	Bonuses	Total <sup>(i)</sup>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Executive Directors:					
Sun Shuming <sup>(ii)</sup> .....	—	1,294	56	6,007	7,357
Lin Zhihai <sup>(vii)</sup> .....	—	1,238	77	5,496	6,811
Qin Li .....	—	1,186	81	4,823	6,090
Non-executive Directors:					
Shang Shuzhi .....	120	—	—	—	120
Chen Aixue .....	120	—	—	—	120
Ying Gang <sup>(iv)</sup> .....	60	—	—	—	60
Li Xiulin <sup>(x)</sup> .....	70	—	—	—	70
Independent Non-executive Directors:					
Wang Fushan <sup>(v)</sup> .....	105	—	—	—	105
Zuo Xingping <sup>(vi)</sup> .....	105	—	—	—	105
Liu Jiwei .....	180	—	—	—	180
Yang Xiong <sup>(viii)</sup> .....	105	—	—	—	105
Tang Xin <sup>(ix)</sup> .....	105	—	—	—	105
Supervisors:					
Wu Zhaoming .....	—	1,079	81	4,248	5,408
Chak Mei Hing <sup>(xi)</sup> .....	100	—	—	—	100
Zhao Jin .....	100	—	—	—	100
Zhan Lingzhi .....	100	—	—	—	100
Cheng Huaiyuan .....	—	641	65	1,501	2,207
	<u>1,270</u>	<u>5,438</u>	<u>360</u>	<u>22,075</u>	<u>29,143</u>

<sup>(i)</sup> The Company did not operate any share option scheme during the Relevant Periods.

<sup>(ii)</sup> Sun Shuming was appointed as executive director in May 2012.

<sup>(iii)</sup> Li Jianyong resigned as executive director in April 2012.

<sup>(iv)</sup> Ying Gang was appointed as executive director since April 2011 but resigned as executive director in May 2012, and was appointed as non-executive director since May 2012 but resigned as non-executive director in May 2014.

<sup>(v)</sup> Wang Fushan resigned as independent non-executive director in May 2014.

<sup>(vi)</sup> Zuo Xingping resigned as independent non-executive director in May 2014.

<sup>(vii)</sup> Lin Zhihai is also the general manager of the Company and has emoluments disclosed above include those for services rendered by him as the general manager.

<sup>(viii)</sup> Yang Xiong was appointed as independent non-executive director in May 2014.

<sup>(ix)</sup> Tang Xin was appointed as independent non-executive director in May 2014.

<sup>(x)</sup> Li Xiulin was appointed as non-executive director in May 2014.

<sup>(xi)</sup> Chak Mei Hing resigned as supervisor in March 2015.

The bonuses are discretionary and determined with reference to the Group’s and the individuals’ performance.

The above tables are presented based on a pre-personal tax basis.

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During the Relevant Periods, no directors or supervisors of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

**61. HIGHEST PAID INDIVIDUALS**

Of the five individuals with the highest emoluments, one out of the five individuals is a director of the Company for the year end 31 December 2012, three out of the five individuals are directors of the Company for the year end 31 December 2013, and three out of the five individuals are directors of the Company for the year end 31 December 2014. Details of the emolument of the five highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Basic salaries and allowances .....	6,373	5,937	5,533
Bonuses .....	38,383	32,192	31,047
Employer’s contribution to pension schemes .....	702	247	317
	<u>45,458</u>	<u>38,376</u>	<u>36,897</u>

Bonuses are discretionary and determined with reference to the Group’s and the individuals’ performance. No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the Relevant Periods. The above table is presented based on a pre-personal tax basis.

The emoluments of the highest paid individuals of the Group fall within the following bands:

Emolument bands	Year ended 31 December		
	2012	2013	2014
	No. of employees	No. of employees	No. of employees
- HKD7,000,001 to HKD7,500,000 .....	1	1	—
- HKD7,500,001 to HKD8,000,000 .....	—	—	1
- HKD8,000,001 to HKD8,500,000 .....	1	1	—
- HKD8,500,001 to HKD9,000,000 .....	1	1	1
- HKD9,000,001 to HKD9,500,000 .....	—	—	1
- HKD9,500,001 to HKD10,000,000 .....	—	1	—
- HKD10,000,001 to HKD15,000,000.....	1	1	2
- HKD15,000,001 to HKD20,000,000.....	—	—	—
- HKD20,000,001 to HKD25,000,000.....	1	—	—
	<u>5</u>	<u>5</u>	<u>5</u>

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**62. RELATED PARTY TRANSACTIONS**

**(1) Shareholders**

The Group had the following material transactions and balances with shareholders during the Relevant Periods:

*The Group’s transactions with shareholders*

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Commission and fee income			
- 中山公用事業集團股份有限公司 Zhongshan Public Utilities Group Co., Ltd.* .....	8,940	—	7,120

*The Group’s balances with shareholders*

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Available-for-sale financial assets-stocks			
- 吉林敖東藥業集團股份有限公司 Jilin Aodong Pharmaceutical Group Co., Ltd.* .....	567,700	593,016	1,163,576
- 遼寧成大股份有限公司 Liaoning Cheng Da Co., Ltd.* .....	2,199	2,305	4,372
Available-for-sale financial assets-bonds			
- 中山公用事業集團股份有限公司 Zhongshan Public Utilities Group Co., Ltd.* .....	79,587	76,881	78,080
Financial assets at FVTPL — financial assets held for trading-stocks			
- 吉林敖東藥業集團股份有限公司 Jilin Aodong Pharmaceutical Group Co., Ltd.* .....	5,705	9,946	824
- 遼寧成大股份有限公司 Liaoning Cheng Da Co., Ltd.* .....	9,628	18,619	1,016
	<u>664,819</u>	<u>700,767</u>	<u>1,247,868</u>

\* English translated name is for identification purpose only.

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**(2) Other related parties**

In addition to the balances set out in note 32, the Group had the following material transactions and balances with associates during the Relevant Periods:

*The Group’s transactions with associates*

	Year ended 31 December		Up to the date of deemed disposal
	2012	2013	
	RMB’000	RMB’000	
Commission and fee income			
Funds under the management of GF			
Fund.....	<u>37,706</u>	<u>66,226</u>	<u>25,467</u>

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Funds under the management of E Fund	<u>15,933</u>	<u>17,007</u>	<u>20,261</u>
	<u>53,639</u>	<u>83,233</u>	<u>45,728</u>

*The Group’s balances with associates*

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Commission receivable from exchange trading units and distributing financial products			
GF Fund.....	9,553	11,244	—
E Fund .....	<u>2,739</u>	<u>4,837</u>	<u>8,292</u>
	<u>12,292</u>	<u>16,081</u>	<u>8,292</u>



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**(3) Key management personnel**

The remuneration of the key management personnel of the Group was as below:

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Short-term benefits:			
- Salaries, allowance and bonuses .....	59,097	76,116	131,951
Post-employment benefits:			
- Employer’s contribution to pension schemes/annuity plans .....	1,611	479	677
Total .....	<u>60,708</u>	<u>76,595</u>	<u>132,628</u>

**63. SEGMENT REPORTING**

Information reported to the chief operating decision maker (hereinafter refer to as the “CODM”), being the board of directors of the Company, for the purposes of resource allocation and assessment of segment performance focuses on the nature of products sold and services provided by the Group, which is also consistent with the Group’s basis of organisation, whereby the businesses are organised and managed separately as individual strategic business unit that offers different products and serves different markets. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the Financial Information.

Specifically, the Group’s operating segments are as follows:

- (a) Investment Banking, which primarily includes underwriting commissions and sponsorship and advisory fees from equity and debt underwriting and financial advisory services;
- (b) Wealth Management, which primarily includes fees and commissions earn from providing brokerage and investment advisory services to retail clients, as well as interest income earn from margin financing and securities lending activities, reverse repurchase transactions and cash held on behalf of clients, and fees earn from selling financial products developed by the Group and other financial institutions;
- (c) Trading and Institutional Client Services, which primarily includes investment gains and interest income earn from market-making in, and proprietary trading of equity, fixed income, derivative securities and other financial products, as well as fees and commissions earn from providing investment research and prime brokerage services to institutional clients;

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- (d) Investment Management, which primarily includes management and advisory fees earned from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from private equity and alternative investments; and
  
- (e) Others, which primarily includes interest income from cash deposits of headquarters.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and there was no change in the basis during the Relevant Periods.

Segment profit or loss represents the profit earned or loss incurred by each segment without the allocation of income tax expenses as well as the share of result of its associates and joint ventures. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Segment assets or liabilities are allocated to each segment, excluding deferred tax assets or liabilities. Inter-segment balances mainly resulted from branches’ operating funds injected by head office which are eliminated on consolidation. The segment result excludes income tax expense and shares of results of associates and joint ventures, while the segment assets and liabilities include prepaid taxes, current tax liabilities as well as interests in associates and joint ventures, respectively.

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The operating and reportable segment information provided to the CODM for the years ended 31 December 2012, 2013 and 2014 is as follows:

	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Segment total	Elimination	Consolidated total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the year ended 31 December 2012</b>								
<b>Segment revenue and results</b>								
Segment revenue.....	1,117,117	3,411,306	1,649,596	563,274	489,576	7,230,869	—	7,230,869
Segment other income and gains (other losses) .....	1,950	49,424	—	(14,630)	12,907	49,651	—	49,651
Segment revenue and other income ...	1,119,067	3,460,730	1,649,596	548,644	502,483	7,280,520	—	7,280,520
Segment expenses .....	(443,234)	(2,186,709)	(865,976)	(110,876)	(1,362,986)	(4,969,781)	—	(4,969,781)
Segment result .....	675,833	1,274,021	783,620	437,768	(860,503)	2,310,739	—	2,310,739
Share of results of associates and a joint venture .....	—	—	—	374,480	—	374,480	—	374,480
Profit (loss) before income tax .....	675,833	1,274,021	783,620	812,248	(860,503)	2,685,219	—	2,685,219
<b>As at 31 December 2012</b>								
<b>Segment assets and liabilities</b>								
Segment assets.....	733,794	37,657,433	10,068,015	5,631,375	36,727,740	90,818,357	(1,144,000)	89,674,357
Deferred tax assets.....	—	—	—	—	—	—	—	181,449
Group's total assets .....	—	—	—	—	—	—	—	89,855,806
Segment liabilities .....	41,072	34,323,467	8,773,304	160,373	13,513,269	56,811,485	—	56,811,485
Deferred tax liabilities .....	—	—	—	—	—	—	—	89,543
Group's total liabilities .....	—	—	—	—	—	—	—	56,901,028
<b>Other segment information</b>								
Amounts included in the measure of segment profit or loss or segment assets:								
Depreciation and amortisation.....	2,094	187,302	1,633	1,030	59,569	251,628	—	251,628
Impairment losses .....	—	13,862	269,237	—	7,535	290,634	—	290,634
Capital expenditure .....	1,410	114,968	4,712	1,694	300,546	423,330	—	423,330
<b>For the year ended 31 December 2013</b>								
<b>Segment revenue and results</b>								
Segment revenue.....	376,538	5,354,332	2,242,492	915,819	384,552	9,273,733	—	9,273,733
Segment other income and gains (other losses) .....	100	42,546	2	(5,610)	21,076	58,114	—	58,114
Segment revenue and other income ...	376,638	5,396,878	2,242,494	910,209	405,628	9,331,847	—	9,331,847
Segment expenses .....	(388,381)	(3,042,544)	(1,348,987)	(240,499)	(1,227,145)	(6,247,556)	—	(6,247,556)
Segment result .....	(11,743)	2,354,334	893,507	669,710	(821,517)	3,084,291	—	3,084,291
Share of results of associates and a joint venture .....	—	—	—	393,960	(938)	393,022	—	393,022
(Loss) profit before income tax .....	(11,743)	2,354,334	893,507	1,063,670	(822,455)	3,477,313	—	3,477,313

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	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Segment total	Elimination	Consolidated total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>As at 31 December 2013</b>								
<b>Segment assets and liabilities</b>								
Segment assets.....	106,740	37,871,385	22,917,958	6,909,696	50,384,577	118,190,356	(1,314,000)	116,876,356
Deferred tax assets.....								415,815
Group’s total assets .....								117,292,171
Segment liabilities .....	108,753	32,764,736	21,085,394	205,274	28,327,236	82,491,393	—	82,491,393
Deferred tax liabilities .....								57,802
Group’s total liabilities.....								82,549,195
<b>Other segment information</b>								
Amounts included in the measure of segment profit or loss or segment assets:								
Depreciation and amortisation .....	2,249	171,659	2,781	1,497	68,705	246,891	—	246,891
Impairment losses .....	—	(332)	116,562	—	830	117,060	—	117,060
Capital expenditure.....	2,054	109,562	9,228	6,954	201,347	329,145	—	329,145
<b>For the year ended 31 December 2014</b>								
<b>Segment revenue and results</b>								
Segment revenue.....	1,783,542	8,672,123	3,414,708	1,890,004	386,537	16,146,914	—	16,146,914
Segment other income and gains (other losses) .....	2,342	31,157	22	(82,005)	65,065	16,581	—	16,581
Segment revenue and other income ...	1,785,884	8,703,280	3,414,730	1,807,999	451,602	16,163,495	—	16,163,495
Segment expenses .....	(876,457)	(4,656,535)	(1,939,853)	(871,957)	(1,507,263)	(9,852,065)	—	(9,852,065)
Segment result .....	909,427	4,046,745	1,474,877	936,042	(1,055,661)	6,311,430	—	6,311,430
Share of results of associates and joint ventures.....	—	—	—	336,678	487	337,165	—	337,165
Profit (loss) before income tax .....	909,427	4,046,745	1,474,877	1,272,720	(1,055,174)	6,648,595	—	6,648,595
<b>As at 31 December 2014</b>								
<b>Segment assets and liabilities</b>								
Segment assets.....	1,078,991	74,516,711	38,692,069	16,471,813	110,471,007	241,230,591	(1,361,000)	239,869,591
Deferred tax assets.....								230,185
Group’s total assets .....								240,099,776
Segment liabilities .....	195,342	65,092,165	35,588,659	6,361,354	91,373,261	198,610,781	—	198,610,781
Deferred tax liabilities .....								111,539
Group’s total liabilities.....								198,722,320
<b>Other segment information</b>								
Amounts included in the measure of segment profit or loss or segment assets:								
Depreciation and amortisation.....	2,444	150,407	4,824	17,044	82,645	257,364	—	257,364
Impairment losses .....	—	111,922	6,996	25,800	5,226	149,944	—	149,944
Capital expenditure.....	1,113	90,231	17,400	20,408	180,416	309,568	—	309,568
Non-current assets acquired on acquisition of a subsidiary .....	—	—	—	216,783	—	216,783	—	216,783

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The Group’s non-current assets are mainly located in PRC (country of domicile). The Group’s revenue are substantially derived from its operations in PRC.

No single customer contributes over 10% of the Group’s revenue for the years ended 31 December 2012, 2013 and 2014.

**64. FINANCIAL INSTRUMENTS**

**Categories of financial instruments**

**Group**

	<b>As at 31 December</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
<b>Financial assets</b>			
Loans and receivables .....	51,100,369	67,530,447	174,990,045
Available-for-sale financial assets .....	13,289,744	21,603,916	34,410,116
Financial assets at fair value through profit or loss .....	21,787,667	23,667,643	27,027,955
Investment in an associate at fair value through profit or loss .....	—	—	59,840
	<u>86,177,780</u>	<u>112,802,006</u>	<u>236,487,956</u>
<b>Financial liabilities</b>			
Derivative financial liabilities .....	209	79,490	87,304
Financial liabilities at amortised cost .....	55,167,012	80,167,448	193,774,634
	<u>55,167,221</u>	<u>80,246,938</u>	<u>193,861,938</u>

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**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>			
Loans and receivables .....	42,875,507	57,766,081	160,434,803
Available-for-sale financial assets .....	10,710,699	18,966,630	29,342,975
Financial assets at fair value through profit or loss .....	20,542,548	22,610,074	21,125,419
	<u>74,128,754</u>	<u>99,342,785</u>	<u>210,903,197</u>
<b>Financial liabilities</b>			
Derivative financial liabilities .....	123	79,490	87,218
Financial liabilities at amortised cost .....	49,015,165	73,326,455	179,485,996
	<u>49,015,288</u>	<u>73,405,945</u>	<u>179,573,214</u>

**65. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The Group offsets the following financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously.

Under the agreement signed between the Group and the customers, money obligations receivable and payable with the same customers on the same settlement date are settled on net basis.

Under the continuous net settlement, money obligations receivable and payable with Hong Kong Securities Clearing Company Limited and other brokers on the same settlement date are settled on a net basis.

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*Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements*

**Group**

As at 31 December 2012						
Type of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers..	301,885	(37,428)	264,457	(264,457)	—	—
Accounts receivable from clearing house, brokers, and cash clients .....	305,578	(68,412)	237,166	—	(82)	237,084
<b>Total .....</b>	<b>607,463</b>	<b>(105,840)</b>	<b>501,623</b>	<b>(264,457)</b>	<b>(82)</b>	<b>237,084</b>

As at 31 December 2012						
Type of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial liabilities .....	86	—	86	—	—	86

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As at 31 December 2013

Type of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers..	856,340	(119,274)	737,066	(737,066)	—	—
Accounts receivable from clearing house, brokers, and cash clients .....	368,433	(197,338)	171,095	—	(2,537)	168,558
Derivative financial assets.....	2	(1)	1	—	—	1
Total .....	<u>1,224,775</u>	<u>(316,613)</u>	<u>908,162</u>	<u>(737,066)</u>	<u>(2,537)</u>	<u>168,559</u>

As at 31 December 2013

Type of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial liabilities .....	<u>1</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>



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As at 31 December 2014

Type of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Advances to customers..	1,164,349	(123,731)	1,040,618	(1,040,618)	—	—
Accounts receivable from clearing house, brokers, and cash clients .....	520,480	(204,594)	315,886	—	(1,325)	314,561
Total .....	<u>1,684,829</u>	<u>(328,325)</u>	<u>1,356,504</u>	<u>(1,040,618)</u>	<u>(1,325)</u>	<u>314,561</u>

*Note:* At the end of each Relevant Period, the directors of the Company consider the net amount receivable from Hong Kong Securities Clearing Company Limited and other brokers presented in the consolidated statement of financial position do not expose the Group to significant risk. Accordingly, the relevant offsetting disclosures for accounts payable are not presented. For accounts payable to brokerage clients amounting to RMB884.0 million, RMB1,020.7 million and RMB1,357.7 million as at 31 December 2012, 2013 and 2014, respectively, which are under master netting arrangement, the payable includes money held on behalf of clients at banks and at clearing house as disclosed in note 44, which do not expose the Group to significant risk as well. Therefore, the relevant offsetting disclosures are not presented.

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The tables below reconcile the “Net amount of financial assets and financial liabilities presented in the consolidated statement of financial position” as set out above, to the line items presented in the consolidated statement of financial position.

**Advances to customers**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net amount of advances to customers as stated above .....	264,457	737,066	1,040,618
Amount not in scope of offsetting disclosures.....	<u>4,982,047</u>	<u>19,753,588</u>	<u>63,655,226</u>
Total amount of advances to customers as stated in note 29 .....	<u><u>5,246,504</u></u>	<u><u>20,490,654</u></u>	<u><u>64,695,844</u></u>

**Accounts receivable**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net amount of accounts receivable as stated above .....	237,166	171,095	315,886
Amount not in scope of offsetting disclosures.....	<u>100,418</u>	<u>151,460</u>	<u>951,485</u>
Total amount of accounts receivable as stated in note 30 .....	<u><u>337,584</u></u>	<u><u>322,555</u></u>	<u><u>1,267,371</u></u>

**Accounts payable to brokerage clients**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net amount of accounts payable to brokerage clients as stated above .....	884,033	1,020,656	1,357,706
Amount not in scope of offsetting disclosures.....	<u>33,403,544</u>	<u>30,588,575</u>	<u>70,107,857</u>
Total amount of advances payable to brokerage clients as stated in note 44 ....	<u><u>34,287,577</u></u>	<u><u>31,609,231</u></u>	<u><u>71,465,563</u></u>

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**Derivative financial instruments**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Net amount of derivative financial assets as stated above .....	—	1	—
Amount not in scope of offsetting disclosures.....	<u>107</u>	<u>57,383</u>	<u>91,293</u>
Total amount of derivative in note 36 .....	<u><u>107</u></u>	<u><u>57,384</u></u>	<u><u>91,293</u></u>
Net amount of derivative financial liabilities as stated above .....	86	—	—
Amount not in scope of offsetting disclosures.....	<u>123</u>	<u>79,490</u>	<u>87,304</u>
Total amount of derivative in note 36 .....	<u><u>209</u></u>	<u><u>79,490</u></u>	<u><u>87,304</u></u>

The gross amounts of the recognised financial assets and financial liabilities and their net amounts as presented in the Group’s consolidated statement of financial position, both of which have been disclosed in the above tables, are measured as follows:

- Advances to customers - amortised cost
- Accounts receivable from clearing house, brokers, and cash clients - amortised cost
- Derivatives - fair value

The amounts which are subject to enforceable master netting arrangements or similar agreements are measured on the same basis as the recognised financial assets and financial liabilities.

**66. FINANCIAL RISK MANAGEMENT**

**66.1 Risk management policies and organisation structure**

**(1) Risk management policies**

The Group’s risk management objectives are to achieve a proper balance between risks and yield, minimise the adverse impacts of risks on the Group’s operating performance, and maximise the benefits of the shareholders and other stakeholders. Based on these risk management objectives, the Group’s basic risk management strategy is to identify and analyse the various risks the Group exposes to, and to establish an appropriate tolerance for risk management practice, so as to monitor, notify and respond to the risks regularly and effectively and to control risks at an acceptable level.

The risks the Group exposes to in daily operating activities mainly include market risk, credit risk and liquidity risk. The Group has established policies and procedures accordingly to identify and analyse the risks. The Group has set up appropriate risk indicator, risk limits, risk policies and internal control process. The Group also manages risks with information system on a continuous monitoring basis.

**(2) *Structure of the risk-management organisation:***

The Group adopts a four-level risk management organisation structure system, namely “board of directors and its subordinated risk management committee, management executives and risk control committee and asset allocation committee, various control and supporting departments, and business departments”. First-line risk management organisations have been set up in all major business departments of the Company. Organisations and staff of all levels are required to perform their authorised risk management duties with clear segregation of duties and emphasis on mutual collaboration. The Group’s main back offices and middle offices are risk management department, compliance and legal affairs department, internal auditing department and treasury department. These departments cooperate with each other and each focus on specific aspects, perform risk assessment before the projects implement, on-going control, investigation and evaluation after completion, and contribute to the sustainable development of the business for the Group.

Risk management department, a standing body of the Group’s risk control committee, takes charge of the independent assessment and monitoring of the Group’s market risk and credit risk. It coordinates with each department regarding the management of model risk, liquidity risk and operational risk; supervises the implementation of the Group’s risk policies such as risk limits; assesses, monitors and reports on the Group’s risk capitals; organizes and implements comprehensive and specific stress tests; and carries out routine activities of the Group’s risk control committee and so on. Compliance and legal department is the core department responsible for the compliance management of the Group, including the compliance of the Group’s business and employees, and the Group’s legal matters. The internal auditing department is responsible for independently and objectively auditing, supervising, assessing and impelling to improve the management performance of all the departments’ risk management, internal control and operating results.

**66.2 Credit risk**

**(1) *Credit risk exposure during the Relevant Periods***

Credit risk is the risk of loss due to a company’s failures or inability to fulfil its obligations, or the downgrade of credit rating of it. The credit risk the Group and the Company exposed to mainly relates to the following businesses: (i) fixed income financial assets and the corresponding derivative investments; (ii) financing businesses such as margin financing and financial assets held under resale agreements (mainly refer to security transaction with repurchase agreement and stock-pledged repo).

Fixed income financial assets include bank balances, clearing settlement funds, loan investment and bonds. Credit risk mainly includes the risk caused by its counterparties and securities issuer’s default risk.

The counterparties of derivatives trading the Group engaged in were large and mid-sized financial corporations in Mainland China with restricted line of credit. Repurchase agreements could cause credit risk, but those agreements are mainly pledged government bonds and guaranteed by exchanges, credit risk is therefore considered to be low. Therefore, the credit risk exposure arising from interest rate swaps is also insignificant.

**(2) Credit risk management**

In terms of the financing business, the credit risk exposure of margin financing and securities lending includes liabilities arising from purchasing securities by borrowings and selling the borrowed securities. The credit risk exposure of security transaction with repurchase agreement and stock-pledged repo mainly refers to liabilities arising from the provision of guarantees by the financing party and funds lent by the Group. The major credit risks for these financial assets are derived from the default risk of counterparties due to their failure to repay the principal and interest of debts when due. For the years ended 31 December 2012, 2013 and 2014, the average ratio of guarantee maintained by the Group for all the clients who have liabilities in margin financing and securities lending of the Group is over 130%, 260.62% and 263.80%, respectively; For the years ended 31 December 2013 and 2014, the average coverage ratio of contract performance for clients of security transactions with repurchase agreement is 232.03% and 289.33%, respectively, and the average coverage ratio of contract performance security for clients of stock-pledged repo is 337.91% and 316.08%, respectively. The guarantees provided are sufficient and the credit risk of financing business is managed at an acceptable level.

The credit risk of bond investments is mainly mitigated by means of credit rating management, transaction limits, position limits, exposure limits on issuers, etc.; factors assessed by the Group include but not limit to: credit ratings of issuer entities, ratings of debts, ratings of guarantors, information at basic levels, and material negative information and so on.

In terms of managing counterparty credit risks of derivative transactions, the Group applies measures such as using DVP settlement, collaterals, guarantees, netting agreements, credit derivatives and etc. to mitigate or even eliminate counterparty risks, and adopts the credit rating management, establishment of client admission criteria, credit limit control, authorization setting for a single transaction, investment limit control and other measures to manage related counterparty credit risks.

The credit risk of financing business of the Group is mainly managed through the following measures: 1) the establishment of a strict business due diligence requirements, the implementation and continuous improvement of the client credit rating system, credit facilities management, the development of business admission criteria, the review on the creditworthiness and business qualification of counterparties prior to the conducting of business, and the preliminary identification and assessment of business credit risks; 2) the research and

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development of business review process, the independent and careful assessment of counterparties for proposed transactions, guarantees and other elements of transactions, adequate identification of business credit risks, and the adoption of tailored risk mitigating measures; 3) the continuous post-transaction tracking and management on counterparties, guarantees and the actual performance of transaction agreements, the collection of transaction-related information on a regular basis and assessment of risks, as well as timely actions adopted upon the occurrence of risk events.

The Group actively explores and uses risk mitigating tools to reduce credit risks and effectively manage credit risks. Risk mitigating tools include but not limited to: collaterals and pledges, guarantees provided by third parties, offsetting arrangements, credit derivatives and other hedging instruments, and the establishment of strict credit contract terms, etc.

Taking no account of collateral or other credit enhancements, the maximum credit exposure is the carrying amount of financial assets, which is net of impairment allowance. The maximum credit risk exposure of the Group and the Company are as follows:

**Group**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Advances to customers.....	5,246,504	20,490,654	64,695,844
Accounts receivable .....	337,584	322,555	1,267,371
Other accounts receivable and other receivables.....	635,684	1,337,221	1,761,211
Amounts due from associates .....	12,292	16,081	8,292
Loan and receivable investments.....	—	320,566	608,692
Available-for-sale financial assets <sup>(i)</sup> .....	8,054,287	15,119,176	23,702,540
Including: securities lent to customers .....	206,856	212,837	580,586
Financial assets held under resale agreements .....	74,215	4,825,913	12,232,554
Financial assets at fair value through profit or loss <sup>(i)</sup> .....	9,849,937	15,271,120	18,440,209
Derivative financial assets .....	107	57,384	91,293
Deposits with exchanges and non-bank financial institutions .....	2,958,026	2,581,683	3,029,862
Due from banks .....	—	—	1,000,000
Clearing settlement funds.....	5,018,165	5,656,267	22,624,796
Pledged and restricted bank deposits .....	461,829	629,514	481,148
Bank balances.....	36,378,786	31,374,111	67,199,352
	<u>69,027,416</u>	<u>98,002,245</u>	<u>217,143,164</u>

**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Company**

	As at 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Advances to customers.....	4,982,046	19,753,588	63,655,226
Accounts receivable .....	99,088	114,006	336,144
Other accounts receivable and other receivables.....	562,081	1,180,871	1,577,340
Amounts due from subsidiaries .....	425,230	672,654	331,473
Amounts due from associates .....	12,292	16,081	8,292
Available-for-sale financial assets <sup>(i)</sup> .....	8,037,287	15,102,176	23,685,545
Including: securities lent to customers .....	206,856	212,837	580,586
Financial assets held under resale agreements .....	74,215	4,709,905	11,780,954
Financial assets at fair value through profit or loss <sup>(i)</sup> .....	9,113,448	15,034,414	14,258,083
Derivative financial assets .....	107	57,383	91,293
Deposits with exchanges and non-bank financial institutions .....	517,562	127,348	268,504
Due from banks .....	—	—	1,000,000
Clearing settlement funds.....	4,378,244	4,904,674	21,487,640
Pledged and restricted bank deposits .....	80,000	100,000	82,000
Bank balances .....	<u>31,766,880</u>	<u>26,194,263</u>	<u>59,857,231</u>
	<u>60,048,480</u>	<u>87,967,363</u>	<u>198,419,725</u>

(i) Financial assets at fair value through profit or loss contain only debt securities. Available-for-sale financial assets contain debt securities and lent to customers. Securities lent to customers are mainly equity securities, therefore listed above separately to show the credit risk exposure.

Overall, the Group monitors and manages credit risk at all times, and takes every possible measure to mitigate and control credit risk exposure to an acceptable level.

**66.3 Market risk**

Market risks refer to the financial loss risk caused by the unfavourable volatility of the fair values or future cash flows of the financial instruments, which are subjected to interest rate risk, exchange risk and other price risk.

The management of the Group determines the policy for the maximum market exposure the Group is willing to assume, the measurement and monitoring of such exposure are determined based on the risk preference, capital position, risk tolerance, and size of business of the Group. The Group develops relevant investment size limits and risk limits based on the risk exposure and disaggregates them into different investment departments, while manages market risks through the combination of investment transaction control, Value at Risk (VaR), sensitivity analysis, stress testing, risk assessment and monitoring of profit and loss, concentration and liquidity.

The risk management department of the Group (“ Risk Management Department”), which is independent from business departments, performs comprehensive assessment, monitoring and management on the overall market risk of the Group, and reports the assessment and monitoring results to each business department, the Group’s management and the risk management committee. When concretely implementing the market risk management process, the front desk serves as the first line management directly responsible for market risks, which dynamically manages the market risks resulted from the portion of positions held and actively takes measures to reduce risk exposure or performs risk hedging when the risk exposure is high; the Risk Management Department continuously and directly communicate risk information with teams of business departments to discuss risk status and extreme loss scenarios. Meanwhile, market risk conditions and their changes of the Group as a whole and each business department are timely reported to the Group’s management through regular risk reporting.

The Risk Management Department uses a series of quantitative methods to estimate possible losses resulted from market risks, including possible losses arising from normal market fluctuations and extreme market movements. The Risk Management Department measures possible short-term losses from normal fluctuations mainly by means of VaR and sensitivity analysis; while possible losses in extreme case are estimated through stress testing.

***Interest rate risk***

Interest rate risk is the risk of fluctuation in the fair value or future cash flows arising from adverse movements in interest rates. The Group’s interest-bearing assets include bank deposits, clearing settlement funds, refundable deposits, and debenture investments. Fixed-income investments of the Group are mainly central bank bills, government bonds, medium-term notes, high-quality short-term papers, corporate bonds, treasury bond futures and interest rate swaps. In order to manage interest rate risks, the Group uses VaR, stress test and sensitivity analysis to monitor indicators such as the duration, convexity and DV01 of the fixed income investment portfolio on a daily basis.

The tables below summarise the Group’s and the Company’s interest-bearing financial assets and liabilities by their remaining terms to repricing or contractual maturity date, whichever is earlier. Other financial assets and liabilities not included below are not exposed to significant interest rate risk.



**APPENDIX I**

**ACCOUNTANTS’ REPORT**

**Group**

	As at 31 December 2012						Total
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	
<b>Financial assets</b>							
Advances to customers.....	431,842	894,826	3,919,836	—	—	—	5,246,504
Available-for-sale financial assets ....	200,000	—	1,570,245	5,376,996	1,403,932	4,738,571	13,289,744
Financial assets held under resale agreements .....	11,663	5,605	56,947	—	—	—	74,215
Financial assets at fair value through profit or loss .....	135,254	375,665	1,932,439	5,224,215	2,182,364	11,937,623	21,787,560
Derivative financial assets.....	—	—	—	—	—	107	107
Deposits with exchanges and non-bank financial institutions ....	959,733	—	—	—	—	1,998,293	2,958,026
Clearing settlement funds.....	5,018,165	—	—	—	—	—	5,018,165
Pledged and restricted bank deposits.	461,829	—	—	—	—	—	461,829
Bank balances .....	<u>30,287,380</u>	<u>3,181,000</u>	<u>2,710,000</u>	<u>200,000</u>	<u>—</u>	<u>406</u>	<u>36,378,786</u>
Subtotal .....	<u>37,505,866</u>	<u>4,457,096</u>	<u>10,189,467</u>	<u>10,801,211</u>	<u>3,586,296</u>	<u>18,675,000</u>	<u>85,214,936</u>
<b>Financial liabilities</b>							
Borrowings .....	246,013	—	—	—	—	—	246,013
Short-term financing payables .....	4,537,000	3,009,428	—	—	—	—	7,546,428
Due to banks and other financial institutions .....	3,340,000	—	—	—	—	—	3,340,000
Accounts payable to brokerage clients .....	29,656,310	—	—	—	—	4,631,267	34,287,577
Other liabilities .....	—	—	—	—	—	469,635	469,635
Derivative financial liabilities .....	—	—	—	—	—	209	209
Financial assets sold under repurchase agreements .....	<u>8,836,729</u>	<u>13,042</u>	<u>700</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,850,471</u>
Subtotal .....	<u>46,616,052</u>	<u>3,022,470</u>	<u>700</u>	<u>—</u>	<u>—</u>	<u>5,101,111</u>	<u>54,740,333</u>
Net interest-bearing position .....	<u>(9,110,186)</u>	<u>1,434,626</u>	<u>10,188,767</u>	<u>10,801,211</u>	<u>3,586,296</u>	<u>13,573,889</u>	<u>30,474,603</u>

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**ACCOUNTANTS’ REPORT**

**Group**

As at 31 December 2013

	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>							
Advances to customers.....	1,405,136	3,588,708	15,496,810	—	—	—	20,490,654
Available-for-sale financial assets .....	634,362	1,207,485	3,488,229	7,042,540	4,839,896	4,391,404	21,603,916
Loan and receivable investments .....	—	—	50,000	270,566	—	—	320,566
Other receivables .....	—	—	25,000	—	—	1,491,389	1,516,389
Financial assets held under resale agreements .....	582,628	331,792	2,460,797	1,450,696	—	—	4,825,913
Financial assets at fair value through profit or loss .....	1,007,074	919,990	2,831,172	6,336,223	4,176,661	8,339,139	23,610,259
Derivative financial assets.....	—	—	—	—	—	57,384	57,384
Deposits with exchanges and non-bank financial institutions ....	827,035	—	—	—	—	1,754,648	2,581,683
Clearing settlement funds.....	5,656,267	—	—	—	—	—	5,656,267
Pledged and restricted bank deposits	629,514	—	—	—	—	—	629,514
Bank balances .....	29,752,051	1,070,600	551,000	—	—	460	31,374,111
Subtotal .....	40,494,067	7,118,575	24,903,008	15,100,025	9,016,557	16,034,424	112,666,656
<b>Financial liabilities</b>							
Borrowings .....	414,654	—	29,400	—	—	—	444,054
Short-term financing payables .....	—	9,044,455	—	—	—	—	9,044,455
Due to banks and other financial institutions .....	5,300,000	—	—	—	—	—	5,300,000
Accounts payable to brokerage clients .....	26,892,438	—	—	—	—	4,716,793	31,609,231
Other accounts payable, other payables and accruals .....	678,400	236,600	11,000	—	—	1,225,491	2,151,491
Other liabilities .....	—	—	349,715	—	—	20,231	369,946
Derivative financial liabilities .....	—	—	—	—	—	79,490	79,490
Financial assets sold under repurchase agreement .....	19,346,117	26,565	27,115	—	—	—	19,399,797
Bonds payable.....	—	—	—	2,995,156	8,984,584	—	11,979,740
Subtotal .....	52,631,609	9,307,620	417,230	2,995,156	8,984,584	6,042,005	80,378,204
Net interest-bearing position .....	(12,137,542)	(2,189,045)	24,485,778	12,104,869	31,973	9,992,419	32,288,452

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**Group**

	As at 31 December 2014						Total
	Less than 1 month	More than 1 but less than 3 months	More than 3 months but less than 1 year	More than 1 but less than 5 years	More than 5 years	Non interest- bearing	
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	
<b>Financial assets</b>							
Advances to customers.....	2,125,279	5,549,570	57,020,995	—	—	—	64,695,844
Available-for-sale financial assets .....	1,864,296	1,596,851	3,548,750	15,789,546	3,342,958	8,267,715	34,410,116
Loan and receivable investments .....	—	170,000	232,692	206,000	—	—	608,692
Financial assets held under resale agreements .....	5,822,295	808,220	5,170,175	431,864	—	—	12,232,554
Financial assets at fair value through profit and loss .....	92,819	2,127,746	3,178,206	8,115,268	4,937,101	8,485,522	26,936,662
Derivative financial assets.....	—	—	—	—	—	91,293	91,293
Deposits with exchanges and non-bank financial institutions ....	320,711	—	—	—	—	2,709,151	3,029,862
Due from banks .....	1,000,000	—	—	—	—	—	1,000,000
Clearing settlement funds.....	22,624,796	—	—	—	—	—	22,624,796
Pledged and restricted bank deposits	481,148	—	—	—	—	—	481,148
Bank balances .....	61,134,895	5,173,876	890,120	—	—	461	67,199,352
Subtotal .....	<u>95,466,239</u>	<u>15,426,263</u>	<u>70,040,938</u>	<u>24,542,678</u>	<u>8,280,059</u>	<u>19,554,142</u>	<u>233,310,319</u>
<b>Financial liabilities</b>							
Borrowings .....	1,285,907	—	—	—	—	—	1,285,907
Short-term financing payables .....	7,145,340	5,866,350	16,509,969	—	—	15,080	29,536,739
Due to banks and other financial institutions .....	800,000	323,000	—	—	—	—	1,123,000
Accounts payable to brokerage clients .....	64,352,487	—	—	—	—	7,113,076	71,465,563
Other accounts payable, other payables and accruals .....	—	—	—	—	—	2,714,123	2,714,123
Other liabilities .....	3,217,154	200,004	67,141	—	—	799,012	4,283,311
Derivative financial liabilities .....	—	—	—	—	—	87,304	87,304
Financial assets sold under repurchase agreement .....	26,249,232	7,453,254	17,015,240	4,050,000	—	—	54,767,726
Bonds payable.....	—	—	—	17,044,450	8,986,214	—	26,030,664
Long-term loans.....	—	—	—	3,000,000	—	—	3,000,000
Subtotal .....	<u>103,050,120</u>	<u>13,842,608</u>	<u>33,592,350</u>	<u>24,094,450</u>	<u>8,986,214</u>	<u>10,728,595</u>	<u>194,294,337</u>
Net interest-bearing position .....	<u>(7,583,881)</u>	<u>1,583,655</u>	<u>36,448,588</u>	<u>448,228</u>	<u>(706,155)</u>	<u>8,825,547</u>	<u>39,015,982</u>

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**ACCOUNTANTS’ REPORT**

**Company**

As at 31 December 2012

	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>							
Advances to customers.....	167,384	894,826	3,919,836	—	—	—	4,982,046
Amounts due from subsidiaries .....	—	—	—	—	—	525,230	525,230
Available-for-sale financial assets .....	—	—	1,566,887	5,359,996	1,403,932	2,379,884	10,710,699
Financial assets held under resale agreements .....	11,663	5,605	56,947	—	—	—	74,215
Financial assets at fair value through profit or loss .....	135,254	375,665	1,742,483	4,921,213	1,938,833	11,428,993	20,542,441
Derivative financial assets.....	—	—	—	—	—	107	107
Deposits with exchanges and non-bank financial institutions.....	517,562	—	—	—	—	—	517,562
Clearing settlement funds.....	4,378,244	—	—	—	—	—	4,378,244
Pledged and restricted bank deposits .	80,000	—	—	—	—	—	80,000
Bank balances .....	26,580,551	2,931,000	2,255,000	—	—	329	31,766,880
Subtotal .....	31,870,658	4,207,096	9,541,153	10,281,209	3,342,765	14,334,543	73,577,424
<b>Financial liabilities</b>							
Short-term financing payables .....	4,537,000	3,009,428	—	—	—	—	7,546,428
Due to banks and other financial institutions .....	3,340,000	—	—	—	—	—	3,340,000
Accounts payable to brokerage clients .....	28,855,229	—	—	—	—	—	28,855,229
Amount due to subsidiaries .....	101,498	—	—	—	—	—	101,498
Derivative financial liabilities .....	—	—	—	—	—	123	123
Financial assets sold under repurchase agreements .....	8,836,729	13,042	700	—	—	—	8,850,471
Subtotal .....	45,670,456	3,022,470	700	—	—	123	48,693,749
Net interest-bearing position .....	(13,799,798)	1,184,626	9,540,453	10,281,209	3,342,765	14,334,420	24,883,675

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**ACCOUNTANTS’ REPORT**

**Company**

As at 31 December 2013

	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non interest- bearing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial assets</b>							
Advances to customers.....	668,070	3,588,708	15,496,810	—	—	—	19,753,588
Amounts due from subsidiaries .....	—	—	—	—	—	752,654	752,654
Available-for-sale financial assets .....	634,362	1,037,485	3,458,229	7,025,540	4,839,896	1,971,118	18,966,630
Financial assets held under resale agreements .....	466,620	331,792	2,460,797	1,450,696	—	—	4,709,905
Financial assets at fair value through profit or loss .....	1,007,074	883,784	2,816,529	6,285,461	4,041,565	7,518,278	22,552,691
Derivative financial assets.....	—	—	—	—	—	57,383	57,383
Deposits with exchanges and non-bank financial institutions.....	127,348	—	—	—	—	—	127,348
Clearing settlement funds.....	4,904,674	—	—	—	—	—	4,904,674
Pledged and restricted bank deposits .	100,000	—	—	—	—	—	100,000
Bank balances .....	25,312,290	820,600	61,000	—	—	373	26,194,263
Subtotal .....	<u>33,220,438</u>	<u>6,662,369</u>	<u>24,293,365</u>	<u>14,761,697</u>	<u>8,881,461</u>	<u>10,299,806</u>	<u>98,119,136</u>
<b>Financial liabilities</b>							
Short-term financing payables .....	—	9,044,455	—	—	—	—	9,044,455
Due to banks and other financial institutions .....	5,300,000	—	—	—	—	—	5,300,000
Accounts payable to brokerage clients .....	25,705,946	—	—	—	—	—	25,705,946
Other accounts payable, other payables and accruals .....	678,400	236,600	11,000	—	—	1,099,188	2,025,188
Derivative financial liabilities .....	—	—	—	—	—	79,490	79,490
Financial assets sold under repurchase agreements .....	19,346,117	26,565	27,115	—	—	—	19,399,797
Bonds payable.....	—	—	—	2,995,156	8,984,584	—	11,979,740
Subtotal .....	<u>51,030,463</u>	<u>9,307,620</u>	<u>38,115</u>	<u>2,995,156</u>	<u>8,984,584</u>	<u>1,178,678</u>	<u>73,534,616</u>
Net interest-bearing position .....	<u>(17,810,025)</u>	<u>(2,645,251)</u>	<u>24,255,250</u>	<u>11,766,541</u>	<u>(103,123)</u>	<u>9,121,128</u>	<u>24,584,520</u>

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**ACCOUNTANTS’ REPORT**

**Company**

As at 31 December 2014

	Less than 1 month	More than 1 but less than 3 months	More than 3 months but less than 1 year	More than 1 but less than 5 years	More than 5 years	Non interest- bearing	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>							
Advances to customers.....	1,084,661	5,549,570	57,020,995	—	—	—	63,655,226
Amounts due from subsidiaries .....	—	—	—	—	—	331,473	331,473
Available-for-sale financial assets .....	1,637,495	1,536,851	3,431,755	15,729,546	3,342,958	3,664,370	29,342,975
Financial assets held under resale agreements .....	5,370,695	808,220	5,170,175	431,864	—	—	11,780,954
Financial assets at fair value through profit and loss .....	92,819	2,119,782	3,082,052	7,044,791	1,929,571	6,765,111	21,034,126
Derivative financial assets.....	—	—	—	—	—	91,293	91,293
Deposits with exchanges and non-bank financial institutions.....	268,504	—	—	—	—	—	268,504
Due from banks .....	1,000,000	—	—	—	—	—	1,000,000
Clearing settlement funds.....	21,487,640	—	—	—	—	—	21,487,640
Pledged and restricted bank deposits.	82,000	—	—	—	—	—	82,000
Bank balances .....	57,156,902	2,700,000	—	—	—	329	59,857,231
Subtotal .....	88,180,716	12,714,423	68,704,977	23,206,201	5,272,529	10,852,576	208,931,422
<b>Financial liabilities</b>							
Short-term financing payables .....	7,145,340	5,866,350	16,509,969	—	—	15,080	29,536,739
Due to banks and other financial institutions .....	800,000	323,000	—	—	—	—	1,123,000
Accounts payable to brokerage clients .....	63,928,591	—	—	—	—	—	63,928,591
Other accounts payable, other payables and accruals .....	—	—	—	—	—	2,264,921	2,264,921
Amount due to subsidiaries .....	4,327	—	—	—	—	—	4,327
Derivative financial liabilities .....	—	—	—	—	—	87,218	87,218
Financial assets sold under repurchase agreements .....	25,466,642	7,453,254	17,015,240	4,050,000	—	—	53,985,136
Bonds payable.....	—	—	—	17,044,450	8,986,214	—	26,030,664
Long-term loans.....	—	—	—	3,000,000	—	—	3,000,000
Subtotal .....	97,344,900	13,642,604	33,525,209	24,094,450	8,986,214	2,367,219	179,960,596
Net interest-bearing position .....	(9,164,184)	(928,181)	35,179,768	(888,249)	(3,713,685)	8,485,357	28,970,826

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**ACCOUNTANTS’ REPORT**

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing assets and liabilities. The analysis is prepared assuming interest-bearing assets and liabilities outstanding at the end of respective reporting period were outstanding for the whole year. When reporting to the management on the interest rate risk, a 100 basis points increase or decrease in the relevant interest rates will be adopted for sensitivity analysis, assuming all other variables were held constant, which represents a reasonably possible change in interest rates. A positive number below indicates an increase in profit before income tax and other comprehensive income before income tax or vice versa.

**Group**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Profit before income tax for the year</b>			
Increase by 100bps .....	(37,143)	(42,738)	77,200
Decrease by 100bps .....	37,143	42,738	(77,200)

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Other comprehensive income before income tax</b>			
Increase by 100bps .....	(155,880)	(367,124)	(448,197)
Decrease by 100bps .....	179,614	402,961	471,123

**Company**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Profit before income tax for the year</b>			
Increase by 100bps .....	(86,599)	(101,766)	36,366
Decrease by 100bps .....	86,599	101,766	(36,366)

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**ACCOUNTANTS’ REPORT**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Other comprehensive income before income tax</b>			
Increase by 100bps .....	(155,472)	(366,844)	(448,055)
Decrease by 100bps .....	179,192	402,673	470,979

**Currency risk**

Currency risk refers to the unfavourable volatilities of the Group’s financial condition and cash flows due to the fluctuation of the foreign exchange rates. Except for overseas subsidiaries which hold financial assets that are denominated in foreign currencies different from the relevant Group entity’s functional currency, the Group only holds a small amount of foreign currency denominated investment. The management considers the foreign exchange rate risk of the Group is not material as the ratio of the Group’s foreign currency assets and liabilities is minimal.

**Price risk**

Price risk is primarily about the unfavourable changes of share price, financial derivative instruments prices and commodity price that cause financial loss during the Group’s on-balance and off-balance business. Quantitatively, price risk the Group facing is mainly the proportionate fluctuation in the Group’s profits due to the price fluctuation of the trading financial instrument and the proportionate fluctuation in the Group’s equity due to the price fluctuation of the available-for-sale financial instrument. Other than daily monitoring the investment position, trading and earnings indicators, the Group mainly uses VaR, risk sensitivity indicators, stress testing indicators calculated by Risk Management Department in daily risk monitoring.

**Sensitivity analysis**

The analysis below is performed to show the impact on profit before income tax and other comprehensive income before income tax due to change in the prices of equity securities, funds, derivatives and collective asset management schemes by 10% with all other variables held constant. A positive number below indicates an increase in profit before income tax and other comprehensive income before income tax or vice versa.



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**Group**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Profit before income tax for the year</b>			
Increase by 10% .....	868,706	318,118	559,931
Decrease by 10% .....	(868,706)	(318,118)	(559,535)

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Other comprehensive income before income tax</b>			
Increase by 10% .....	354,818	310,717	650,918
Decrease by 10% .....	(354,818)	(310,717)	(650,918)

**Company**

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Profit before income tax for the year</b>			
Increase by 10% .....	818,679	240,576	390,099
Decrease by 10% .....	(818,679)	(240,576)	(389,703)

	Year ended 31 December		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
<b>Other comprehensive income before income tax</b>			
Increase by 10% .....	237,988	197,112	366,437
Decrease by 10% .....	(237,988)	(197,112)	(366,437)

#### **66.4 Liquidity risk**

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting obligations associated with financial liabilities due to shortages of capital or funds. During the normal course of business, the Group and the Company may face liquidity risk caused by macroeconomic policy change, market fluctuation, poor operations, credit downgrades, mismatch of assets and liabilities, low turnover rate of assets, early redemption of exchange-quoted bond repurchase product by customers, large underwriting on a firm commitment basis, significant proprietary trading position, or high ratio of long term investment. If the Group and the Company fail to address any liquidity risk by adjusting the asset structure, the consequences of such non-compliance with regulatory requirements on risk indicators could be costly. The regulatory body could penalise the Group and the Company by imposing restrictions on the Group’s and the Company’s business operation. In severe cases, the Group and the Company could lose one or more business qualifications, leading an adverse impact on the Group’s and the Company’s operation and reputation.

As at 31 December 2012, 2013 and 2014, cash and bank deposits held by the Group amounting to RMB35.92 billion, RMB30.74 billion and RMB67.67 billion, respectively; and financial assets such as monetary funds, government bonds and short-term financing bills amounting to RMB9.23 billion, RMB7.05 billion and RMB5.00 billion, respectively, providing a strong capability of quick liquidation to meet foreseeable financing commitments or clients’ withdrawal demands on maturity. Therefore, the Group considers the exposure to liquidity risk as insignificant.

To address liquidity risk, the Group and the Company have set up a dynamic risk monitoring system with net asset as a core index according to relevant regulations. The Group and the Company generate sensitivity analysis periodically and stress test using the information system and the data processing system. The systems have been launched and in a long-term smooth operation. It could furnish liquidity risk with relevant quantitative analysis and develop a powerful guidance and support for operations and activities. The Risk Management Department under the Group is responsible for monitoring all kinds of business operation risks. The Group sets up the funds management department, which works together with the Risk Management Department to take actions such as credit lending or temporary investments, scenario analysis, stress test, monitoring liquidity coverage ratio and net stable funding ratio for controlling the overall liquidity risk. The decision of massive fund allocation and operation shall be made collectively by the asset allocation committee and the risk control committee. The Group and the Company use concentration control, trading limit control and monitoring the market liquidity of financial instruments held by Group to address the liquidity risk of financial instruments. In order to meet the regulatory requirements, the Group and the Company have set up a multi-level, omni-directional and information-based management system to monitor and control the overall liquidity risk.

#### **Undiscounted cash flows by contractual maturities**

The tables below present the cash flows payable by the Group and the Company within the remaining contractual maturities at the end of respective reporting period. The amounts disclosed in the tables are the contractual undiscounted cash flows. The tables include both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate at the end of respective reporting period.

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*As at 31 December 2012*

		Total					
	On demand	Less than 3 months	3 months to 1 year	1 year to 5 years	5 years and above	undiscounted cash flow	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Borrowings .....	246,068	—	—	—	—	246,068	246,013
Short-term financing payables .....	—	7,575,378	—	—	—	7,575,378	7,546,428
Due to banks and other financial institutions .....	—	3,342,408	—	—	—	3,342,408	3,340,000
Accounts payable to brokerage clients .....	34,287,577	—	—	—	—	34,287,577	34,287,577
Other financial liabilities .....	269,413	26,283	35,042	40,000	—	370,738	370,738
Other liabilities .....	469,635	—	—	—	—	469,635	469,635
Financial assets sold under repurchase agreements .....	—	8,859,551	705	—	—	8,860,256	8,850,471
	<u>35,272,693</u>	<u>19,803,620</u>	<u>35,747</u>	<u>40,000</u>	<u>—</u>	<u>55,152,060</u>	<u>55,110,862</u>
Derivative financial liabilities .....	<u>86</u>	<u>110</u>	<u>19</u>	<u>—</u>	<u>—</u>	<u>215</u>	<u>209</u>

*As at 31 December 2013*

		Total					
	On demand	Less than 3 months	3 months to 1 year	1 year to 5 years	5 years and above	undiscounted cash flow	Carrying amount
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Borrowings .....	414,756	—	30,277	—	—	445,033	444,054
Short-term financing payables .....	—	9,139,685	—	—	—	9,139,685	9,044,455
Due to banks and other financial institutions .....	—	5,303,013	—	—	—	5,303,013	5,300,000
Accounts payable to brokerage clients .....	31,609,231	—	—	—	—	31,609,231	31,609,231
Other financial liabilities .....	562,390	951,905	62,174	40,000	—	1,616,469	1,610,329
Other liabilities .....	20,231	—	349,715	—	—	369,946	369,946
Financial assets sold under repurchase agreement .....	—	19,416,440	27,952	—	—	19,444,392	19,399,797
Bonds payable .....	—	—	597,750	5,391,000	11,295,000	17,283,750	11,979,740
	<u>32,606,608</u>	<u>34,811,043</u>	<u>1,067,868</u>	<u>5,431,000</u>	<u>11,295,000</u>	<u>85,211,519</u>	<u>79,757,552</u>
Derivative financial liabilities .....	<u>—</u>	<u>10,956</u>	<u>28,038</u>	<u>82,582</u>	<u>—</u>	<u>121,576</u>	<u>79,490</u>

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	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>5 years and above</b>	<b>Total undiscounted cash flow</b>	<b>Carrying amount</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Borrowings .....	—	1,287,672	—	—	—	1,287,672	1,285,907
Short-term financing payables .....	—	13,173,359	16,963,410	—	—	30,136,769	29,536,739
Due to banks and other financial institutions .....	—	1,133,111	—	—	—	1,133,111	1,123,000
Accounts payable to brokerage clients .....	71,465,563	—	—	—	—	71,465,563	71,465,563
Other financial liabilities .....	1,206,386	167,953	75,984	40,000	—	1,490,323	1,490,323
Other liabilities .....	764,409	3,451,761	67,141	—	—	4,283,311	4,283,311
Financial assets sold under repurchase agreement .....	—	33,896,465	17,811,744	4,426,692	—	56,134,901	54,767,726
Bonds payable.....	—	—	1,317,750	21,728,817	10,836,000	33,882,567	26,030,664
Long-term loans.....	—	51,781	158,219	3,373,205	—	3,583,205	3,000,000
	<u>73,436,358</u>	<u>53,162,102</u>	<u>36,394,248</u>	<u>29,568,714</u>	<u>10,836,000</u>	<u>203,397,422</u>	<u>192,983,233</u>
Derivative financial liabilities .....	<u>86</u>	<u>50,151</u>	<u>12,751</u>	<u>44,068</u>	<u>—</u>	<u>107,056</u>	<u>87,304</u>

**Company**

*As at 31 December 2012*

	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>5 years and above</b>	<b>Total undiscounted cash flow</b>	<b>Carrying amount</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Short-term financing payables .....	—	7,575,378	—	—	—	7,575,378	7,546,428
Due to banks and other financial institutions .....	—	3,342,408	—	—	—	3,342,408	3,340,000
Accounts payable to brokerage clients .....	28,855,229	—	—	—	—	28,855,229	28,855,229
Other financial liabilities .....	192,045	13,303	30,813	40,000	—	276,161	276,161
Amounts due to subsidiaries.....	101,498	—	—	—	—	101,498	101,498
Financial assets sold under repurchase agreements .....	—	8,859,551	705	—	—	8,860,256	8,850,471
	<u>29,148,772</u>	<u>19,790,640</u>	<u>31,518</u>	<u>40,000</u>	<u>—</u>	<u>49,010,930</u>	<u>48,969,787</u>
Derivative financial liabilities .....	<u>—</u>	<u>110</u>	<u>19</u>	<u>—</u>	<u>—</u>	<u>129</u>	<u>123</u>

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	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>5 years and above</b>	<b>Total undiscounted cash flow</b>	<b>Carrying amount</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Short-term financing payables .....	—	9,139,685	—	—	—	9,139,685	9,044,455
Due to banks and other financial institutions .....	—	5,303,013	—	—	—	5,303,013	5,300,000
Accounts payable to brokerage clients .....	25,705,946	—	—	—	—	25,705,946	25,705,946
Other financial liabilities .....	476,733	939,233	41,856	40,000	—	1,497,822	1,491,682
Financial assets sold under repurchase agreements .....	—	19,416,440	27,952	—	—	19,444,392	19,399,797
Bonds payable.....	—	—	597,750	5,391,000	11,295,000	17,283,750	11,979,740
	<u>26,182,679</u>	<u>34,798,371</u>	<u>667,558</u>	<u>5,431,000</u>	<u>11,295,000</u>	<u>78,374,608</u>	<u>72,921,620</u>
Derivative financial liabilities .....	—	10,956	28,038	82,582	—	121,576	79,490

*As at 31 December 2014*

	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 year to 5 years</b>	<b>5 years and above</b>	<b>Total undiscounted cash flow</b>	<b>Carrying amount</b>
	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>	<b>RMB’000</b>
Short-term financing payables .....	—	13,173,359	16,963,410	—	—	30,136,769	29,536,739
Due to banks and other financial institutions .....	—	1,133,111	—	—	—	1,133,111	1,123,000
Accounts payable to brokerage clients .....	63,928,591	—	—	—	—	63,928,591	63,928,591
Other financial liabilities .....	972,884	35,135	74,165	40,000	—	1,122,184	1,122,184
Amount due to subsidiaries .....	4,327	—	—	—	—	4,327	4,327
Financial assets sold under repurchase agreement .....	—	33,113,697	17,811,744	4,426,692	—	55,352,133	53,985,136
Bonds payable.....	—	—	1,317,750	21,728,817	10,836,000	33,882,567	26,030,664
Long-term loans.....	—	51,781	158,219	3,373,205	—	3,583,205	3,000,000
	<u>64,905,802</u>	<u>47,507,083</u>	<u>36,325,288</u>	<u>29,568,714</u>	<u>10,836,000</u>	<u>189,142,887</u>	<u>178,730,641</u>
Derivative financial liabilities .....	—	50,151	12,751	44,068	—	106,970	87,218

### 66.5 Capital management

The Group’s and the Company’s objectives of capital management are:

- To safeguard the Group’s and the Company’s ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group’s and the Company’s stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC and Hong Kong regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the “Administrative Measures”) issued by the CSRC, the Company is required to meet the following standards for risk indicators on a continual basis:

1. The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% (“Ratio 1”);
2. The ratio of net capital divided by net assets shall be no less than 40% (“Ratio 2”);
3. The ratio of net capital divided by liabilities shall be no less than 8% (“Ratio 3”);
4. The ratio of net assets divided by liabilities shall be no less than 20% (“Ratio 4”);
5. The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% (“Ratio 5”); and
6. The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% (“Ratio 6”).

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

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As at 31 December 2012, 2013 and 2014, the Company maintained the above ratios as follows:

	As at 31 December		
	2012	2013	2014
Net capital (RMB’000).....	21,726,901	20,704,767	32,664,124
Ratio 1.....	1,043%	697%	816%
Ratio 2.....	68%	62%	87%
Ratio 3.....	101%	42%	27%
Ratio 4.....	148%	67%	31%
Ratio 5.....	38%	62%	43%
Ratio 6.....	109%	159%	123%

The above ratios are calculated based on the underlying financial information prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the PRC.

Certain subsidiaries of the Company are also subject to capital requirements under the PRC and Hong Kong regulations, imposed by the CSRC and the Hong Kong Securities and Futures Commission, respectively.

The capital of the Group mainly comprises its total equity.

**67. FAIR VALUE OF FINANCIAL INSTRUMENTS**

For financial reporting purposes, fair value measurements are categorised in to Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities than the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs are unobservable inputs for the asset or liability.

**Fair value of the financial assets and financial liabilities that are not measured on a recurring basis**

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis approximate their fair values as at 31 December 2012, 2013 and 2014.

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**Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following tables give information about how the fair values of these financial assets and financial liabilities are determined including their fair value hierarchy, valuation technique(s) and key inputs use.

**Group**

Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB'000	RMB'000	RMB'000				
<b>1) Financial assets at fair value through profit or loss</b>							
Debt securities							
- Traded on stock exchanges..	3,391,261	5,098,847	6,168,987	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on stock exchanges (inactive).....	1,033,342	642,759	777,795	level 2	Recent transaction prices.	N/A	N/A
- Traded on inter-bank market.....	5,425,334	9,529,514	11,493,427	level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
Equity securities							
- Traded on stock exchanges..	4,450,232	5,242,629	4,466,310	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on stock exchanges (inactive).....	—	—	86,726	level 2	Recent transaction prices.	N/A	N/A
- Traded on national equities exchange .....	—	—	53,544	level 2	Recent transaction prices.	N/A	N/A
Funds							
- Funds with quoted bid prices .....	7,358,327	3,076,756	1,725,876	level 1	Quoted bid prices in an active market.	N/A	N/A
- Other funds.....	111,499	—	—	level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Other investments							
- Collective asset management schemes issued by financial institutions .....	17,565	—	—	level 1	Calculated based on the fair value of the underlying investments which are publicly traded equity investments listed in the PRC in each portfolio.	N/A	N/A



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Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB'000	RMB'000	RMB'000				
- Collective asset management schemes issued by financial institutions .....	—	19,754	33,202	level 2	Calculated based on the fair value of the underlying investments which are debt securities (included listed in exchanges and listed in Interbank Bond Market) in each portfolio.	N/A	N/A
- Collective asset management schemes issued by financial institutions .....	—	—	11,952	Level 3	Calculated based on the fair value of the underlying investments which mainly invest in loan and the fair value of loan and receivables is determined with an adjustment of discount of lack of marketability and the loan interest rate under the same conditions.	Discount for lack of marketability	The higher the discount, the lower the fair value.
- Other asset management products/ wealth management products .....	—	—	2,118,843	level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation the higher the fair value.
	<u>21,787,560</u>	<u>23,610,259</u>	<u>26,936,662</u>				
<b>2) Available-for-sale financial assets</b>							
<b>Debt securities</b>							
- Traded on stock exchanges..	4,066,376	7,052,746	7,081,836	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on stock exchanges (inactive)	337,000	1,145,400	520,395	level 2	Recent transaction prices.	N/A	N/A
-Traded on inter-bank market.	3,444,055	6,708,194	15,519,723	level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
<b>Equity securities</b>							
- Traded on stock exchanges..	2,378,769	1,850,965	3,261,184	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on stock exchanges (inactive)	—	—	16,524	level 2	Recent transaction prices.	N/A	N/A
- Restricted shares .....	613,269	378,896	510,410	level 3	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Discount for lack of marketability.	The higher the discount, the lower the fair value.

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Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB'000	RMB'000	RMB'000				
Funds with quoted bid prices .....	357,591	214,174	1,946,121	level 1	Quoted bid prices in an active market.	N/A	N/A
Other investments							
- Collective asset management schemes issued by financial institutions .....	14,196	160,341	—	level 1	Calculated based on the fair value of the underlying investments which are publicly traded equity investments listed in the PRC in each portfolio.	N/A	N/A
- Wealth management products issued by banks .	—	—	11,000	level 1	Quoted bid prices in an active market.	N/A	N/A
- Collective asset management schemes issued by financial institutions .....	184,356	484,851	744,031	level 2	Calculated based on the fair value of the underlying investments which are debt securities (included listed in exchanges and listed in Interbank Bond Market) in each portfolio.	N/A	N/A
- Trading seats.....	—	—	8,138	level 2	Recent transaction prices.	N/A	N/A
- Collective asset management schemes issued by financial institutions .....	—	17,943	182,773	level 3	Calculated based on the fair value of the underlying investments which mainly invest in loan and receivables and the fair value of loan and receivables is determined with an adjustment of discount for lack of marketability and the loan interest rate under the same conditions.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
- Other asset management products/ wealth management products .....	703,743	2,306,173	2,849,446	level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation the higher the fair value.
	<u>12,099,355</u>	<u>20,319,683</u>	<u>32,651,581</u>				
<b>3) Derivative financial instruments</b>							
Equity return swaps - assets .....	—	10	6,614	level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A

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Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB’000	RMB’000	RMB’000				
Equity return swaps - liabilities..	—	(10)	(12,107)	level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
Structured notes - liabilities.....	—	—	(65)	level 2	Calculated based on the interest expense of underlying stock indexes from stock exchanges in the PRC.	N/A	N/A
Interest rate swaps - assets .....	107	57,373	51,597	level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Interest rate swaps - liabilities....	(123)	(79,480)	(42,099)	level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Interest rate swaps - assets .....	—	—	33,082	level 1	Quoted bid prices in an active market.	N/A	N/A
Interest rate swaps - liabilities....	—	—	(32,947)	level 1	Quoted bid prices in an active market.	N/A	N/A
Stock index futures - assets .....	—	1	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Stock index futures - liabilities...	(86)	—	(86)	Level 1	Quoted bid prices in an active market.	N/A	N/A

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**ACCOUNTANTS’ REPORT**

Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB’000	RMB’000	RMB’000				
Treasury bond futures .....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Gold futures .....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Good futures.....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
<b>4) Designated at fair value through profit or loss</b>							
Investment in an associate .....	—	—	59,840	level 3	Recent transaction prices.	Long-term revenue growth Weighted Average Cost of Capital	The higher the long-term revenue growth, the higher the value; The higher the Weighted Average Cost of Capital, the lower the value.

**Company**

Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB’000	RMB’000	RMB’000				
<b>1) Financial assets at fair value through profit or loss</b>							
Debt securities							
- Traded on stock exchanges..	3,391,261	4,993,256	2,682,424	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on stock exchanges (inactive) .....	296,853	511,644	82,232	level 2	Recent transaction prices.	N/A	N/A
- Traded on inter-bank market .....	5,425,334	9,529,514	11,493,427	level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
Equity securities							
- Traded on stock exchanges..	4,348,538	5,126,709	3,501,029	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on national equities exchange .....	—	—	53,544	level 2	Recent transaction prices.	N/A	N/A
Funds with quoted bid prices .....	7,080,455	2,391,568	1,081,685	level 1	Quoted bid prices in an active market.	N/A	N/A

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Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB'000	RMB'000	RMB'000				
<b>Other investments</b>							
- Collective asset management schemes issued by financial institutions .....	—	—	8,990	level 2	Calculated based on the fair value of the underlying investments which are debt securities (included listed in exchanges and listed in Interbank Bond Market) in each portfolio.	N/A	N/A
- Collective asset management schemes issued by financial institutions .....	—	—	11,952	Level 3	Calculated based on the fair value of the underlying investments which mainly invest in loan and the fair value of loan and receivables is determined with an adjustment of discount of lack of marketability and the loan interest rate under the same conditions.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
- Other asset management products/ wealth management products .....	—	—	2,118,843	level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation the higher the fair value.
	<u>20,542,441</u>	<u>22,552,691</u>	<u>21,034,126</u>				
<b>2) Available-for-sale financial assets</b>							
<b>Debt securities</b>							
- Traded on stock exchanges..	4,066,376	7,052,746	7,081,836	level 1	Quoted bid prices in an active market.	N/A	N/A
- Traded on stock exchanges (inactive).....	320,000	1,128,400	503,400	level 2	Recent transaction prices.	N/A	N/A
- Traded on inter-bank market.....	3,444,055	6,708,194	15,519,723	level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
<b>Equity securities</b>							
- Traded on stock exchanges..	1,823,740	1,281,438	2,607,798	level 1	Quoted bid prices in an active market.	N/A	N/A
- Restricted shares.....	—	29,832	—	level 3	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an underlying investment portfolio and adjustments of discount for lack of marketability.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
Funds with quoted bid prices .....	357,591	214,174	502,433	level 1	Quoted bid prices in an active market.	N/A	N/A

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**ACCOUNTANTS’ REPORT**

Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB’000	RMB’000	RMB’000				
Other investments							
- Collective asset management schemes issued by financial institutions .....	14,196	160,341	—	level 1	Calculated based on the fair value of the underlying investments which are publicly traded equity investments listed in the PRC in each portfolio.	N/A	N/A
- Collective asset management schemes issued by financial institutions .....	184,356	267,389	533,421	level 2	Calculated based on the fair value of the underlying investments which are debt securities (included listed in exchanges and listed in Interbank Bond Market) in each portfolio.	N/A	N/A
- Collective asset management schemes issued by financial institutions .....	—	17,943	20,718	level 3	Calculated based on the fair value of the underlying investments which mainly invest in loan and receivables and the fair value of loan and receivables is determined with an adjustment of discount for lack of marketability and the loan interest rate under the same conditions.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
- Other asset management products/ wealth management products .....	500,384	2,106,173	2,573,646	level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
	<u>10,710,698</u>	<u>18,966,630</u>	<u>29,342,975</u>				

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Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB’000	RMB’000	RMB’000				
<b>3) Derivative financial instruments</b>							
Equity return swaps - assets .....	—	10	6,614	level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
Equity return swaps - liabilities ..	—	(10)	(12,107)	level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
Structured notes - liabilities.....	—	—	(65)	level 2	Calculated based on the interest expense of underlying stock indexes from stock exchanges in the PRC.	N/A	N/A
Interest rate swaps - assets .....	107	57,373	51,597	level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Interest rate swaps - liabilities....	(123)	(79,480)	(42,099)	level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Interest rate swaps - assets .....	—	—	33,082	level 1	Quoted bid prices in an active market.	N/A	N/A
Interest rate swaps - liabilities....	—	—	(32,947)	level 1	Quoted bid prices in an active market.	N/A	N/A

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Financial assets/ financial liabilities	Fair value as at 31 December			Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input to fair value
	2012	2013	2014				
	RMB’000	RMB’000	RMB’000				
Stock index futures - assets .....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Stock index futures - liabilities .	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Treasury bond futures .....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Gold futures .....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A
Good futures.....	—	—	—	level 1	Quoted bid prices in an active market.	N/A	N/A

*Note:* Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group and Company’s position in certain stock index futures, treasury bond futures and gold futures were settled daily and the corresponding receipts and payments were included in “clearing settlement funds” as at 31 December 2012, 2013 and 2014. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

There were no significant transfers between Level 1 and 2 during the Relevant Periods.



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**ACCOUNTANTS’ REPORT**

**Group**

*As at 31 December 2012*

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>				
Available-for-sale financial assets				
- Debt securities.....	4,066,376	3,781,055	—	7,847,431
- Equity investments.....	2,378,769	—	613,269	2,992,038
- Funds .....	357,591	—	—	357,591
- Others .....	14,196	184,356	703,743	902,295
Financial assets at fair value through profit or loss				
- Debt securities.....	3,391,261	6,458,676	—	9,849,937
- Equity investments .....	4,450,232	—	—	4,450,232
- Funds .....	7,358,327	111,499	—	7,469,826
- Others .....	17,565	—	—	17,565
Derivative financial assets .....	—	107	—	107
Total .....	<u>22,034,317</u>	<u>10,535,693</u>	<u>1,317,012</u>	<u>33,887,022</u>
<b>Financial liabilities</b>				
Derivative financial liabilities ...	<u>86</u>	<u>123</u>	<u>—</u>	<u>209</u>

*As at 31 December 2013*

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>				
Available-for-sale financial assets				
- Debt securities.....	7,052,746	7,853,594	—	14,906,340
- Equity investments.....	1,850,965	—	378,896	2,229,861
- Funds .....	214,174	—	—	214,174
- Others .....	160,341	484,851	2,324,116	2,969,308
Financial assets at fair value through profit or loss				
- Debt securities.....	5,098,847	10,172,273	—	15,271,120
- Equity investments .....	5,242,629	—	—	5,242,629
- Funds .....	3,076,756	—	—	3,076,756
- Others .....	—	19,754	—	19,754
Derivative financial assets .....	1	57,383	—	57,384
Total .....	<u>22,696,459</u>	<u>18,587,855</u>	<u>2,703,012</u>	<u>43,987,326</u>
<b>Financial liabilities</b>				
Derivative financial liabilities ...	<u>—</u>	<u>79,490</u>	<u>—</u>	<u>79,490</u>

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*As at 31 December 2014*

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>				
Available-for-sale financial assets				
- Debt securities.....	7,081,836	16,040,118	—	23,121,954
- Equity investments.....	3,261,184	16,524	510,410	3,788,118
- Funds .....	1,946,121	—	—	1,946,121
- Others .....	11,000	752,169	3,032,219	3,795,388
Financial assets at fair value through profit or loss				
- Debt securities.....	6,168,987	12,271,222	—	18,440,209
- Equity investments .....	4,466,310	140,270	—	4,606,580
- Funds .....	1,725,876	—	—	1,725,876
- Others .....	—	33,202	2,130,795	2,163,997
Unlisted investment in an associate at fair value through profit or loss .....				
	—	—	59,840	59,840
Derivative financial assets .....	33,082	58,211	—	91,293
Total .....	<u>24,694,396</u>	<u>29,311,716</u>	<u>5,733,264</u>	<u>59,739,376</u>
<b>Financial liabilities</b>				
Derivative financial liabilities ...	<u>33,033</u>	<u>54,271</u>	<u>—</u>	<u>87,304</u>

**Company**

*As at 31 December 2012*

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>				
Available-for-sale financial assets				
- Debt securities.....	4,066,376	3,764,055	—	7,830,431
- Equity investments.....	1,823,740	—	—	1,823,740
- Funds .....	357,591	—	—	357,591
- Others .....	14,196	184,356	500,384	698,936
Financial assets at fair value through profit or loss				
- Debt securities.....	3,391,261	5,722,187	—	9,113,448
- Equity investments .....	4,348,538	—	—	4,348,538
- Funds .....	7,080,455	—	—	7,080,455
Derivative financial assets .....	—	107	—	107
Total .....	<u>21,082,157</u>	<u>9,670,705</u>	<u>500,384</u>	<u>31,253,246</u>
<b>Financial liabilities</b>				
Derivative financial liabilities ...	<u>—</u>	<u>123</u>	<u>—</u>	<u>123</u>

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**ACCOUNTANTS’ REPORT**

*As at 31 December 2013*

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>				
Available-for-sale financial assets				
- Debt securities.....	7,052,746	7,836,594	—	14,889,340
- Equity investments.....	1,281,438	—	29,832	1,311,270
- Funds .....	214,174	—	—	214,174
- Others .....	160,341	267,389	2,124,116	2,551,846
Financial assets at fair value through profit or loss				
- Debt securities.....	4,993,256	10,041,158	—	15,034,414
- Equity investments .....	5,126,709	—	—	5,126,709
- Funds .....	2,391,568	—	—	2,391,568
Derivative financial assets .....	—	57,383	—	57,383
Total .....	<u>21,220,232</u>	<u>18,202,524</u>	<u>2,153,948</u>	<u>41,576,704</u>
<b>Financial liabilities</b>				
Derivative financial liabilities ...	<u>—</u>	<u>79,490</u>	<u>—</u>	<u>79,490</u>

*As at 31 December 2014*

	Level 1	Level 2	Level 3	Total
	RMB’000	RMB’000	RMB’000	RMB’000
<b>Financial assets</b>				
Available-for-sale financial assets				
- Debt securities.....	7,081,836	16,023,123	—	23,104,959
- Equity investments.....	2,607,798	—	—	2,607,798
- Funds .....	502,433	—	—	502,433
- Others .....	—	533,421	2,594,364	3,127,785
Financial assets at fair value through profit or loss				
- Debt securities.....	2,682,424	11,575,659	—	14,258,083
- Equity investments .....	3,501,029	53,544	—	3,554,573
- Funds .....	1,081,685	—	—	1,081,685
- Others .....	—	8,990	2,130,795	2,139,785
Derivative financial assets .....	<u>33,082</u>	<u>58,211</u>	<u>—</u>	<u>91,293</u>
Total .....	<u>17,490,287</u>	<u>28,252,948</u>	<u>4,725,159</u>	<u>50,468,394</u>
<b>Financial liabilities</b>				
Derivative financial liabilities ...	<u>32,947</u>	<u>54,271</u>	<u>—</u>	<u>87,218</u>

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**ACCOUNTANTS’ REPORT**

**Reconciliation of Level 3 fair value measurements**

**Group**

	2012	2013	2014	
	Available-for-sale financial assets	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January.....	933,172	1,317,012	—	2,703,012
Total gains (losses)				
Profit or loss.....	—	—	88,822	—
Other comprehensive income...	335,052	93,655	—	124,812
Purchases.....	870,272	2,510,121	2,101,813	3,272,441
Settlements/disposal.....	(592,400)	(716,114)	—	(2,397,467)
Transfers out of level 3 .....	(229,084)	(501,662)	—	(160,169)
As at 31 December .....	<u>1,317,012</u>	<u>2,703,012</u>	<u>2,190,635</u>	<u>3,542,629</u>
Total gains for the year for assets held as at 31 December - included in investment income .....	<u>—</u>	<u>—</u>	<u>88,822</u>	<u>—</u>

**Company**

	2012	2013	2014	
	Available-for-sale financial assets	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Available-for-sale financial assets
	RMB’000	RMB’000	RMB’000	RMB’000
At 1 January.....	499,258	500,384	—	2,153,948
Total gains (losses)				
Profit or loss.....	—	—	88,822	—
Other comprehensive income...	384	30,927	—	34,876
Purchases.....	500,000	2,134,450	2,041,973	2,469,637
Settlements/disposal.....	(399,258)	(511,813)	—	(2,064,097)
Transfers out of level 3 .....	(100,000)	—	—	—
As at 31 December .....	<u>500,384</u>	<u>2,153,948</u>	<u>2,130,795</u>	<u>2,594,364</u>
Total gains for the year for assets held as at 31 December - included in investment income .....	<u>—</u>	<u>—</u>	<u>88,822</u>	<u>—</u>

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**ACCOUNTANTS’ REPORT**

The Group has a team headed by the finance manager performing valuations for the financial instruments, including unlisted available-for-sale equity securities which are categorised into Level 3 of the fair value hierarchy.

**68. MATURITY PROFILE OF ASSETS AND LIABILITIES**

An analysis of the maturity profile of certain assets and liabilities of the Group as at 31 December 2012, 2013 and 2014 based on the remaining contractual maturity is as follows:

*As at 31 December 2012*

	Repayable on demand	Less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Assets</b>					
Advances to customers .....	—	5,246,504	—	—	5,246,504
Financial assets held under resale agreements .....	—	74,215	—	—	74,215
Debt securities classified as: Available-for-sale financial assets .....	—	203,640	3,060,367	4,583,424	7,847,431
Financial assets at fair value through profit or loss .....	—	2,223,151	4,210,727	3,416,060	9,849,938
Deposits with exchanges and a non-bank financial institution .....	2,958,026	—	—	—	2,958,026
Clearing settlement funds .	5,018,165	—	—	—	5,018,165
Pledged and restricted bank deposits .....	461,829	—	—	—	461,829
Bank balances.....	<u>28,253,104</u>	<u>7,925,682</u>	<u>200,000</u>	<u>—</u>	<u>36,378,786</u>
	<u>36,691,124</u>	<u>15,673,192</u>	<u>7,471,094</u>	<u>7,999,484</u>	<u>67,834,894</u>
<b>Liabilities</b>					
Accounts payable to brokerage clients .....	34,287,577	—	—	—	34,287,577
Due to banks and other financial institutions ....	—	3,340,000	—	—	3,340,000
Short-term financing payables .....	—	7,546,428	—	—	7,546,428
Financial assets sold under repurchase agreements .....	—	8,850,471	—	—	8,850,471
Borrowings .....	<u>246,013</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>246,013</u>
	<u>34,533,590</u>	<u>19,736,899</u>	<u>—</u>	<u>—</u>	<u>54,270,489</u>

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*As at 31 December 2013*

	<u>Repayable on demand</u>	<u>Less than 1 year</u>	<u>More than 1 year but less than 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Assets</b>					
Advances to customers .....	—	20,490,654	—	—	20,490,654
Loan and receivable investments .....	—	50,000	270,566	—	320,566
Financial assets held under resale agreements .....	—	3,375,217	1,450,696	—	4,825,913
Debt securities classified as: Available-for-sale financial assets .....	—	1,986,470	6,257,632	6,662,238	14,906,340
Financial assets at fair value through profit or loss .....	—	3,633,303	6,435,017	5,202,800	15,271,120
Deposits with exchanges and a non-bank financial institution .....	2,581,683	—	—	—	2,581,683
Clearing settlement funds .	5,656,267	—	—	—	5,656,267
Pledged and restricted bank deposits .....	629,514	—	—	—	629,514
Bank balances.....	<u>27,136,663</u>	<u>4,237,448</u>	<u>—</u>	<u>—</u>	<u>31,374,111</u>
	<u>36,004,127</u>	<u>33,773,092</u>	<u>14,413,911</u>	<u>11,865,038</u>	<u>96,056,168</u>
<b>Liabilities</b>					
Bonds payable .....	—	—	2,995,156	8,984,584	11,979,740
Principals and deposits of equity return swap .....	—	926,000	—	—	926,000
Accounts payable to brokerage clients .....	31,609,231	—	—	—	31,609,231
Due to banks and other financial institutions ....	—	5,300,000	—	—	5,300,000
Short-term financing payables .....	—	9,044,455	—	—	9,044,455
Financial assets sold under repurchase agreements .....	—	19,399,797	—	—	19,399,797
Borrowings .....	<u>414,654</u>	<u>29,400</u>	<u>—</u>	<u>—</u>	<u>444,054</u>
	<u>32,023,885</u>	<u>34,699,652</u>	<u>2,995,156</u>	<u>8,984,584</u>	<u>78,703,277</u>

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*As at 31 December 2014*

	<u>Repayable on demand</u>	<u>Less than 1 year</u>	<u>More than 1 year but less than 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
<b>Assets</b>					
Advances to customers .....	1,040,619	63,655,225	—	—	64,695,844
Loan and receivable investments .....	—	402,692	206,000	—	608,692
Financial assets held under resale agreements .....	—	11,800,690	431,864	—	12,232,554
Debt securities classified as: Available-for-sale financial assets .....	—	3,394,879	13,349,069	6,378,006	23,121,954
Financial assets at fair value through profit or loss .....	—	4,208,042	8,953,945	5,278,222	18,440,209
Deposits with exchanges and a non-bank financial institution .....	3,029,862	—	—	—	3,029,862
Due from banks .....	—	1,000,000	—	—	1,000,000
Clearing settlement funds .	22,624,796	—	—	—	22,624,796
Pledged and restricted bank deposits .....	481,148	—	—	—	481,148
Bank balances.....	<u>52,739,232</u>	<u>14,460,120</u>	<u>—</u>	<u>—</u>	<u>67,199,352</u>
	<u>79,915,657</u>	<u>98,921,648</u>	<u>22,940,878</u>	<u>11,656,228</u>	<u>213,434,411</u>
<b>Liabilities</b>					
Bonds payable .....	—	—	17,044,450	8,986,214	26,030,664
Long-term loan .....	—	—	3,000,000	—	3,000,000
Principals and deposits of equity return swap .....	—	74,171	—	—	74,171
Accounts payable to brokerage clients .....	71,465,563	—	—	—	71,465,563
Due to banks and other financial institutions.....	—	1,123,000	—	—	1,123,000
Short-term financing payables .....	—	29,536,739	—	—	29,536,739
Financial assets sold under repurchase agreements .....	—	50,717,726	4,050,000	—	54,767,726
Borrowing .....	—	<u>1,285,907</u>	<u>—</u>	<u>—</u>	<u>1,285,907</u>
	<u>71,465,563</u>	<u>82,737,543</u>	<u>24,094,450</u>	<u>8,986,214</u>	<u>187,283,770</u>

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**APPENDIX I****ACCOUNTANTS' REPORT**

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**69. OUTSTANDING LITIGATIONS**

As at 31 December 2012, 2013 and 2014, the Group involved as defendant in certain lawsuit with claim amounts of approximately RMB0.1 million, RMB10.4 million and RMB9.4 million, respectively. Based on the court rulings, advices from legal representatives and management judgement, no provision had been made to the claim amounts. The directors of the Company are of the opinion the final court judgment will not have a significant impact on the Group's financial position or operations.

**H. SUBSEQUENT EVENTS**

1. On 30 January 2015, the Company issued the first tranche of 3-year subordinated bonds in 2015 for a face value of RMB3 billion, the subordinated bonds carry coupon rate of 5.55% per annum, and the issuer can choose whether to redeem at face value at the end of the first year. On 9 March 2015, the Company issued RMB3 billion face value of 365-day 5.30% unsecured securities-firm short-term corporate bonds.
2. Pursuant to the resolution of the shareholders meeting held on 9 March 2015, the Company declared cash dividends of RMB2.00 for every 10 shares (tax included) based on 5.92 billion shares held amounting to RMB1.18 billion in total for the year ended 31 December 2014.
3. As per the renewed business license issued in February 2015, the Company expands the business scope to market-making of stock option.

**I. DIRECTORS' AND SUPERVISORS' EMOLUMENTS**

Save as disclosed in this report, no other payments have been paid or are payable in respect of the Relevant Periods by the Company or any of its subsidiaries to the directors and supervisors.

**J. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2014 and up to the date of this report.

Yours faithfully,

**[Deloitte Touche Tohmatsu]**  
*Certified Public Accountants*  
Hong Kong



***THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT***

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[Redacted]

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[Redacted]

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**APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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[Redacted]

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**APPENDIX III**

**TAXATION AND FOREIGN EXCHANGE**

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**TAXATION ON HOLDERS OF SECURITIES**

The following is a summary of certain PRC and Hong Kong taxation consequences of the ownership of H Shares by an investor who purchases such H Shares in connection with the [Redacted] and holds the H Shares as capital assets. This summary does not purport to address all material taxation consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on *the Treaty Between the U.S. and the PRC for the Avoidance of Double Taxation* (the “Treaty”), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of this [Redacted], an “Eligible U.S. Holder” refers to any beneficial owner of H Shares who (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC relating to the H Shares, and the beneficial owner does not or did not carry on any business through such establishment or fixed base (in the case of an individual, does not or did not perform any independent personal services) and (iii) in other respects, is eligible to enjoy benefits under the Treaty with respect to income and gains derived in connection with the H Shares.

This section of this [Redacted] does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their respective tax advisors regarding the PRC, Hong Kong and other taxation consequences arising from the ownership and disposal of H Shares.

**PRC**

**Dividend Tax**

***Individual Investors***

According to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法) (the “Individual Income Tax Law”) enacted by the Standing Committee of the Fifth Session of the National People’s Congress on September 10, 1980, which was last amended on June 30, 2011 and became effective on September 1, 2011, and the *Implementation Rules of Individual Income Tax Law of the PRC* (the “Implementation Rules of Individual Income Tax Law”), which was last amended by the State Council on July 19, 2011 and effective on September 1, 2011, dividends paid by PRC companies are generally subject to a withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to an individual income tax of 20% unless specifically exempted by the taxation authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the *Circular on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of the File - Guo Shui Fa [1993] No. 045* (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) promulgated for implementation by the State Administration of Taxation on June 28, 2011, when a non-foreign invested enterprise in the PRC launches its public offering in Hong Kong, its foreign resident individual

shareholders are entitled to enjoy the relevant preferential tax treatments in accordance with the tax treaty entered into between the countries of their residence and the PRC. Dividends paid by non-foreign invested enterprises in the PRC, which have already launched their public offering in Hong Kong, to the individual holders of H Shares who are foreign residents, are generally subject to PRC individual income tax at the rate of 10%, and application to the taxation bureau in the PRC is not required. In case the 10% tax rate is not applicable, the relevant enterprise shall act as follows: (i) in respect of individual holders of H Shares receiving dividends who are foreign residents from countries which have entered into income tax treaties with the PRC with tax rate lower than 10%, the non-foreign invested enterprise which has already launched its public offering in Hong Kong may apply on behalf of the such holders to seek entitlement of the preferential tax treatment at such lower rate, and the surplus amount withheld will be refunded upon approval by the tax authority; (ii) in respect of individual holders of H shares receiving dividends who are foreign residents from countries which have entered into income tax treaties with the PRC with tax rate higher than 10% but lower than 20%, the non-foreign invested enterprise which has already launched its public offering in Hong Kong is required to withhold the tax amount at the agreed rate under the treaty, and no application procedure is required; (iii) for the individual holders of H Shares receiving dividends who are foreign citizens from countries without taxation agreements with the PRC or otherwise under other circumstances, the non-foreign invested enterprise which has already launched its public offering in Hong Kong is required to withhold the tax amount at the rate of 20%.

According to the *Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (Guo Shui Han [2006] No. 884)* (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) with respect to taxes on income signed on August 21, 2006, the PRC government may impose tax on dividends payable by a PRC company to a Hong Kong resident, but such tax amount shall not exceed 10% of the gross amount of dividends payable, and in the case where a Hong Kong resident holds at least 25% equity interest in a PRC company, such tax amount shall not exceed 5% of the gross amount of dividends payable by the PRC company after an application is made to and approved by the PRC taxation authority.

### ***Enterprises***

According to the *Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法)(the “EIT Law”) and the *Implementation Rules of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) which were effective on January 1, 2008, the non-resident enterprises shall be subject to 10% enterprise income tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable treaty for avoidance of double taxation after an application is approved.

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**APPENDIX III**

**TAXATION AND FOREIGN EXCHANGE**

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According to the *Circular concerning Questions on Withholding and Payment of Enterprise Income Tax when PRC Resident Enterprises Distribute Dividends to Non-resident Corporate Shareholders of Foreign H Shares* (關於中國居民企業向境外H股非居民企業股東派發股利代扣代繳企業所得稅有關問題的通知) (Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, which became effective on November 6, 2008, PRC resident enterprises should withhold enterprise income tax at a unified rate of 10% when they distribute dividends for the year of 2008 and beyond to non-resident corporate shareholders of foreign H Shares. Such withholding tax may be reduced pursuant to an applicable treaty for avoidance of double taxation after an application is approved.

***Tax Treaties***

Investors who do not reside in the PRC but reside in countries that have entered into treaties for avoidance of double taxation with the PRC are entitled to a reduction of the withholding tax imposed on dividends payable by PRC companies. The PRC currently has signed treaties for avoidance of double taxation with many nations in the world, including but not limited to: Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore and the United States.

**Capital Gains Tax**

In accordance with the Implementation Rules of Individual Income Tax Law, individuals who are a PRC resident are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The Implementation Rules of Individual Income Tax Law also provided that the measures for the collection of individual income tax from income on the transfer of stocks shall be drafted by the Ministry of Finance (MOF) and subject to the approval of the State Council for implementation. However, as of the Latest Practicable Date, no such measures had been drafted or implemented. Under the *Circular Declaring the Continuation of Temporary Exemption of Individual Income Tax on Income of Individuals from Transfer of Shares* (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by MOF and State Administration of Taxation on March 30, 1998, income of individuals from the transfer of listed stocks would continue to be exempted from individual income tax with effect from January 1, 1997. In the Individual Income Tax Law and the Implementation Rules of the Individual Income Tax Law, the State Administration of Taxation had not expressly stated whether exemption from individual income tax would continue on income derived by individuals from the transfer of listed stocks. However, the *Circular on Related Issues concerning the Collection of Individual Income Tax over Income Received by Individuals from Transfer of Listed Shares subject to Sales Limitation* (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) jointly issued by MOF, State Administration of Taxation and CSRC on December 31, 2009 stated that income of individuals derived from transferring listed stocks on certain domestic exchanges would continue to be exempted from Individual Income Tax, except for the shares of certain specified companies subject to sales limitation (as defined in this Circular and its Supplementary Circular issued on November 10, 2010). As of the Latest Practicable Date, no legislation has expressly provided individual income tax shall be collected from non-PRC resident individuals on the sale of shares in PRC resident enterprises listed on overseas stock exchanges. In practice, no such tax has ever been collected by the PRC taxation authorities.



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**APPENDIX III****TAXATION AND FOREIGN EXCHANGE**

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**OTHER TAXATION ISSUES IN THE PRC*****PRC Stamp Duty***

Pursuant to the *Provisional Regulation of Stamp Duty of the PRC* (中華人民共和國印花稅暫行條例) which became effective on October 1, 1988, the PRC stamp duty imposed on the transfer of shares of listed PRC companies is not applicable to the acquisition and disposal of H Shares outside the PRC by non-PRC investors. The *Provisional Regulation of Stamp Duty of the PRC* provides that the PRC stamp duty is only applicable to documents executed or received within the PRC which are legally binding in the PRC and are protected under PRC laws.

***Estate Duty***

Under the current legal environment in the PRC, holders of H Shares who are non-PRC residents are not subject to estate duty.

**MAJOR TAXES OF THE COMPANY IN THE PRC****Income Tax**

In accordance with the EIT Law, the enterprise income tax rate for enterprises and other institutions established in the PRC is 25%.

**Business Tax**

Pursuant to the *Provisional Regulations on Business Tax of the PRC* (中華人民共和國營業稅暫行條例) last amended on November 5, 2008 and became effective on January 1, 2009 and their relevant implementation rules, business tax shall be imposed on enterprises which provide labor services required by the Regulations, transfer intangible properties or sell real properties in the PRC. The business tax rate of 5% is imposed on companies in the financial and insurance industries.

**HONG KONG****Tax on Dividends**

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

**Capital Gains and Profit Tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. However, trading gains from the sale of the H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for

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**APPENDIX III**

**TAXATION AND FOREIGN EXCHANGE**

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example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

**Stamp Duty**

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK\$5.00 is currently payable on any instrument of transfer of H Shares.

Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

**Estate Duty**

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on February 11, 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after February 11, 2006.

**FOREIGN EXCHANGE CONTROL**

The lawful currency of the PRC is the Renminbi, which is still subject to foreign exchange controls and is not freely convertible at present. State Administration of Foreign Exchange (SAFE), under the authority of the People’s Bank of China (PBOC), is empowered to administer all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On January 29, 1996, the State Council promulgated the new *Regulations of Foreign Exchange of the PRC* (中華人民共和國外匯管理條例) (the “Foreign Exchange Regulations”), which was last amended and took effect on August 5, 2008. The Foreign Exchange Regulations classified all international payments and transfers into current account items and capital account items. Most of the current account items were no longer subject to approval of SAFE, while capital account items still required approvals by SAFE.

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**APPENDIX III**

**TAXATION AND FOREIGN EXCHANGE**

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On June 20, 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定), which took effect on July 1, 1996, pursuant to which, the PRC abolished the restrictions on convertibility of foreign exchange in respect of current account items, while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On October 25, 1998, the PBOC and SAFE promulgated *the Circular on Ceasing the Foreign Exchange Swap Business Activities* (關於停辦外匯調劑業務的通知), pursuant to which with effect from December 1, 1998, all foreign exchange swap business for foreign-invested enterprises in the PRC would be discontinued, while the trading of foreign exchange by foreign-invested enterprises would be incorporated into the banking system for settlement and sale of foreign exchange.

On July 21, 2005, the PBOC announced that, with immediate effect, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar. The PBOC would announce the closing price of foreign currencies, such as the U.S. dollar, against the Renminbi in the inter-bank foreign exchange market after the market closed on each working day. Such closing price would be taken as the middle price for the Renminbi exchange rate quoted on the following working day.

Since January 4, 2006, the PBOC had improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system in the inter-bank spot foreign exchange market, while keeping the matching system. In addition, the PBOC provided liquidity in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market.

The foreign exchange income from the current account items may be retained or sold to financial institutions operating foreign exchange settlement and sales business. For foreign exchange income from the capital account items, before retention or being sold to any financial institution operating foreign exchange settlement and sales business, approval by the foreign exchange authority should be obtained, unless provided otherwise by the State.

When PRC enterprises (including foreign-invested enterprises) require foreign exchange for transactions relating to current account items, they may effect payment from their foreign exchange account or convert funds into foreign exchange and make payment at the designated foreign exchange banks without obtaining approval from SAFE, provided valid receipts and evidences of transactions must be produced. When foreign-invested enterprises require foreign exchange for distribution of profits to their shareholders, and when PRC enterprises are required to pay dividends to shareholders in foreign currencies according to relevant provisions, they may effect payment from their foreign exchange accounts or convert funds into foreign exchange and make payments at the designated foreign exchange banks pursuant to the relevant resolutions approved by the general meeting of shareholders or meeting of the board of directors for the distribution of profits.

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**APPENDIX III**

**TAXATION AND FOREIGN EXCHANGE**

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Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE and its relevant branches.

Dividends to holders of H Shares are denominated in Renminbi but must be paid in Hong Kong dollars. We prepare our consolidated financial statements in Renminbi.

The PBOC sets and publishes daily a basic exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the previous day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC government introduced policies in 1996 to relax restrictions on the convertibility of Renminbi into foreign currencies in respect of current account items, however, the conversion of Renminbi into foreign currencies in respect of capital account items, such as foreign direct investments, loans or securities, is still required to obtain approval from SAFE and other relevant authorities.

In accordance with the *Circular on the Relevant Issues of Foreign Exchange Administration of Overseas Listing* (關於境外上市外匯管理有關問題的通知) as promulgated by SAFE and took effect on December 31, 2014, a domestic company shall complete the registration procedure for overseas listing with the local branch of SAFE at the place of its incorporation within 15 working days after completion of its first IPO overseas. The proceeds from an overseas listing may be remitted to domestic or deposited overseas, and the use of proceeds shall be consistent with the relevant contents of this [Redacted], circular to the shareholders, resolution of the directors’ meeting or the shareholders’ general meeting and other public disclosure documents.

In accordance with the *Decision of the State Council on Cancelling or Adjusting a Group of Administrative Approval Items and other Matters* (國務院關於取消和調整一批行政審批項目等事項的決定) as promulgated by the State Council and took effect on November 24, 2014, SAFE and other branches shall cancel the approval for foreign exchange settlement in relation to the proceeds from an overseas listing by a domestic company of its overseas listed foreign shares.

## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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This Appendix sets forth summaries of certain aspects of PRC law and regulations which are relevant to the Company’s operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in “Appendix III — Taxation and Foreign Exchange” to this [Redacted]. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

### **PRC LEGAL SYSTEM**

The PRC legal system is composed of the constitution, laws, administrative regulations, local regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, autonomy regulations and separate rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purpose of judicial reference and guidance. *The PRC Constitution* (中華人民共和國憲法), enacted by the National Peoples’ Congress of the PRC (the “NPC”), is the basis of the PRC legal system and has supreme legal authority.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State institutions and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required by to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the principles of such laws.

The state council is the highest organ of state administration and has the power to enact administrative regulations based on the *Constitution* and laws.

People’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and requirements of the local administrations, provided that such local regulations shall not be in conflict with the constitution, laws and administrative regulations. People’s congresses of large cities and their respective standing committees may enact local regulations based on the specific circumstances and actual needs which shall come into effect upon approval from the respective standing committees of the people’s congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the constitution, laws and administrative regulations.

People’s congresses of autonomous regions may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, which shall come into effect upon approval from the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations,

## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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and no adaptations shall be made to the specific provisions on national autonomous areas in the constitutions, national region autonomy law and other relevant laws and administrative regulations.

The ministries, commissions, People’s Bank of China, Audit Office and institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations shall be formulated for the purpose of the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people’s governments of provinces, autonomous regions, municipalities and large cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the PRC Constitution, the authority of the interpretation of laws shall be vested to the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, interpretation on the application of laws and decrees in court trials and the procuratorial work of the procuratorates shall be given by the Supreme People’s Court and the Supreme People’s Procuratorate, respectively. Interpretation of the laws and decrees unrelated to trials and procuratorial work shall be given by the State Council and the competent ministries and commissions. In the case that clarification or additional provisions shall be made for the local regulations, the standing committees of the people’s congresses of provinces, autonomous regions and municipalities which enacted such regulations shall give the interpretation or formulate the additional provisions. Interpretation on the application of local regulations shall be given by the competent departments under the people’s government of the respective provinces, autonomous regions and municipalities.

### **PRC JUDICIAL SYSTEM**

Under the *PRC Constitution* (中華人民共和國憲法) and the *Law of the PRC of Organization of the People’s Courts* (中華人民共和國人民法院組織法) which was enacted on July 1, 1979 and last amended on October 31, 2006 and took effect on January 1, 2007, the judicial system in PRC is made up of the Supreme People’s Court, the local people’s courts, military courts and other special people’s courts. The local people’s courts are comprised of the basic people’s courts, the intermediate people’s courts and the higher people’s courts. The basic people’s courts may be organized into civil, criminal, and economic tribunals. The intermediate people’s courts may be organized into divisions similar to those of the basic people’s courts, and may be further organized into other special divisions, such as the intellectual property division. The people’s courts at lower levels are subject to supervision of the people’s courts at higher levels. The Supreme People’s Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people’s courts at all levels and all special people’s courts. The people’s procuratorates also have the right to exercise legal supervision over the trial activities of people’s courts.



## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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The people’s courts adopt a “second instance as final” appellate system in the trial of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people’s courts to the people’s courts at the next higher level in accordance with the legal procedures. The people’s procuratorate may appeal to the people’s court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people’s procuratorate within the stipulated period, the judgment and ruling of the first instance by the local people’s courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people’s courts, the higher people’s courts and Supreme People’s Court and the judgments and rulings of the first instance of the Supreme People’s Court shall be the final judgments and rulings. The death penalty shall be reported to the Supreme People’s Court for approval unless it is otherwise adjudged by the Supreme People’s Court.

The *Civil Procedure Law of the PRC* (中華人民共和國民事訴訟法) (the “PRC Civil Procedure Law”), which was adopted on April 9, 1991 and last amended on August 31, 2012 and became effective on January 1, 2013, sets forth the criteria for instituting a civil case, the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff’s or the defendant’s place of residence, the place of execution or performance of the contract, the object of the action or other locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country’s judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people’s court or an award granted by an arbitration panel in the PRC, the other party may apply to the people’s court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two year. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people’s court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In the case of an application or request for recognition and enforcement of a legally effective judgment or order of a foreign court, the people’s court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognize the validity of the judgment or order,

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and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people’s court shall not recognize and enforce it.

### **THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS**

The PRC Company Law (公司法) which was promulgated on December 29, 1993 by the Standing Committee of the NPC, last amended on December 28, 2013 and came into effect on March 1, 2014 regulates the organization and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors. The latest amendment to the PRC Company Law in 2013 has cancelled the restriction on the minimum registered capital and replaced the registered paid-up share capital system by the registered subscribed capital system.

The Special Regulations of the State Council on Share Offering and Listing Overseas by Joint-stock Limited Liability Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) (the “Special Regulations”) were promulgated by the Standing Committee Meeting of the State Council, and took effect on August 4, 1994. The Special Regulations are formulated according to the *Company Law* (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions of Articles of Association of Companies Listing Overseas (到境外上市公司章程必備條款) (the “Mandatory Provisions”) were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in the appendix headed “Appendix V — Summary of the Articles of Association” to this [Redacted]).

Copies of the Chinese text of the PRC Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the appendix headed “Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection” to this [Redacted].

#### ***General***

A joint-stock limited liability company (hereinafter referred to as “company”) is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company’s assets and liabilities and the establishment of internal management organs.



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### ***Incorporation***

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. The company shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting give notice to all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business license has been issued.

### ***Share Capital***

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

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The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as domestic shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25.0% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the benchmark date determined by the company for distribution of dividends.

### ***Increase in Capital***

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

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Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

### ***Reduction of Share Capital***

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (i) the company shall prepare a balance sheet and an inventory of the assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the company registration authority for registration of the reduction in registered capital.

### ***Repurchase of Shares***

A company may not purchase its own shares other than for the purpose of:

- (i) reducing its capital by canceling its shares or merging with another company holding its shares;
- (ii) granting shares as a reward to the staff of the company; or

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- (iii) purchasing the company’s own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting. The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company’s staff within a year.

***Transfer of Shares***

Shares may be transferred in accordance with the relevant laws and regulations.

***Shareholders***

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders’ general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company’s articles of association, shareholders’ registers, records of debentures, minutes of shareholders’ general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;
- (iv) if any directors or senior officers damages the shareholder’s interests by violating law or administrative regulations or articles of association, the shareholders may lodge an action in the people’s court;
- (v) to receive dividends and other distributions in respect of the number of shares held;
- (vi) to obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders’ rights for the damages; and
- (vii) any other shareholders’ rights specified in the company’s articles of association.

The obligations of a shareholder include the obligation to abide by the company’s articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company’s debts and liabilities to the extent of the amount of subscription monies agreed to be paid

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in respect of the shares taken up by him/her, not to abuse shareholders’ right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders’ obligation specified in the company’s articles of association.

***Shareholders’ General Meetings***

The shareholders’ general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law.

The shareholders’ general meeting exercises the following principal powers:

- (i) to decide on the company’s operational policies and investment plans;
- (ii) to elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;
- (iii) to consider and approve reports of the board of directors;
- (iv) to consider and approve reports of the supervisory committee;
- (v) to consider and approve the company’s proposed annual financial budget and financial accounts;
- (vi) to consider and approve the company’s proposals for profit distribution and for recovery of losses;
- (vii) to decide on any increase or reduction in the company’s registered capital;
- (viii) to decide on the issue of bonds by the company;
- (ix) to decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters;
- (x) to decide on the appointment, resignation or dismissal of the accounting firm;
- (xi) to amend the articles of association of the company; and
- (xii) other powers specified in the articles of association of the company.

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A shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the losses of the company which are not made up reach one-third of the company's total paid up share capital; a request by a shareholder that holds, or by shareholders that hold in aggregate, 10.0% or more of the company's shares;
- (iii) when deemed necessary by the board of directors;
- (iv) when the supervisory committee proposes convening it; or
- (v) other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

Notice of the Shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the *Special Regulations* and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

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Shareholders may entrust a proxy to attend shareholders’ general meetings on his or her behalf by a power of attorney which sets forth the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders’ meeting. However, the Special Regulations and the Mandatory Provisions provide that a company’s annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

### ***Directors***

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of our Company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders’ general meeting and report on its work to the shareholders;
- (ii) to implement the resolution of the shareholders’ general meeting;
- (iii) to decide on the company’s business plans and investment plans;
- (iv) to formulate the company’s proposed annual financial budget and final accounts;
- (v) to formulate the company’s proposals for profit distribution and for recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company’s registered capital and the issue of corporate bonds;
- (vii) to prepare plans for the merger, division, dissolution or change of the form of the company;
- (viii) to decide on the company’s internal management structure;



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- (ix) to appoint or dismiss the company’s general manager, and based on the president’s recommendation, to appoint or dismiss deputy general manager and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company’s basic management system; and
- (xi) any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company’s articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

- (i) persons without civil capacity or with restricted civil capacity;
- (ii) persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- (iii) persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;



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- (v) persons who have a relatively large amount of debt due and outstanding; or
- (vi) other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix V — Summary of the Articles of Association” to this [Redacted]).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

- (i) to preside over shareholders’ general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the Mandatory Provisions, is the chairman of the board of directors. The Special Regulations provide that a company’s directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed “Appendix V — Summary of the Articles of Association” to this [Redacted]) contain further elaborations of such duties.

***Supervisors***

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisor results in the number of supervisors being less than the quorum. The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company’s staff representatives; and the percentage of the number of the company’s staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows:

- (i) to examine the company’s financial affairs;
- (ii) to supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders’ resolution;

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- (iii) to require any director or senior management whose act is detrimental to the company's interests to rectify such act;
- (iv) to propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;
- (v) to propose any bills to shareholders' general meetings;
- (vi) to commence any action against any directors or senior management; and
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. All expenses incurred by the supervisory committee to exercise their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least every six months. Interim meetings of the supervisory committee can be convened by the supervisors. According to the PRC Company Law, resolutions of the supervisory committee require the approval of more than half of all supervisors, and pursuant to the Letter of Opinions on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong (關於到香港上市公司對公司章程作補充修改的意見的函) promulgated by the CSRC on April 3, 1995, resolutions of the supervisory committee require the approval of more than two-thirds of all supervisors. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and supervisors attending the meeting shall sign to endorse such minutes.

***Managers and other Senior Officers***

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) in charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;

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- (ii) arrange for the implementation of the company’s annual business and investment plans;
- (iii) formulate plans for the establishment of the company’s internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company’s internal rules;
- (vi) recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other senior administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) attend board meetings as a non-voting attendant; and
- (viii) other powers conferred by the board of directors or the company’s articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management officers of a company includes the financial officer, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above also apply to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed “Appendix V — Summary of the Articles of Association” to this [Redacted].

***Duties of Directors, Supervisors and Senior Officers***

A director, supervisor and senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company’s articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company’s properties. Directors and senior management are prohibited from:

- (i) misappropriation of company funds;
- (ii) deposit of company funds into accounts under their own name or the name of other individuals;

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- (iii) loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- (iv) entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- (v) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- (vi) accepting for their own benefit commissions from other parties dealing with the company;
- (vii) unauthorized divulgence of confidential information of the company; or
- (viii) other acts in violation of their duty of loyalty to the company.

A director, supervisor and senior officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor and senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Where the attendance of a director, supervisor, manager or other senior officer is requested by the shareholders' general meeting, such director, supervisor, manager or other senior officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior officers shall furnish with all truthfulness facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

A company shall not directly, or through its subsidiary, provide loans to any director, supervisor or senior management and shall regularly disclose to the shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

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***Finance and Accounting***

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory surplus reserve, the discretionary common reserve and the capital common reserve.

When distributing each year’s after-tax profits, the company shall set aside 10% of its after-tax profits for the company’s statutory surplus reserve (except where the reserve has reached 50% of the company’s registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders’ general meeting, the company may make an allocation to a discretionary common reserve.

When the company’s statutory surplus reserve is not sufficient to make up for the company’s losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory surplus reserve.

After the company has made up for its losses and make allocations to its statutory surplus reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company’s losses other than the capital common reserve;
- (ii) to expand the business operations of the company; and
- (iii) to increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders. If the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

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The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

### ***Appointment and Retirement of Auditors***

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

### ***Distribution of Profits***

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve has been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

### ***Amendments to Articles of Association***

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

### ***Dissolution and Liquidation***

Under the PRC Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;

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- (iv) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or
- (v) in the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors or issue public notices;
- (iii) to deal with and settle any outstanding business of relevant company;
- (iv) to pay any tax overdue;
- (v) to settle the company's financial claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.



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During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people’s court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people’s court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders’ general meeting or the people’s court for confirmation. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company’s registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

### ***Loss of Share Certificates***

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people’s court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in “Appendix V — Summary of the Articles of Association.”

### ***Merger and Demerger***

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within ten days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within thirty days. The creditors may, within thirty days as of the receipt of the notice or within forty five days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.



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As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within ten days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within thirty days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

### **SECURITIES LAW AND REGULATIONS**

The PRC has promulgated a number of regulations that relate to the issue and trading of the Shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its function to the CSRC. The CSRC is also responsible for the regulation and supervision of the national stocks and futures market according to laws, regulations and authorizations.

The PRC Securities Law took effect on July 1, 1999 and was last amended on August 31, 2014. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council’s securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that a PRC company must obtain prior approval from the State Council’s regulatory authorities to list its shares outside the PRC. Article 239 of the Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

### **Regulation on Anti-money Laundering**

The *Anti-money Laundering Law of the PRC* (中華人民共和國反洗錢法) effective on January 1, 2007 provides for the duties of the relevant financial regulatory authorities in anti-money laundering, which includes monitoring the capital of anti-money laundering, formulating rules and regulations on anti-money laundering of the financial institutions, supervising and reviewing the fulfillment of anti-money laundering obligations by financial institutions and investigating suspicious transactions within the scope of responsibilities. Heads of financial institutions shall be responsible for the

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effective implementation of anti-money laundering internal control system. Financial institutions shall establish a client identification system and a system for keeping clients' identity information and historical transaction record, and report large-sum transactions and doubtful transactions according to applicable requirements.

According to the *Provisions on Anti-money Laundering of Financial Institutions* (金融機構反洗錢規定) which was enacted by the PBOC and came into effect on January 1, 2007, financial institutions and their branches shall establish comprehensive anti-money laundering internal control systems, an anti-money laundering department or designated internal department responsible for anti-money laundering pursuant to applicable laws. Anti-money laundering internal procedures and control measures shall be formulated. Specific training shall be offered to the staff in order to strengthen the anti-money laundering works.

According to the *Measures on Administration of Identification of Clients and Preservation of Client Identities Information and Historical Transaction Records of Financial Institutions* (金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法) which was jointly enacted by the PBOC, China Banking Regulatory Commission, the CSRC and China Insurance Regulatory Commission and came into effect on August 1, 2007, financial institutions shall establish client identification systems, and shall record the identities of all clients and the information about each of the transactions, and shall preserve the retail trading documents and books.

According to the *Administrative Measures for the Financial Institutions' Report of Large-sum Transactions and Doubtful Transactions* (金融機構大額交易和可疑交易報告管理辦法) which was enacted by the PBOC and came into effect on March 1, 2007, the headquarter of the financial institution or the department appointed by the headquarter, shall report to China Anti-money Laundering Monitoring and Analysis Centre electronically after identifying large-sum transactions and doubtful transactions.

The CSRC also formulated the *Implementing Rules of Anti-money Laundering for Securities and Futures Industry* (證券期貨業反洗錢工作實施辦法) which effective from October 1, 2010 and further formulates the anti-money laundering rules for securities and futures industry, and the anti-money laundering liabilities for the institutions carrying on funds sales business in their funds sales activities, and the securities and futures operating institutions should establish anti-money laundering internal control system.

### **Overseas Listing**

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of directors of a company by way of separate issues, within fifteen months after approval is obtained from the CSRC.

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### **ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS**

The *Arbitration Law of the PRC* (中華人民共和國仲裁法) (the “Arbitration Law”) was passed by the Standing Committee of the National People’s Congress on August 31, 1994 and the latest version was amended on August 27, 2009 with immediate effect. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court will refuse to handle the case.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors or officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (“CIETAC”) in accordance with its rules or the Hong Kong International Arbitration Centre (“HKIAC”) in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for Enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

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A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (承認及執行外國仲裁裁決公約) (the “New York Convention”) adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the National People’s Congress passed on December 2, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the National People’s Congress simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People’s Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

### **ESTABLISHMENT OF OVERSEAS OPERATIONS RULES AND REGULATIONS**

According to the *Provisions for Overseas Investment Management* (境外投資管理辦法) promulgated by MOF and took effect on October 6, 2014, and the *Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions* (境內機構境外直接投資外匯管理規定) issued by SAFE and took effect on August 1, 2009, upon obtaining approval from the MOF to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments.

According to the *Tentative Administrative Provisions on the Approval of Overseas Investment Projects* (境外投資項目核準和備案管理辦法) promulgated by the NDRC and took effect on May 8, 2014, overseas investment projects carried out by PRC enterprises by way of new construction, M&A, share purchase, capital increase and capital injection, and overseas investment projects implemented through its overseas enterprise or entity by way of providing financing or guarantees, are required to obtain approval or lodge filing with NDRC in accordance with the relevant conditions of the overseas investment projects.

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According to the *Securities Law of the PRC* (中華人民共和國證券法) as amended and took effect on August 31, 2014, and the *Regulations for Supervision and Administration of Securities Companies* (證券公司監督管理條例) as amended and took effect on July 29, 2014, domestic securities companies in the PRC which establish or acquire securities operation entities overseas or purchase equity interest in securities operation entities overseas are required to make an application to the CSRC for approval.

According to the *Measures for Supervision and Administration of Futures Companies* (期貨公司監督管理辦法), domestic futures companies in the PRC which establish or acquire futures operation entities overseas or purchase equity interest in futures operation entities overseas are required to satisfy the relevant conditions and make an application to the CSRC for approval.

According to the *CSRC Rules concerning the Establishment of Offices in Hong Kong by Securities and Investment Fund Management Companies* (中國證券監督管理委員會關於證券投資基金管理公司在香港設立機構的規定) promulgated by the CSRC and took effect on April 8, 2008, domestic securities and investment fund management companies in the PRC which establish offices in Hong Kong, purchase equity interest in asset management companies in Hong Kong region, establish offices or purchase equity interest in asset management companies located in other countries and regions that had entered into memorandum of regulatory cooperation with the CSRC, are required to make an application to the CSRC for approval.

### **HONG KONG LAWS AND REGULATIONS**

#### **Summary of Material Differences between Hong Kong and PRC Company Law**

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Hong Kong Companies Ordinance and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and validly existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

#### **Corporate Existence**

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong and the company will acquire an independent corporate existence upon its incorporation. A company may be incorporated as a public company or a private company. Pursuant to the Hong Kong Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain provisions with respect to the right of first refusal. A public company's articles of association do not contain such provision.



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Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or public subscription. Unless specially required by any other laws, administrative regulations and the State Council’s decisions, there is no minimum capital requirement for a joint stock limited company. Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

### **Share Capital**

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, issue new shares of the company. The PRC Company Law does not prescribe any authorized capital requirement (except for registered capital). If a joint stock limited company is incorporated by promotion, its registered capital shall be the total amount of capital subscribed by all promoters as registered with the registration authority to which the company relates. If a joint stock limited company is incorporated by public subscription, its registered capital shall be the total amount of paid-in capital registered with the registration authority to which the company relates. Any increase in our registered capital must be approved by our shareholders at a shareholders’ general meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets that can be used for monetary valuation and can be transferred according to laws. For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no over-valuation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

### **Restrictions on Shareholding and Transfer of Shares**

Under PRC law, domestic shares of a joint stock limited company (the “Domestic Shares”), which are denominated and subscribed for in Renminbi, may be subscribed for or traded by the PRC domestic investors and qualified foreign institutional investors. Since April 2013, investors from Hong Kong, Macau and Taiwan may also open an A share account. Overseas listed foreign shares of a joint stock limited company, which are denominated in Renminbi and subscribed for in foreign currency, may only be subscribed for, and trade by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, and other qualified domestic institutions.

Under the PRC Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering shall not be transferred within one year from the listing of the shares on the Hong Kong Stock Exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company shall not be transferred within one year from the listing date of the shares, and also shall

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not be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

### **Financial Assistance for Acquisition of Shares**

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

### **Variation of Class Rights**

The PRC Company Law has no special provision relating to variation of class rights. However, the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in Appendix V to this [Redacted].

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders representing at least 75% of the nominal value of shares in the class in question, (iii) with the consent of all shareholders of a Hong Kong company, or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

### **Directors**

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on the rights of directors in making major disposals, restrictions on companies providing certain benefits in respect of the prohibitions against compensation for loss of office without shareholders' approval. The PRC Company Law restricts any interested directors to vote in respect of any board resolutions involving any companies in which such directors have an interest or a connected relationship. The Mandatory Provisions, however, contain certain provisions and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office. The relevant provisions have been included in the Articles of Association, a summary of which has been included in Appendix V to this [Redacted].

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### **Supervisory committee**

Under the PRC Company Law, a joint stock limited company’s directors and senior management are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his rights or performance of his obligations, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

### **Derivative Action by Minority Shareholders**

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides that in the event where the directors and senior management violate their fiduciary obligation to the company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people’s court. In the event that the supervisory committee violates the fiduciary obligation to the company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people’s court.

Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under contingent circumstances, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company’s interests, have the right to initiate proceedings directly to the people’s court in their own name.

Moreover, the PRC Company Law provides that to the extent that the directors or senior management of the company violate the laws, administrative regulations or the requirements of the articles of association and cause harm to the interest of shareholders as a result, the shareholders may also initiate proceedings. The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of Overseas Listed Foreign Shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking for observing the articles of association in favor of the company. This allows minority shareholders to take action against directors and supervisors in default.



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### **Protection of Minorities**

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either liquidate such company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a people’s court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company’s assets or the individual rights of other shareholders.

### **Notice of Shareholders’ General Meetings**

Under the PRC Company Law, notice of a shareholder’s annual general meeting must be given not less than 20 days before the meeting, whereas notice of a shareholder’s special general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholder’s general meeting must be given at least 30 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days’ written notice must be given to all shareholders, and shareholders who wish to attend the general meeting must return the written reply slip for attending the meeting to the company at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum periods of notice are 14 days and 21 days in the case of a general meeting to be convened for the adoption of an ordinary resolution and a special resolution. The notice period is 21 days in the case of an annual general meeting.

### **Quorum for Shareholders’ General Meetings**

Under Hong Kong company law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member.

The PRC Company Law does not specify any quorum requirement for a shareholders’ general meeting, but the Special Regulations and the Mandatory Provisions provide that a company shall calculate the total number of voting shares represented by shareholders who intend to attend a shareholders’ general meeting based on the written replies to the notice of that meeting received at least 20 days prior to the meeting. When the number of voting shares represented by shareholders who

## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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intend to attend the meeting is more than 50% of the total number of voting rights of the company, the company may convene the shareholders' general meeting. Otherwise, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

### **Voting**

Under Hong Kong company law, an ordinary resolution is passed by a simple majority by the shareholders attending a shareholders' general meeting in person or by proxy, and a special resolution is passed by a majority of at least 75% by shareholders attending a the shareholders' general meeting in person or by proxy. Under the PRC Company Law, the passing of any resolution at a shareholders' general meeting requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting in person or by proxy, except in cases of proposed amendments to a company's articles of association, increase or reduction of registered capital, merger, division or dissolution of a joint stock limited company, or change of company form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting in person.

### **Financial Disclosure**

Under the PRC Company Law, a company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a company of which the shares are publicly offered must publish its financial condition in accordance with the PRC Company Law. The annual balance sheet shall be verified by its certified accountant. The Companies Ordinance of Hong Kong requires a company incorporated in Hong Kong to send every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before the annual general meeting. A company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

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### **Information on Directors and Shareholders**

The *PRC Company Law* gives shareholders the right to inspect the company’s articles of association, minutes of the shareholders’ general meetings, and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the information provided to shareholders of Hong Kong companies under Hong Kong law.

### **Receiving Agent**

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its overseas shares.

### **Corporate Reorganization**

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members under Division 2 of Part 13 of the Hong Kong Companies Ordinance, which requires the sanction of the court. Under PRC Company Law, merger, division, dissolution or change of company form of a company has to be approved by shareholders in general meeting.

### **Dispute Arbitration**

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant’s choice.

### **Mandatory Deductions**

Under the PRC Company Law, a company, in distributing profits after tax to the shareholders, is required to make transfers equivalent to 10% of its after tax profit to the statutory common reserve fund. When the accumulated amount of the statutory common reserve fund of the company reaches 50% of the registered capital of the company, it may cease to transfer any amount to the statutory common reserve fund. Following the transfer to the statutory common reserve fund from its after tax profit, the company may transfer applicable amount to the discretionary common reserved fund from its after tax profit. There are no corresponding provisions under Hong Kong law.

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### **Remedies of the Company**

Under the PRC Company Law, if a director, supervisor or senior management officer in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management officer shall be liable to the company for such damages. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management officer).

### **Dividends**

Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of Overseas Listed Foreign Shares until after the expiry of the applicable limitation period.

### **Fiduciary Duties**

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors and senior management of a company shall undertake a fiduciary obligation to the company and are not allowed to conduct any activities that are in competition with or detrimental to the interest of the company.

### **Closure of Register of Shareholders**

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Mandatory Provisions and the Special Regulations, share transfers shall not be registered within 30 days before the date of a shareholders' general meeting or within five days before the benchmark date set for the purpose of distribution of dividends.

### **Hong Kong Listing Rules**

The Hong Kong Listing Rules provide additional requirements which apply to an issuer incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to the Company.

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### ***Compliance Advisor***

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its financial results for the first full financial year commencing after the listing date so as to provide professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws and regulations, rules, codes and guidelines, and to act at all times, in addition to its two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor in fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor’s appointment and appoint a replacement. The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. He/she must act as the company’s principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be frequently outside Hong Kong.

### ***Accountants’ Report***

Unless the accounts relating to the accountants’ report have been audited pursuant to the standards similar to the requirements of Hong Kong, international audit standards or PRC audit standards, the Hong Kong Stock Exchange will generally not accept an accountants’ report of a PRC issuer. The relevant report must normally be drawn up in conformity with HKFRS or IFRS or China Accounting Standards for Business Enterprises (“CASBE”) in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

### ***Process Agent***

The Company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination or his, her or its appointment and his, her or its contact particulars.

### ***Public Shareholding***

If at any time there are issued securities of a PRC issuer other than foreign invested shares which are listed on the Hong Kong Stock Exchange (the “Foreign Invested Shares”), the Hong Kong Listing Rules require that the aggregate amount of such Foreign Invested Shares held by the public must constitute not less than 25% of the PRC issuer’s issued share capital and that the Foreign Invested Shares for which listing is sought must not be less than 15% of the issuer’s total issued share capital,

## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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having an expected market capitalization at the time of listing of not less than HK\$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company is expected to have a market capitalization at the time of listing of more than HK\$10 billion.

### ***Independent Non-Executive Directors and Supervisors***

Independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of its shareholders as a whole can be adequately represented. Supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate the standard of competence commensurate with their position as supervisors.

### ***Mandatory Provisions***

In order strengthen the protection of investors, the Hong Kong Stock Exchange provides that a PRC company whose primary listing place is on the Hong Kong Stock Exchange shall incorporate the Mandatory Provisions, as well as the provisions with respect to the change, removal and resignation of an auditor, shareholders’ general meetings of class of securities and acts of the supervisory committee of the company into its articles of association. Such provisions have been included into the Articles of Association, a summary of which is set out in Appendix V to this [Redacted].

### ***Redeemable Shares***

The Company shall not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of its holders of Foreign Invested Shares are adequately protected.

### ***Pre-emptive Rights***

Except in the circumstances mentioned below, directors of the Company are required to obtain approval by way of a special resolution of shareholders at general meeting, and the approvals by way of special resolutions of the holders of Domestic Shares and Foreign Invested Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with and as required by its articles of association, prior to the following: (1) authorizing, allotting, issuing or granting shares or convertible securities, or share options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any such authorization, allotment, issuance or grant given by any major subsidiaries of the Company, which would materially dilute the percentage of shareholdings owned by the Company and its shareholders in the relevant subsidiaries.

No such approval (subject to the extent of such approval) will be required to the extent that the existing shareholders of a company have by special resolution in general meeting given a mandate to the board of directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every twelve months, not more than 20% of each of the existing issued Domestic Shares and Foreign Invested Shares as at the date of the passing of the relevant special resolution, or such shares are

## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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issued as part of the company’s plan at the time of its establishment to issue Domestic Shares and Foreign Invested Shares and which plan is implemented within fifteen months from the date of approval by the CSRC; or after the approval by the securities regulatory and management authority of the State Council.

### ***Supervisors***

The Company shall adopt rules governing dealings by the Supervisors in securities of the Company on terms no less exacting than those of the Model Code (as set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

To the Company shall obtain the approval of its shareholders at a general meeting (at which the relevant supervisor and his associates must abstain from voting on the matter) prior to the company or any of its subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of the Company or any of its subsidiaries: (1) the term of the contract exceeds three years; or (2) the contract expressly requires the Company to give more than one year’s notice or to pay compensation or make other payments equivalent to the remuneration more than one year in order for it to terminate the contract.

The remuneration committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders’ approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its shareholders as a whole and advise shareholders on how to vote.

### ***Amendment to Articles of Association***

The Company shall not permit or cause any amendment to be made to its articles of association which would contravene the Hong Kong Listing Rules and the Mandatory Provisions or the PRC Company Law.

### ***Documents for Inspection***

The Company shall make available at a place in Hong Kong for inspection by the public and shareholders of the Company free of charge, and for copying by its shareholders at reasonable charges of the following:

- a complete duplicate register of shareholders;
- a report showing the status of its issued share capital;
- its latest audited financial statements and the reports of the directors, auditors and supervisors, if any, thereon;
- its special resolutions;



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- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- copy of the latest annual report filed with the SAIC or other competent PRC authorities; and
- for shareholders only, copies of minutes of shareholders' general meetings.

***Receiving Agents***

The Company shall appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

***Statements in Share Certificates***

The Company shall ensure that all of its listing documents and share certificates of H shares include the statements stipulated below and instruct and cause each of its share registrars to register the subscription, purchase or transfer of any of its shares in the name of any particular holder after such holder delivers to the share registrar a signed form in respect of such shares bearing statements to the following effect, that the acquirer of shares:

- agrees with the Company and each of its shareholder, and it agrees with each of its shareholder, to observe and comply with the PRC Company Law, the Special Regulations, its articles of association, and other relevant laws and administrative regulations;
- agrees with the Company, each shareholder, Director, Supervisor, manager and other senior management officer, and the Company (acting both for itself and for each Director, Supervisor, manager and other senior management officer), agree with each Shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the Company's affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with the Company and each Shareholder that Shares are freely transferable by the holder thereof; and
- authorizes the Company to enter into a contract on his behalf with each Director, Supervisor and senior management officer whereby such Directors, Supervisors and senior management undertake to observe and comply with their obligations to Shareholder as stipulated in the Articles of Association.



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### **Compliance with the PRC Company Law, the Special Regulations and Articles of Association**

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

### **Contract between the Company and its Directors, Senior Management and Supervisors**

The Company is required to enter into a contract in writing with every Director and senior management containing at least the following provisions:

- an undertaking by the Director or senior management to itself to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Hong Kong Takeovers Code and an agreement that it must have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or senior management to the Company acting as agent for each Shareholder to observe and comply with his obligations to our Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any disputes or claims arise from the contract, its Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between the Company and its Directors or senior management and between a holder of H shares and a Director or senior management, such disputes or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral tribunal elected by the claimant. Such arbitration will be final and conclusive;
- If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of the HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- The award of the arbitral tribunal is final and shall be binding on the parties thereto; and
- Disputes over who is a Shareholder and over the share registrar do not have to be resolved through arbitration.

A PRC issuer is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

## **APPENDIX IV SUMMARY OF PRINCIPAL PRC AND HONG KONG LEGAL AND REGULATORY PROVISIONS**

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### **English Translation**

All notices or other documents required under the Hong Kong Listing Rules to be sent by a PRC issuer to the Hong Kong Stock Exchange or to holders of the H shares are required to be in English, or accompanied by a certified English translation.

### **General**

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of H shares by a PRC issuer subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

### **OTHER LEGAL AND REGULATORY PROVISIONS**

Upon the listing on the Hong Kong Stock Exchange, the provisions of the SFO, the Hong Kong Takeovers Code and such other relevant ordinances and regulations will apply to the Company.

### **SECURITIES ARBITRATION RULES**

Pursuant to the Articles of Association, any claims arising from the Articles of Association, the PRC Company Law and any other applicable laws shall be submitted to CIETAC or HKIAC for arbitration in accordance with the respective arbitration rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party, or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the *Securities Arbitration Rules*, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

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## **APPENDIX V**

## **SUMMARY OF THE ARTICLES OF ASSOCIATION**

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Set out herein is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As the information contained herein is in summary form, it may not contain all the information that is important to potential investors.

### **SCOPE OF BUSINESS**

The business scope of the Company is: securities brokerage, securities investment consulting, financial consulting relating to securities trading and securities investment, securities underwriting and sponsorship, proprietary trading of securities, proxy sale of securities investment fund, intermediary introduction business for futures companies, margin financing and securities lending business, proxy sale of financial products and securities investment fund custodian.

According to laws and administrative regulations and relevant requirements of the CSRC, the Company may set up a wholly-owned subsidiaries to conduct direct investment business, or set up subsidiaries to conduct investment in financial products other than those listed in the List of Securities Investment Products of Proprietary Trading by Securities Companies (《證券公司證券自營投資品種清單》).

### **SHARES**

#### *Shares and Registered Capital*

The stock of the Company shall take the form of shares.

The Company shall have ordinary shares at all times. With the approval of the department authorized by the State Council, the Company may have other forms of shares when needed.

The Company shall issue shares in an open, fair and just manner, and each share of the same category shall have the same right. All shares of the same category issued at the same time shall be issued under the same conditions and at the same price; the same price shall be paid for each share subscribed for by any entities or individuals.

Upon the approval by securities regulatory authorities under the State Council or other relevant regulatory authorities, the Company may issue its shares to the domestic and foreign investors.

The Board may make separate arrangements for the implementation of any issuance plans for the offering of overseas listed foreign shares and domestic shares by the Company as approved by the securities regulatory authorities under the State Council.

If the Company separately issues overseas listed foreign shares and domestic shares within the total number specified in the issuance plans, the said shares shall be issued respectively at one time; if it is impossible for the shares to be issued at one time for special reasons, the shares may be issued by several times upon approval by the securities regulatory authorities under the State Council.

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**Share Transfer**

Except as otherwise specified by laws, regulations, rules, normative documents and relevant provisions of the securities regulatory authority at the location where the Company’s shares are listed, shares of the Company may be transferred freely and without any liens. Transfer of overseas listed foreign shares listed in Hong Kong shall be registered with the Hong Kong-based share registry designated by the Company.

The Company shall not accept its own shares as the pledge object.

The shares of the Company held by the promoters shall not be transferred within one year after incorporation of the Company. Shares already issued by the Company before public offering shall not be transferred within one year after the shares of the Company are listed on the stock exchange. The directors, supervisors and senior management of the Company shall report to the Company their shareholdings and changes thereof and shall not transfer more than 25% of their shares per annum during their terms of office; the shares they hold in the Company shall not be transferred within one year after the shares of the Company are listed. The aforesaid persons shall not transfer their shares in the Company within half a year after they terminate service with the Company.

If the Company’s directors, supervisors, senior management, and shareholders holding more than 5% shares of the Company sell shares within six months after buying the same or buy shares within six months after selling the same, the earnings arising therefrom shall belong to the Company and the Board shall forfeit the said earnings. However, the six-month restriction shall not be applicable to any sale of shares by a securities company holding more than 5% of the Company’s shares as a result of its underwriting of the untaken shares.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to purchasers or potential purchasers of the Company’s shares for the purpose of purchase or intending to purchase our Shares. The aforesaid purchasers include persons directly or indirectly undertaking obligations because of the purchase of the Company’s shares.

The Company or its subsidiaries shall not at any time or in any form provide any financial assistance to the aforesaid obligors for the purpose of reducing or discharging their obligations in connection with the purchase or proposed purchase of the Company’s shares unless in the following circumstances:

- The Company provides the relevant financial assistance in the interests of the Company in good faith, and the main purpose of the said financial assistance is not to purchase the Company’s shares, or the said financial assistance is a part of a master plan of the Company;
- The Company distributes its assets as dividends in accordance with the law;
- The Company distributes dividends in the form of shares;

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- The Company decreases its registered capital, repurchases its shares and adjusts the equity structure in accordance with the Articles of Association;
- The Company provides a loan for its normal business operations within its business scope (but such financial assistance shall not give rise to a decrease in the net assets of the Company, except for in the event of a decrease, such financial assistance is provided out of the distributable profit of the Company); and
- The Company provides the funding for employee stock ownership plan (but such financial assistance shall not give rise to a decrease in the net assets of the Company, except for in the event of a decrease, such financial assistance is provided out of the distributable profit of the Company).

**SHARES BUYBACK**

The Company may, in the following circumstances, buy back its shares pursuant to laws, administrative regulations, department rules and Articles of Association:

- Decreasing the registered capital of the Company;
- Merging with other companies holding shares of the Company;
- Awarding shares to employees of the Company;
- As required by Shareholders objecting to resolutions of the general meeting concerning merger or division of the Company to buy their shares.

The Company shall not trade its shares unless in the aforesaid circumstances.

The Company may buy back its shares in any of the following ways:

- Offering to buy back shares from all shareholders on a pro rata basis;
- Buying back through open transaction in the stock exchange;
- Buying back through agreement outside the stock exchange; and
- In other forms approved by laws, regulations, rules, normative documents and relevant competent authorities.

In buying back shares through agreement outside the stock exchange, the Company shall obtain prior approval at a general meeting in accordance with the Articles of Association.

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After buying back its shares according to the laws, the Company shall cancel the said shares before the deadline specified by laws and administrative regulations, and register the change of the registered capital with the original company registration authority.

**INCREASE AND DECREASE OF SHARES**

Subject to approval of the shareholders at general meeting, the Company may, based on its requirements for operation and development and in accordance with the applicable laws and regulations, increase its capital by way of:

- Public offering of shares;
- Non-public offering of shares;
- Rights issue of shares to existing shareholders;
- Offer of bonus shares to existing shareholders;
- Capitalization of surplus reserve into share capital; and
- By other means stipulated by laws, administrative regulations or approved by the regulatory authorities.

The Company’s increase of capital by issuing new shares shall be subject to approval as specified in the Articles of Association and follow the procedures specified by the relevant PRC laws and administrative regulations.

The Company shall prepare a balance sheet and a list of property inventory when decreasing its registered capital.

The Company shall notify all its creditors within 10 days after adoption of the resolution to decrease the registered capital and shall make announcements in newspapers within 30 days. The creditors shall be entitled to require the Company to repay debts or provide corresponding guarantees in favor of such creditors for debt repayment within 30 days after the receipt of the notice, or within 45 days after the announcement for creditors if the creditors haven’t received the notice. The Company’s registered capital shall not, upon the decrease of capital, be less than the statutory minimum limit.

The Company shall decrease its registered capital pursuant to the PRC Company Law, other relevant regulations, and Articles of Association.

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**APPENDIX V**

**SUMMARY OF THE ARTICLES OF ASSOCIATION**

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**SHARE CERTIFICATES AND SHAREHOLDERS' REGISTER**

The share certificates of the Company shall be in registered form. In addition to the matters specified in the PRC Company Law, the Company's share certificates shall include other matters required by the securities regulatory authorities in the place where the Company's shares are listed.

The Company shall maintain a shareholders' register recording the following matters:

- Names (titles), addresses (domiciles), occupations or nature of each shareholder;
- Type and number of shares held by the shareholders;
- Monies paid or payable for the shares held by the shareholders;
- Serial numbers of the shares certificate held by each shareholder;
- Date on which each shareholder is registered as a shareholder; and
- Date on which each shareholder ceases to be a shareholder.

The shareholders' register is a sufficient evidence of the shareholders' shareholdings in the Company unless there is evidence to the contrary.

The Company may keep overseas the register of holders of overseas listed foreign shares and entrust it to the care of an overseas agency in accordance with the understanding and agreement reached between the securities regulatory authority under the State Council and the overseas securities regulatory authority. The original of the register of holders of overseas listed foreign shares listed in Hong Kong shall be kept in Hong Kong.

The Company shall keep at its domicile a copy of the register of holders of overseas listed foreign shares; the entrusted overseas agency shall always ensure that the original and copies of the register of holders of overseas listed foreign shares are consistent.

Where the original and copies of the register of holders of overseas listed foreign shares are inconsistent, the original shall prevail.

Change of the shareholders' register arising from share transfer shall not be registered within 30 days before convening of a general meeting or within five days prior to the benchmark date on which the Company decides to distribute dividends.

If any person objects to the shareholders' register and asks to have his name (title) recorded in or deleted from the shareholders' register, the said person may apply to the court with jurisdiction to correct the shareholders' register.

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If any shareholder in the shareholders’ register or any person requesting to have his name (title) recorded in the shareholders’ register has his shares stolen, lost or destroyed (i.e. “the Original Shares”), the said shareholder or person may apply to the Company to reissue new share certificates for the said shares (i.e. “the Relevant Shares”).

**SHAREHOLDERS AND THE GENERAL MEETING**

**Shareholders**

The Company shall make a register of shareholders based on the vouchers provided by securities registries. The register of shareholders shall be the sufficient evidence proving the shareholders’ holding of the Company’s shares.

The shareholders enjoy rights and assume obligations as per the shares they hold; the same class of shares represent the same rights and the same obligations.

Where more than two persons are registered as joint holders of any shares, they shall be deemed as the common owners of the said shares subject to the following restrictions:

- The Company shall not register more than four persons as joint holders of any shares;
- The joint holders of any shares shall assume joint and several liability for all amounts payable for relevant shares;
- If any of the joint shareholders deceases, only the surviving joint shareholders shall be deemed by the Company as owners of the relevant shares, but the Board may, for the purpose of modifying the shareholders’ register, require the provision of a death certificate as it deems appropriate; and
- Among the joint holders of any shares, only the shareholder that is listed first in the shareholders’ register shall be entitled to take relevant shares, receive notices of the Company, and attend the general meetings or exercise the full voting right of the relevant shares. Any notice received by such shareholder shall be deemed as having been served to all the joint holders of the relevant shares.

The ordinary shareholders of the Company shall be entitled to the following rights:

- To receive dividends and other distributions in proportion to the shares they hold;
- To lawfully request, convene, preside over, attend general meetings either in person or by proxy and exercise the corresponding voting right;
- To supervise, raise suggestions on or make inquiries about the operations of the Company;



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- To transfer, gift or pledge their shares in accordance with laws, regulations, rules, normative documents, relevant requirements of the securities regulatory authorities in the place where the Company's shares are listed and the Articles of Association;
- To gain relevant information in accordance with the Articles of Association, including:
  - (1) Receiving a copy of the Articles of Association after payment of cost; and
  - (2) Being entitled to consult and copy all the parts of shareholders' register; personal data of directors, supervisors, general manager and other senior management of the Company; share capital of the Company; report of the total par value, quantity, the highest and lowest price of each class of shares bought back by the Company from the last accounting year, and the total amount paid by the Company for this purpose; minutes of general meetings (for review by shareholders only); the latest audited financial statements, and reports from the Board, auditor and the Supervisory Committee; the special resolutions; the copy of the latest annual report submitted to the State Administration for Industry & Commerce or other competent authorities for filing; counterfoils of corporate bonds; resolutions of the Board meetings; resolutions of meetings of the Supervisory Committee; and financial and accounting reports after payment of reasonable fee.
- To participate in the distribution of the remaining properties of the Company as per their shares in the event of the termination or liquidation of the Company;
- To require the Company to buy their shares in the event of objection to resolutions of the general meeting concerning merger or division of the Company; and
- To enjoy other rights stipulated by laws, regulations, rules, normative documents, the Hong Kong Listing Rules and the Articles of Association.

If any resolution of the general meeting or the Board meeting is in violation of the laws and administrative regulations, the shareholders shall be entitled to request the people's court to invalidate the said resolution.

If the convening procedure and voting method of the general meeting or the Board meeting is in violation of the laws, administrative regulations or Articles of Association, or if the content of any resolution is in violation of the Articles of Association, the shareholders shall be entitled to request the people's court to cancel the said procedure, method or resolution within 60 days after adoption of the resolution.

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If any director or senior management violates laws, administrative regulations or Articles of Association in fulfilling their duties, thereby incurring any loss of the Company, the shareholder(s) severally or jointly holding 1% or more shares of the Company for more than 180 consecutive days shall be entitled to request the Supervisory Committee in writing to institute legal proceedings to the people's court; if the Supervisory Committee violates laws, administrative regulations or Articles of Association in fulfilling its duties, thereby incurring any loss of the Company, the shareholders shall be entitled to request the Board in writing to institute legal proceedings to the people's court.

If the Supervisory Committee or the Board refuses to institute legal proceedings after receipt of the aforesaid written request or does not institute legal proceedings within 30 days after receipt of the said request, or if the circumstance is urgent or any delay of legal proceedings may incur irrecoverable damage to the interests of the Company, the shareholders as specified in the preceding paragraph shall be entitled to directly institute legal proceedings to the people's court in their own names in the interests of the Company.

If any other person infringes upon the legitimate rights and interests of the Company, thereby incurring any loss of the Company, the shareholder(s) severally or jointly holding 1% or more shares of the Company for more than 180 consecutive days may institute legal proceedings to the people's court according to the aforesaid provision.

If any director or senior management violates laws, administrative regulations or Articles of Association, thereby incurring any loss of the shareholders, the shareholders may institute legal proceedings to the people's court.

The ordinary shareholders of the Company shall have the following obligations:

- To abide by laws, administrative regulations and Articles of Association.
- To pay subscription funds as per the shares subscribed for and the method of subscription.
- Not to exit shares unless in the circumstances stipulated by laws and regulations.
- Not to abuse shareholder's right to damage the interests of the Company or other shareholders; Not to abuse the independent status of legal person or shareholder's limited liability to damage the interests of the creditors of the Company; Shareholders of the Company who abuse their shareholder's rights and thereby causing loss on the Company or other shareholders shall be liable for loss compensation according to the law. Where shareholders of the Company abuse the Company's position as an independent legal person and the limited liability of shareholders for the purposes of evading repayment of debts, thereby materially impairing the interests of the creditors of the Company, such shareholders shall be jointly and severally liable for the debts owed by the Company.

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- The 99,980,000 shares in the former GF Securities Co., Ltd. (prior to its merger with Yanbian Road Construction Co., Ltd. (延邊公路建設股份有限公司)) held by Guangdong Finance Trust Co., Ltd. (廣東粵財信託有限公司) on trust for shareholders of the former GF Securities Co., Ltd. (including Liaoning Cheng Da Co., Ltd., Jilin Aodong Pharmaceutical Group Co., Ltd., Zhongshan Public Utilities Group Co., Ltd., Heungkong Group Limited, Guangzhou High Technology Industrial Group Co., Ltd., Jiuquan Iron and Steel (Group) Co., Ltd., Puning Xinhong Industrial Investment Co., Ltd. (普寧市信宏實業投資有限公司), Hengtong Group Co., Ltd. (亨通集團有限公司), Anhui Huamao Textile Co., Ltd., Shenzhen Huitianze Investment Co., Ltd. (深圳市匯天澤投資有限公司), Yihua Enterprise (Group) Co., Ltd., Hubei Buffalo Industrial Development Co., Ltd. (湖北水牛實業發展有限公司), Guangzhou Iron & Steel Enterprises Group (廣州鋼鐵企業集團有限公司), China Scholars Group Company Limited (神州學人集團股份有限公司) and Guangdong Zhaoqing Star Lake Bioscience Co., Inc. (廣東肇慶星湖生物科技股份有限公司) (the number of corresponding shares is 120,457,831 after completion of the share swap merger) and the increased corresponding shares resulting from the Company’s issuance of bonus shares and increase in share capital shall be used as basic assets of the Company’s relevant long-term employee scheme. To the extent permitted by relevant laws, regulations and rules, the relevant long-term employee scheme may be implemented according to relevant agreements or covenants signed by the afore-said shareholders or relevant legal entities including the labor union of the Company.
- To fulfill other obligations as stipulated by laws, administrative regulations and Articles of Association.

Shareholders holding or controlling 5% or more voting shares of the Company shall notify the Company within three working days after occurrence of any of the following circumstances:

- Equity of the Company they hold or control is under property preservation measures or enforcement measures;
- Equity of the Company they hold is pledged;
- Shares they hold as a percentage of the Company’s shares in issue increase or decrease 5%;
- Change of the de facto controller;
- Names are changed;
- A merger or division is effected;
- They are subject to regulatory measures including suspension of operation for rectification, designated custody, takeover or revocation or other regulatory measures, or proceeding with dissolution, bankruptcy or liquidation procedures;

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- They receive administrative penalty or are investigated for criminal responsibility due to serious violations of laws and regulations; and
- They are involved in other circumstances that may lead to transfer of equity of the Company they hold or control or affect operation of the Company.

The controlling shareholders and de facto controllers of the Company shall not use the connected relations to damage the interests of the Company; otherwise, they shall make compensation for the loss incurred by the Company.

**GENERAL PROVISIONS FOR GENERAL MEETINGS**

The general meeting shall be the authority of power of the Company and shall exercise the following functions and powers according to law:

- To decide the business operation guideline and investment plan for the Company;
- To elect and change directors and supervisors who are not employees' representatives, and resolve on the remunerations of directors and supervisors;
- To examine and approve reports of the Board;
- To examine and approve reports of the Supervisory Committee;
- To examine and approve the annual financial budgets and final accounting plans of the Company;
- To examine and approve the Company's profit distribution plan and loss recovery plan;
- To resolve on increase or decrease of the registered capital of the Company;
- To resolve on issuance of bonds of the Company;
- To resolve on the merger, division, dissolution, liquidation or transformation of the Company;
- To amend the Articles of Association;
- To resolve on the appointment or dismissal of the accounting firms by the Company;
- To examine and approve the external guarantees of the Company that require the approval by the general meetings;

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- To consider the Company’s purchase or disposal of major assets within one year with the aggregate transaction amount exceeding 30% of the latest audited total assets of the Company (after deducting clients’ margins);
- To examine and approve matters relating to the changes in the use of proceeds;
- To consider equity incentive scheme;
- To consider and approve proposals submitted by shareholders individually or jointly holding more than 3% of the voting shares of the Company; and
- To consider other matters which are required by laws, administrative regulations, department rules or Articles of Association to be approved at a general meeting.

The following external guarantees to be given by the Company shall be examined and approved by the general meeting:

- Provision of any external guarantee by the Company and its subsidiaries, the total amount of which exceeds 50% of the latest audited net assets of the Company;
- Provision of any external guarantee by the Company, the total amount of which reaches or exceeds 30% of the latest audited total assets of the Company (after deducting clients’ margins);
- Provision of guarantee to anyone whose liability-asset ratio exceeds 70%;
- Provision of a single guarantee whose amount exceeds 10% of the latest audited net assets of the Company; and
- Provision of guarantees to the shareholders, de facto controllers and their related parties.

General meetings are classified into annual general meetings and extraordinary general meetings. The annual general meeting shall be held once every year within six months after the end of the previous financial year.

In any of the following circumstances, the Company shall convene an extraordinary general meeting within two months from the date upon which the circumstance occurs:

- The number of Directors falls short of the quorum stipulated in the PRC Company Law or is less than two thirds of the number specified in the Articles of Association;
- The unrecovered losses of the Company amount to one third of the total amount of its paid-up share capital;

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- If shareholder(s) severally or jointly holding more than 10.0% of the Company's shares request(s) in writing the convening of an extraordinary general meeting, the number of shares held by shareholder(s) shall be calculated as at the date on which the relevant shareholders submit the written requisition;
- The Board considers it necessary;
- The Supervisory Committee proposes to convene such meeting; and
- Other circumstances stipulated by laws, administrative regulations, department rules or Articles of Association.

**CONVENING OF GENERAL MEETINGS**

Independent Directors shall be entitled to propose to the Board to convene an extraordinary general meeting. Regarding the proposal of the independent Directors to convene an extraordinary general meeting, the Board shall, pursuant to relevant laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. If the Board does not agree to hold the extraordinary general meeting, it shall give the reasons and publish an announcement.

The Supervisory Committee shall be entitled to propose to the Board to convene an extraordinary general meeting, and shall put forward its proposal to the Board in writing. The Board shall, pursuant to laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal.

If the Board agrees to convene the extraordinary general meeting, it will serve a notice of such meeting within five days after the resolution is made by the Board. In the event of any change to the original proposal set forth in the notice, the consent of the Supervisory Committee shall be obtained.

If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, it shall be deemed to be unable to perform or fail to perform the duty of convening the extraordinary general meeting, and the Supervisory Committee may convene and preside over the meeting by itself.

Shareholder(s) severally or jointly holding 10% or more shares of the Company shall be entitled to request the Board to convene an extraordinary general meeting, and shall put forward such request to the Board in writing. The Board shall, pursuant to laws, administrative regulations and Articles of Association, give a written reply on whether to convene the extraordinary general meeting or not within 10 days after receipt of the proposal.

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If the Board agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within five days after the resolution is made by the Board. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained.

If the Board does not agree to hold the extraordinary general meeting or fails to give a reply within 10 days after receipt of the proposal, shareholder(s) severally or jointly holding 10% or more shares of the Company shall be entitled to propose to the Supervisory Committee to convene an extraordinary general meeting, and shall put forward such request to the Supervisory Committee in writing.

If the Supervisory Committee agrees to convene the extraordinary general meeting, it shall serve a notice of such meeting within 5 days after receipt of the said request. In the event of any change to the original proposal set forth in the notice, the consent of relevant shareholder(s) shall be obtained.

In the case of failure to issue the notice for the general meeting within the term stipulated, the Supervisory Committee shall be deemed as failing to convene and preside over the general meeting. As a result of its failure to do so for more than 90 consecutive days, the shareholder(s) severally or jointly holding 10% or more shares of the Company for more than 90 consecutive days may convene and preside over such meeting by itself/themselves.

Where the Supervisory Committee or shareholders decide to convene a general meeting by itself/themselves, it/they shall notify the Board in writing and file with the local office of the CSRC and the stock exchange in the place where the Company is located according to relevant requirements.

The shareholding of shareholders who convene the general meeting shall be no less than 10% before a resolution passed at the general meeting is announced.

The convening shareholders shall, when the notice of general meeting is issued and a resolution made at the general meeting is announced, submit relevant evidential documents to the local office of the CSRC and the stock exchange in the place where the Company is located.

Where the Company convenes a general meeting, a written notice shall be given 45 days prior to the date of the meeting to notify all the shareholders in the shareholders' register of the issues to be considered at the meeting, and the date and venue of the meeting. Any shareholder who intends to attend the meeting shall deliver to the Company a written reply stating his or her intention to attend 20 days prior to the meeting.

Where the number of voting shares represented by shareholders intending to attend the meeting amounts to more than one half of the Company's voting shares, the Company may convene the general meeting; if not, the Company shall, within five days, notify shareholders again of the issues to be considered, date and venue of the meeting in the form of public announcements. The Company may then convene the general meeting after such announcements.



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The interval between equity registration date and the date of the general meeting shall not be more than seven working days. The equity registration date shall not be changed once confirmed.

After the notice of general meeting is issued, the same meeting shall not be postponed or cancelled and the proposals set out in the notice shall not be cancelled without proper reasons. In the case of any postponement or cancellation, the convener shall make an announcement and give the reasons therefor at least 2 working days prior to the date on which the meeting is originally scheduled.

Any shareholder entitled to attend and vote at a general meeting shall be entitled to appoint one or more persons (who need not be a shareholder or shareholders) as his proxies to attend and vote on his behalf. The said proxy may exercise the following rights as granted by the said shareholder:

- To exercise the said shareholder's right to speak at the general meeting;
- To exercise the right to demand a poll severally or jointly with others; and
- To exercise the right to vote by a show of hand or on a poll; where there are more than one proxy, the said proxies shall only vote on a poll.

The power of attorney shall be in writing under the hand of the principal or his proxy duly authorized in writing or, if the principal is a legal person or an institution, it shall be under seal or under the hand of its legal representative or a proxy duly authorized.

The chairman of the Board shall preside over and act as chairman of the general meeting convened by the Board. If the chairman of the Board is unable or fails to perform his/her duties, the vice chairman of the Board shall preside over and act as chairman of the meeting. Where the vice chairman of the Board is unable or fails to perform his/her duties, a Director selected by more than half of all Directors shall preside over and act as chairman of the meeting.

If the Board is unable or fails to perform the duties of convening a general meeting, the Supervisory Committee shall timely convene and preside over the meeting. If the Supervisory Committee fails to convene and preside over a general meeting, shareholders severally or jointly holding 10% or more of the Company's shares for more than 90 consecutive days shall have the right to convene and preside over the meeting. Where the shareholders fail to elect a chairman of the general meeting for any reasons, the shareholder (including his/her proxy) present in person or by proxy who holds the largest number of voting shares shall be the chairman of the general meeting.

The chairman of the Supervisory Committee shall preside over the general meeting convened by the Supervisory Committee. If the chairman of the Supervisory Committee cannot or does not fulfill his/her duties, a Supervisor jointly elected by more than half of the supervisors shall preside over the meeting.

A representative elected by the convener shall preside over the general meeting convened by the Shareholders.



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Where a general meeting is held and the chairman of the meeting violates the rules of procedure which makes it impossible for the general meeting to continue, a person may be elected at the general meeting to act as chairman and continue the meeting, subject to the approval of more than half of the attending shareholders having the voting rights.

The Company shall formulate rules of procedure for general meetings which shall specify the convening and voting procedure of general meetings.

All directors, supervisors and secretary of the Board shall attend general meetings of the Company, and the general manager and other senior management shall be present at the meetings.

The convener shall ensure that the general meeting is held continuously until final resolutions have been reached. In the event that the general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or for other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly and an announcement shall be published timely. Meanwhile, the convener shall report the same to the local office of the CSRC and the stock exchange in the place where the Company is located according to relevant requirements.

The Board and the Supervisory Committee shall report their work for the past year at the annual general meeting. Each independent director shall also submit his/her work report.

The directors, supervisors and senior management of the Company shall answer and explain inquiries and proposals made by shareholders at the general meeting except that the business secrets of the Company are involved and cannot be disclosed at the general meeting.

Minutes of a general meeting shall be kept by the secretary of the Board. The directors, the supervisors, the secretary of the Board, the convener or representative thereof, and the chairman of the general meeting shall sign on the minutes of the meeting. The minutes of meeting shall be kept together with the attendance record of the attending shareholders, the power of attorney of the proxies and the valid information of online voting and other means of voting for a term of not less than 15 years.

**PROPOSALS OF GENERAL MEETINGS**

Where the Company convenes a general meeting or meetings of the Board and the Supervisory Committee, shareholder(s) severally or jointly holding 3% or more shares of the Company may make proposals to the Company.

Shareholder(s) severally or jointly holding no less than 3% shares of the Company may submit written provisional proposals to the convener 10 days before a general meeting is convened. The convener shall serve a supplementary notice of general meeting within 2 days after receipt of a proposal, and announce the contents of the proposal on the agenda.

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Except as specified in the preceding paragraph, the convener shall not change the proposal set out in the notice of general meeting or add any new proposal after the said notice announcement is served.

**RESOLUTIONS OF GENERAL MEETINGS**

Resolutions of a general meeting shall be categorized into ordinary resolutions and special resolutions. Ordinary resolutions shall be passed by votes representing more than half of the voting rights held by shareholders (including proxies thereof) attending the general meeting. Special resolutions shall be passed by votes representing more than two thirds of voting rights held by shareholders (including proxies thereof) attending the general meeting.

The following issues shall be approved by special resolutions at a general meeting:

- Increase or decrease in the registered capital of the Company;
- Issue of shares of any class, warrants and other similar securities;
- Proposed change or annulment to the rights of class shareholders;
- Division, merger, dissolution or transformation of the Company;
- Amendment to the Articles of Association;
- The Company’s purchase or disposal of major assets or provision of guarantees within one year with the transaction amount exceeding 30% of the latest audited total assets of the Company (after deducting clients’ margins);
- Equity incentive scheme;
- Issue of corporate bonds;
- Any other issue specified in the laws, administrative regulations or Articles of Association and confirmed by an ordinary resolution at a general meeting that it may have material impact on the Company and accordingly shall be approved by special resolutions.

Shareholders (including proxies thereof) shall exercise their voting rights as per the voting shares they represent. Each share carries the right to one vote.

The Company has no voting right for our shares it holds, and such part of shares shall be excluded from the total number of voting shares represented by the shareholders attending the general meeting.

When a connected transaction is considered at a general meeting, connected shareholders shall not vote, and the voting shares held by them shall not be counted in the total number of shares with voting rights. The announcement of the resolutions of the general meeting shall fully disclose the voting of non-connected shareholders.

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In addition to the cumulative voting system, the general meeting shall resolve on all the proposals separately; in the event of several proposals for the same issue, such proposals shall be voted on and resolved in the order of time at which they are submitted. Unless the general meeting is adjourned or no resolution can be made for special reasons such as force majeure, voting of such proposals shall neither be shelved nor refused at the general meeting.

When votes are cast on proposals at the general meeting, lawyers, representatives of the shareholders and the representative of supervisors shall be jointly responsible for scrutinizing and counting votes and shall announce the voting results at the meeting. The voting result shall be recorded in the meeting minutes. If ballots are counted at a general meeting, the counting result shall be recorded in the meeting minutes.

**SPECIAL VOTING PROCEDURES FOR CLASS SHAREHOLDERS**

Holders of different classes of shares are class shareholders. Apart from holders of other classes of shares, holders of domestic shares and overseas listed foreign shares are deemed to be shareholders of different classes.

Any proposed change or annulment by the Company to the rights of class shareholders shall not come into effect unless approved by special resolutions at a general meeting and a separate general meeting convened by the class shareholders so affected in accordance with relevant provisions.

The following circumstances shall be deemed as change or annulment of the rights of a certain class shareholder:

- (1) To increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class having voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;
- (2) To change all or part of the shares of such class into shares of another class or to change all or part of the shares of another class into shares of that class or to grant relevant conversion rights;
- (3) To cancel or reduce rights to accrued dividends or cumulative dividends attached to shares of the said class;
- (4) To reduce or cancel rights attached to the shares of the said class to preferentially receive dividends or to receive distributions of assets in a liquidation of the Company;
- (5) To add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of the Company attached to the shares of the said class;

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- (6) To cancel or reduce rights to receive payments made by the Company in a particular currency attached to the shares of the said class;
- (7) To create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of the said class;
- (8) To restrict the transfer or ownership of the shares of the said class or to impose additional restrictions;
- (9) To issue rights to subscribe for, or to convert into, shares of the said class or another class;
- (10) To increase the rights and privileges of the shares of another class;
- (11) To restructure the Company in such a way as to cause shareholders of different classes to bear liabilities disproportionately during the restructuring; and
- (12) To amend or cancel provisions in the section headed Special Voting Procedures for Class Shareholders in the Articles of Association.

Where issues specified in items (2) to (8) and (11) to (12) above are involved, the affected class shareholders, whether or not they are entitled to vote at general meetings originally, shall have the right to vote at class meetings. However, interested shareholder(s) shall not be entitled to vote at such class meetings.

Resolutions of a class general meeting shall be approved by votes representing more than two thirds of the voting rights of shareholders of that class present at the meeting who are entitled to vote at the meeting.

Special voting procedures for class shareholders shall not apply in the following circumstances:

- With the approval by a special resolution at a general meeting, the Company issues and plans to issue, on one or more occasions, a total number of shares not exceeding 20% of each of its existing issued and outstanding domestic shares and overseas listed foreign shares in every twelve months;
- The Company's plan to issue domestic shares and overseas listed foreign shares at the time of its establishment is completed within fifteen months from the date of approval of the securities regulatory authority under the State Council; and
- With approval of the securities regulatory authority under the State Council, the holders of domestic shares of the Company can transfer their shares to overseas investors and list the said shares on overseas stock exchanges.

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**DIRECTORS AND THE BOARD**

**Directors**

Directors are natural persons and need not hold shares of the Company.

Directors shall be elected or replaced at general meetings. A Director shall serve a term of three years, and may seek reelection upon expiry of the said term.

The term of a Director shall be calculated from the date upon which the director assumes office to the expiry of the current Board. If the term of office of a director expires but reelection is not made responsively, the said director shall continue fulfilling the duties as director pursuant to laws, administrative regulations, department rules and Articles of Association until a new director is elected.

A Director may serve concurrently as the general manager or other senior management, but the total number of directors serving concurrently as the general manager or other senior management shall not be more than half of the Directors.

Directors shall observe laws, administrative regulations and the Articles of Association, honestly perform their duties, and protect the interests of the Company. In the event of any conflicts between their own interests and the interests of the Company and its shareholders, Directors shall act in the best interest of the Company and its shareholders. Directors shall undertake the following fiduciary duties to the Company:

- Not to abuse their official powers to accept bribes or other unlawful income, and not to expropriate the Company's property;
- Not to misappropriate monies of the Company or customers;
- Not to open in their own names or in others' names any bank account for the purpose of depositing any of the Company's assets or monies;
- Not to lend monies of the Company to other persons or provide guarantee for other persons with the property of the Company counter to the Articles of Association or without the consent of the general meeting or the Board;
- Not to conclude any contract or conduct any transaction with the Company counter to the Articles of Association or without the consent of the general meeting;
- Not to take advantage of their positions to seek for themselves or others any business opportunities that are due to the Company, or conduct for themselves or others any businesses similar to those of the Company without the consent of the general meeting;
- Not to take as their own any commission for any transaction with the Company;

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- Not to disclose any secret of the Company;
- Not to seek gains for themselves or others by taking advantage of inside information;
- Not to use their connected relations to damage the interests of the Company;
- To fulfill other fiduciary duties stipulated by laws, administrative regulations, department rules and Articles of Association.

Directors shall fulfill the following obligations of diligence:

- To exercise the rights conferred by the Company with due discretion, care and diligence to ensure the business operations of the Company comply with PRC laws, administrative regulations and relevant PRC policies and are not beyond the business scope specified in the business license of the Company;
- To treat all shareholders impartially;
- To carefully read the relevant business and financial reports of the Company and keep informed of the operation and management conditions of the Company;
- to initial and approve periodic reports of the Company and to ensure the truthfulness, accuracy and completeness of the information disclosed by the Company;
- To honestly provide the Supervisory Committee with relevant information, not to prevent the Supervisory Committee or supervisors from exercising their functions and powers, and to accept the lawful supervision and rational suggestions of the Supervisory Committee on their performance of duties; and
- To fulfill other obligations of diligence stipulated by laws, administrative regulations, department rules and Articles of Association.

Except as specified in the Articles of Association or properly authorized by the Board, no director shall act on behalf of the Company or the Board in his personal name. If a director acts in his own name but a third party may reasonably think the said director is acting on behalf of the Company or the Board, the said director shall make a prior statement of his standpoint and capacity.

If any director fails to attend Board meetings in person or by proxy for two consecutive times, the said director shall be deemed incapable of performing his duties, and the Board shall suggest that the general meeting dismiss the said director.

A director may resign before his term of office expires. If the number of directors of the Board falls below the quorum as a result of any resignation, the said director shall continue fulfilling the duties as director pursuant to laws, administrative regulations, department rules and Articles of Association until a new director is elected. Except as provided in the preceding paragraph, a director's resignation shall be effective when his resignation is served to the Board.

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A director shall complete all of the handover procedures with the Board once his/her resignation becomes effective or his/her term of office expires. The fiduciary duties to the Company and the shareholders are not necessarily released upon expiry of his/her term of office, but shall remain effective in a term of twelve months. The duty of confidentiality in respect of trade secrets of the Company survives the termination of his term of office until such trade secrets become publicly known. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances and conditions under which the relationship between the director and the Company was terminated.

**Independent Directors**

The Company shall establish an independent director system. More than one third of the members of the Board shall be independent directors.

Independent directors shall have the same term of office as other Directors. The term of office of an independent director is renewable upon re-election when it expires, but no independent director shall serve more than two consecutive sessions.

An independent Director shall meet the following basic conditions:

- Having the qualifications as a director of a listed company in accordance with the laws and administrative regulations of the listing venue, rules of the stock exchange on which shares are listed and other relevant provisions;
- Being independent as required by the CSRC;
- Knowing the basic knowledge about operations of companies, and being proficient in relevant laws, administrative regulations, regulations and rules;
- Having more than five years' experience in securities, financial, legal and economic work or other work required for fulfilling duties as independent director;
- Having sufficient time and energy required for fulfilling independent duties;
- Other conditions required by the Articles of Association.

The following persons shall not act as independent Directors:

- Persons employed by the Company or its affiliated companies and their immediate family members and major social connections (immediate family members shall include spouse, parents and issues and major social connections shall include siblings, parents-in-law, sons/daughters-in-law, spouses of siblings, siblings of spouse) and core connected persons as defined in the Hong Kong Listing Rules;

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- Natural person shareholders who directly or indirectly hold more than 1% of the issued shares of a listed company or natural persons who are the top 10 shareholders of a listed company and their immediate family members;
- Persons employed by the corporate shareholders which directly or indirectly hold more than 5% of the Company’s issued shares or employed by the top five corporate shareholders of a listed company and their immediate family members;
- Persons providing financial, legal or consulting services to the Company or its affiliated companies;
- Persons who fell within the four aforesaid categories within the preceding year;
- Persons holding positions other than independent directors in other securities companies;
- Other persons unfit to serve as independent directors upon confirmation by the CSRC, the securities regulatory authority at the location where the Company’s shares are listed and other relevant regulatory authorities.

**The Board**

The Company shall have a board of Directors, which shall be accountable to the general meeting. The Board shall consist of eleven directors, including one chairman and one to two vice chairmen.

The Board shall exercise the following functions and powers:

- To convene general meetings and report to general meetings;
- To execute resolutions of general meetings;
- To resolve on the Company’s business plans and investment plans;
- To formulate the Company’s long-term and mid-term development plan;
- To prepare the annual financial budgets and final accounting plans of the Company;
- To prepare the profit distribution plan and loss makeup plan of the Company;
- To prepare plans for the increase or decrease of the registered capital of the Company, the issuance of bonds or other securities and the Listing;
- To formulate plans for material acquisitions, purchase of shares of the Company, merger, division, dissolution or transformation of the Company;



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- To decide on external investment, acquisition and disposal of assets, asset mortgage, external guarantee, consigned financial management, connected transactions, etc. of the Company within the authority granted by the general meeting;
- To resolve on the establishment of internal management organizations of the Company;
- To appoint or dismiss the Company’s general manager, secretary of the Board, chief compliance officer and chief audit officer as nominated by the chairman; to appoint or dismiss the Company’s vice general manager, chief financial officer and other senior management as nominated by the general manager and determine their remunerations and rewards and penalties;
- To set up the basic management system of the Company;
- To formulate the proposals for any amendment to the Articles of Association;
- To manage the disclosure of information by the Company;
- To propose to general meetings the appointment or change of the accounting firm acting as the auditors of our Company;
- To listen to the work report of the general manager of the Company and examine the general manager’s work;
- To monitor, review and evaluate the establishment and implementation of the Company’s various internal control systems and to be responsible for the effectiveness of the internal control;
- To ensure the independence of the chief compliance officer, guarantee the independent communication between the chief compliance officer and the Board and safeguard the smooth reporting between the chief compliance officer and the regulatory authority; to review the compliance report and monitor the implementation of the compliance policies;
- To examine and approve significant risk management policies including risk preference;
- To exercise other functions and powers as conferred by laws, administrative regulations, department rules or Articles of Association.

The Board shall make explanations to the general meeting in relation to the non-standard audit opinions expressed by the registered accounting firm on the financial reports of the Company.

The Board shall formulate rules of procedure for the Board meetings in order to make sure that the Board shall implement the resolutions made by the general meeting, improve the work efficiency and guarantee scientific decision-making.

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The chairman and the vice chairman of the Board shall be a Director and shall be elected or dismissed by a majority of all the directors.

The chairman of the Board shall exercise the following functions and powers:

- To preside over general meetings, convene and preside over the Board meetings and direct the daily operation of the Board;
- To sign important documents of the Board (including reports, representations, announcements or notices sent or delivered to relevant governmental authorities, other enterprises or public institutions, lending banks, securities underwriters or the Company's shareholders and directors in the name of the Board);
- To sign the securities issued by the Company;
- To exercise the special right of disposal in respect of the business of the Company in compliance with laws and in the interests of the Company in case of force emergent majeure events such as extraordinary natural disasters, and report to the Board and the general meeting of the Company afterwards;
- To monitor and examine the implementation by the management team of resolutions made by the Board and propose relevant advice and suggestions;
- To examine, approve, sign and issue the Company's basic management system;
- To nominate the general manager, chief audit officer, chief compliance officer and secretary of the Board;
- To examine and approve the costs and expenses which exceed or are not included in the Company's annual budget within the authority granted by the Board;
- To examine and approve the purchase and disposal of fixed assets within the authority granted by the Board;
- To exercise other functions and powers conferred by laws, administrative regulations, rules of competent authorities or the Board.

The notice of an extraordinary meeting of the Board shall be served by: direct delivery, fax, e-mail or other means. The time limit of such notice is: 3 days prior to the date of meeting. The aforesaid time limit may not apply if written consent is given by all directors present at the meeting.

A Board meeting shall be attended by more than one half of the directors. Except as otherwise specified in the Articles of Association, resolutions made by the Board must be passed by more than half of all directors.

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If any director has connection with the enterprise involved in the resolution made at a Board meeting, the said director shall not vote on the said resolution for himself or on behalf of other directors. The Board meeting may be held when more than half of the non-connected directors attend the meetings. The resolution made at the Board meeting shall be passed by more than half of the non-connected directors. If the number of non-connected directors attending the meetings is less than three, the matter shall be submitted to the general meeting for consideration.

Directors shall attend Board meetings in person. If any director cannot attend the meeting for any reason, he may authorize in writing another director to act on his behalf.

The Board shall file resolutions passed at the meeting as minutes, which shall be signed by the attending Directors and the recorder. The minutes of Board meetings shall be kept as the Company's record for a term of not less than 15 years.

The Directors shall be responsible for the resolutions passed at Board meetings. If any resolution made by the Board runs counter to the laws, administrative regulations, Articles of Association or resolutions passed at the general meeting and causes any substantial losses to the Company, directors who vote for the said resolution shall be liable for compensation to the Company. If any director raises an objection to the resolution and the said objection is recorded in the minutes, the said director may be exempt from any liability.

**Special Committees under the Board**

The Board consists of four special committees, namely the Audit Committee, the Risk Management Committee, the Remuneration and Nomination Committee and the Strategy Committee. All members of the special committees shall be Directors. More than half of the members of the Audit Committee and the Remuneration and Nomination Committee shall be independent directors, one of whom shall act as the chairman of the committee. All members of the Audit Committee shall be non-executive directors, and there shall be at least one independent director who has worked as an accountant for more than 5 years. The chairmen of the Remuneration and Nomination Committee and the Audit Committee shall be an independent Director.

**Secretary of the Board**

The Board shall have a secretary, who is a member of senior management of the Company. The secretary of the Board shall be responsible to the Company and the Board.

The secretary of the Board shall be nominated by the chairman and appointed or dismissed by the Board.

The main duties of the secretary of the Board are:

- To prepare and submit any report or document which relevant PRC authorities require the Board or the general meetings to issue;

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- To arrange for Board meetings and general meetings and keep the meeting minutes and documents and records relating to the meetings;
- To maintain the information of the Company's shareholders;
- To handle the information disclosure matters of the Company and ensure the timely, accurate, lawful, true and complete information disclosure by the Company;
- To ensure that the persons who have the right of access to the relevant records and documents of the Company obtain the same in a timely manner;
- To fulfill other duties required by the Articles of Association and the listing rules of the place where the Company's shares are listed;
- A director or another senior management of the Company may also act as the secretary of the Board. Certified public accountants of the accounting firm or lawyers of the law firm appointed by the Company shall not concurrently act as the secretary of the Board.

**General Manager and Other Senior Management**

The Company shall have one general manager, who shall be appointed or dismissed by the Board.

The general manager shall serve a term of three years and may serve consecutive terms upon reappointment.

A director may concurrently serve as a senior management, but the directors concurrently serving as such shall not be more than half of the directors of the Company.

Members of staff of the controlling shareholders and effective controllers of the Company who serve positions other than directors shall not serve as senior management of the Company.

The general manager shall be accountable to the Board and exercise the following functions and powers:

- To manage the business operations of the Company, organize and implement the Board's resolutions, and report to the Board;
- To organize and implement the Company's annual business plans and investment plans;
- To prepare the plan for the establishment of internal management of the Company;
- To prepare the plan of the basic management system of the Company;
- To formulate the Company's specific rules;

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- To nominate the vice general manager, chief financial officer and other officers of the Company;
- To decide to appoint or dismiss executives other than those appointed or dismissed by the Board;
- To formulate plans for the wages, benefits, awards and punishments of the employees of the Company and determine the employment and dismissal of such employees;
- To sign and issue documents relating to our daily administrative and business activities and other matters;
- To organize the identification and assessment of various risks, establish a sound and effective internal control mechanism and internal control system and timely rectify the deficits and problems in our internal control;
- To propose the convening of an extraordinary meeting of the Board;
- To exercise other functions and powers conferred in the Articles of Association and by the Board.

The general manager shall formulate his/her working rules, which shall come into effect upon approval by the Board.

The Company shall have one chief compliance officer, who shall be nominated by the chairman of the Board and be appointed or dismissed by the Board. The chief compliance officer appointed by the Company shall meet the requirements specified by regulations and the regulatory authority. Procedures for the appointment and dismissal of the chief compliance officer shall comply with regulations and requirements of the regulatory authority.

The chief compliance officer shall perform the following duties:

- To organize the formulation of the Company’s basic compliance system and advise the Company and urge relevant departments to amend and optimize relevant management rules and business processes;
- To conduct compliance reviews on the Company’s significant decisions and important business activities and provide compliance advice and, upon request by the securities regulatory authority, conduct compliance reviews on the applications or reports submitted by the Company;
- To monitor and check the compliance of the Company’s operational and management activities and employees’ occupational behaviors;
- To organize the implementation of anti-money laundering work and the Chinese wall system;

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- To urge the Company to rectify its non-compliance with laws and regulations and potential compliance risks; and
- To exercise other duties specified by laws, regulations and the regulatory authority.

If any senior management violates the laws, administrative regulations, department rules or Articles of Association in fulfilling his duties, thereby incurring any loss of the Company, he/she shall be liable for compensation.

### **SUPERVISORS AND SUPERVISORY COMMITTEE**

#### **Supervisor**

Directors, general manager and other senior management shall not serve as supervisors concurrently.

The term of office of a supervisor shall be three years. A supervisor may serve consecutive terms upon expiration of his term if re-appointed.

Shareholder supervisors shall be elected or replaced at the general meetings, employee supervisors shall be elected or replaced democratically by employees of the Company.

If the term of office of a supervisor expires but reelection is not made responsively or if any supervisor resigns during his term of office so that the membership of the Supervisory Committee falls short of the quorum, the said supervisor shall continue performing the duties as supervisor pursuant to laws, administrative regulations and Articles of Association until a new supervisor is elected.

If any supervisor fails to attend meetings of the Supervisory Committee for two consecutive times, he/she shall be deemed as incapable of performing the duties, and shall be removed by the general meeting or the employee representatives' meeting.

Supervisors may be present at Board meetings and make enquiries or proposals in respect of Board resolutions.

#### **Supervisory Committee**

The Company shall have a Supervisory Committee comprising 5 supervisors. Among them, 3 supervisors are shareholder representatives elected by the general meeting, while 2 supervisors are employee representatives of the Company. The Supervisory Committee shall have one chairman, who shall be appointed or removed by the votes of more than two thirds of the members of the Supervisory Committee.

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The Supervisory Committee shall exercise the following functions and powers:

- To review the periodic reports of the Company prepared by the Board and express its written opinion;
- To check the financial condition of the Company;
- To monitor and inquire about the performance of duties by directors and senior management and propose dismissal of directors and senior management who have violated laws, administrative regulations, the Articles of Association or the resolutions of general meetings;
- To require directors and senior management to make corrections if their conduct has damaged the interests of the Company;
- To propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings in accordance with PRC Company Law, to convene and preside over the general meetings;
- To propose motions to the general meeting;
- To initiate proceedings against directors and senior management pursuant to Article 152 of the PRC Company Law;
- To organize departure auditing of the chairman and vice chairman of the Board and senior management;
- To review the financial reports, business reports and profit distribution schemes to be submitted by the Board to the general meetings; to conduct investigation if there is any doubt or any unusual circumstances in the Company's operations; and if necessary, to engage an accounting firm, law firm or other professional institutions to assist in their work at the expenses of the Company;
- To exercise other powers conferred by laws, administrative regulations, department rules or general meetings.

Meetings of the Supervisory Committee shall be held at least once every six months. Notices of regular meetings of the Supervisory Committee shall be served to all the supervisors 10 days before the meetings are convened. Supervisors may propose the convening of provisional meetings of the Supervisory Committee. Notices of provisional meetings shall be served to all the supervisors 2 days before the meetings are convened. The aforesaid time limit may not apply if written consent is given by all the supervisors present at the meeting.

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**Resolutions of Supervisory Committee**

Resolutions made by the Supervisory Committee shall be approved by more than two thirds of the members of the Supervisory Committee.

The Supervisory Committee shall file resolutions passed at the meeting as minutes, which shall be signed by the attending supervisors and the recorder.

Any Supervisor shall be entitled to have an explanatory note made in the minutes regarding his speech at the meeting. The minutes of meetings of the Supervisory Committee shall be kept as the Company's record for a term of at least 15 years.

**Qualifications and Obligations of Directors, Supervisors, General Manager and Other Senior Management**

The following person shall not serve as Director, Supervisor, general manager or other senior management of the Company:

- persons without capacity or with limited capacity of civil conduct;
- persons who have committed offences relating to corruption, bribery, misappropriation of fund, misappropriation of property or disruption of social economic order and have been sentenced to criminal punishment, where less than five years has elapsed since the date of completion of the sentence, or who have been deprived of their political rights due to a criminal offense, where less than five years has elapsed since the date of restoring their political rights;
- persons who were former directors, factory managers or managers of a company or enterprise which was declared bankrupt and was liquidated and who were personally liable for the bankruptcy of such company or enterprise, where less than three years has elapsed since the date of completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked and was ordered to close down due to violation of the law and who were personally liable, where less than three years has elapsed since the date of the revocation;
- persons who have a substantial amount of debts due and outstanding;
- persons who are subject to the CSRC's punishment which prohibits them from entering into the securities market for a period which has not yet expired;
- persons in charge of stock exchange, securities registration and clearing institutions or directors, supervisors or senior management of securities companies, whose were dismissed for any act against law or relevant discipline where less than five years has elapsed since the date of the removal;



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- persons who has been convicted by the competent authority for violation of securities regulations by acting fraudulently or dishonestly, where less than five years has elapsed since the date of the conviction;
- persons who are lawyers, certified public accountants or professionals of investment consulting institutions, financial advising institutions, credit rating institutions, assets valuation institutions or certification institutions, whose qualification was revoked for any act against law or relevant discipline, where less than five years has elapsed since the date of the revocation;
- government officers and other persons who are prohibited by law and administrative regulations from concurrently holding position in a company;
- persons who were subject to administrative penalties by the financial regulatory department due to material illegal or improper behavior where less than three years has elapsed since the date of completion of the penalties;
- persons who are disqualified by the CSRC where less than three years has elapsed since the date of disqualification;
- persons who are determined to be unfit by the CSRC where less than two years has elapsed since the date of the determination;
- persons who are prohibited from acting as a leader of a company by laws or administrative regulations;
- persons other than a natural person;
- persons who are under investigation by the judicial authority for violation of the criminal law;
- other circumstances as specified by the CSRC;
- other circumstances as stipulated in laws, administrative regulations or department rules.

Any election, designation or appointment of Directors, Supervisors, the general manager or other senior management in violation of this provision shall be invalid. The Company shall dismiss the Director, Supervisor, the general manager or other senior management if they are involved in the said circumstances during their respective term of office.

The validity of an act of a Director, the general manager or other senior management on behalf of the Company for a bona fide third person is not affected by any incompliance in the appointment, election or qualification thereof.

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In fulfilling their duties, the Directors, Supervisors, the general manager and other senior management must observe the principle of honesty and shall not set themselves in a position where their own interests conflict with their obligations. The said principle includes (but not limited to) the following obligations:

- To sincerely act in the best interest of the Company;
- To exercise their rights within their terms of reference;
- To exercise personally the discretion vested in them and not to allow themselves to be controlled by others and, except as permitted by laws or administrative regulations or with the informed consent of shareholders given at a general meeting, not to transfer the exercise of their discretion to others;
- To be equitable towards shareholders of the same class and fair towards shareholders of different classes;
- Not to conclude any contract, conduct any transaction or make any arrangement with the Company saved as otherwise specified in the Articles of Association or with the informed consent of shareholders given at a general meeting;
- Not to seek personal gains by using the property of the Company in any form without the informed consent of shareholders given at a general meeting;
- Not to abuse official powers to accept bribes or other unlawful income, and not to expropriate the Company's property in any form, including (but not limited to) opportunity favorable to the Company;
- Not to accept commissions in connection with the Company's transactions without the informed consent of shareholders given at a general meeting;
- To observe the Articles of Association, fulfill duties honestly, protect the interests of the Company, and not to seek personal gains by using their positions and powers in the Company;
- Not to compete with the Company in any form without the informed consent of shareholders given at a general meeting;
- Not to appropriate the monies of the Company or lend the same to others, not to deposit the Company's assets in the accounts of their own or others, and not to use the Company's assets as security for the personal debts of the shareholders of the Company or others;

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- Not to disclose any confidential information related to the Company acquired by them during the term of their office without the informed consent of the shareholders at a general meeting; not to use the said information save for the interest of the Company; however, they may disclose such information to a court or other governmental regulatory authorities in the following circumstances:
  - (1) As required by law;
  - (2) As required for the interests of the public; and
  - (3) As required for the interests of the said Directors, Supervisors, the general manager and other senior management.

The fiduciary duties of Directors, Supervisors, the general manager and other senior management shall not end with the expiry of their terms of office, and their confidentiality obligation in respect of any commercial secrets of the Company shall continue after expiry of their terms of office. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the specific circumstances and conditions under which the relationship between them and the Company was terminated.

If the Directors, Supervisors, the general manager and other senior management of the Company have any direct or indirect material interests in any contract, transaction or arrangement already concluded or proposed contract, transaction and arrangement with the Company (exclusive of appointment contracts signed by the Company with Directors, Supervisors, the general manager and other senior management), they shall responsively disclose the nature and extent of the said interests to the Board regardless whether the relevant matters are subject to approval by the Board in normal circumstances.

The Company shall not pay taxes for its Directors, Supervisors, the general manager and other senior management by any means.

The Company shall not directly or indirectly provide loan or loan guarantee to the Directors, Supervisors, the general manager and other senior management of the Company or its parent company, or to the related persons of the aforesaid persons except when:

- The Company provides loan or loan guarantee for its subsidiaries;
- The Company, in accordance with the appointment contracts approved at the general meeting, provides loan, loan guarantee or other monies to the directors, supervisors, the general manager and other senior management of the Company so that they may pay the expenses incurred for the Company or for fulfilling their duties;
- If the normal business scope of the Company includes provision of loan and loan guarantee, the Company may provide loan and loan guarantee to the relevant directors, supervisors, the general manager and other senior management and their connected persons, but the conditions for providing loan or loan guarantee shall be normal commercial terms.

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If the Company provides loan in violation of the said provision, the recipient of the loan shall return the same immediately regardless of the loan conditions.

If the Directors, Supervisors, the general manager or other senior management violate the obligations to the Company, the Company shall be entitled to take the following actions in addition to the rights and remedial measures under the relevant laws and administrative regulations:

- require the Directors, Supervisors, the general manager or other senior management to compensate the Company for the losses arising from their negligence;
- rescind the contracts or transactions concluded between the Company and the directors, supervisors, the general manager or other senior management of the Company, or between the Company and a third person (if the third person knows or is supposed to know that the directors, supervisors, the general manager or other senior management representing the Company have breached their obligations to the Company);
- require the relevant directors, supervisors, the general manager or other senior management to surrender gains arising from breach of obligations;
- recover monies, including (but not limited to) commissions, received by the relevant Directors, Supervisors, the general manager or other senior management but receivable by the Company;
- require the relevant Directors, Supervisors, the general manager or other senior management to surrender interests earned or likely to be earned from monies payable to the Company.

The Company shall conclude written contracts with directors and supervisors in relation to their remunerations, subject to prior approval at a general meeting.

The Company shall specify in the contracts concluded with the directors or supervisors in relation to remunerations that if the Company is acquired, the directors or supervisors of the Company shall be entitled to seek compensations or other monies for losing their positions or for retirement under the conditions approved at the general meeting.

**FINANCIAL AND ACCOUNTING SYSTEMS, PROFIT DISTRIBUTION AND AUDIT**

**Financial and Accounting Systems**

The Company shall formulate its financial and accounting systems in accordance with laws, administrative regulations and requirements of relevant PRC authorities.

The financial statements of the Company shall be prepared in accordance with not only PRC accounting standards and regulations, but also the international accounting standards or the

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accounting standards of the overseas place where the Company's shares are listed. If the financial statements prepared under the two accounting standards are discrepant significantly, such discrepancy shall be indicated in the notes to the financial statements. The Company shall distribute the after-tax profit of the relevant financial year as per the less of the after-tax profits in the aforesaid two financial statements.

The interim results or financial data announced or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations as well as the international accounting standards or the accounting standards of the overseas place where the Company's shares are listed.

The Company shall publish two financial reports each financial year, i.e. interim financial report announced within 60 days after the end of the first six months of the financial year and the annual financial report announced within 120 days after the end of the financial year.

The Board shall, at each annual general meeting, submit to the shareholders the financial reports which shall be prepared by the Company as required by relevant laws, administrative regulations or regulatory documents promulgated by local governments and competent authorities.

The Company shall not establish account books other than the statutory account books. The assets of the Company shall not be deposited in any personal account.

**Profit Distribution**

The Company shall distribute its after-tax profit for the current year in the order of:

- Recovering losses of the preceding year;
- Withdrawing 10% after-tax profit as statutory common reserve fund;
- Withdrawing general risk reserves and trading risk reserves in accordance with relevant laws and regulations;
- Withdrawing discretionary common reserve fund according to resolutions of the general meeting;
- Distributing dividends to shareholders.

The Company may not withdraw statutory common reserve fund if the cumulative amount has exceeded 50% of the Company's registered capital. The Company shall not distribute profits to its shareholders before it has recovered its losses or has withdrawn statutory common reserve fund, general risk reserves and trading risk reserves.

If the general meeting distributes profits to shareholders before the Company recovers losses and withdraws statutory common reserve fund, general risk reserves and trading risk reserves in violation of relevant provisions, shareholders must return to the Company the profits so distributed.

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Under the relevant rules of the securities regulatory authority of the State Council, the Company is not allowed to use the gains from fair value changes of financial assets that are included in distributable profits as cash distribution to shareholders.

The shares of the Company held by the Company shall not be subject to profit distribution.

Capital reserve includes the following:

- Premium arising from issue above the par value of the stock;
- Other revenues required by the financial authority under the State Council to be stated as capital reserve.

The common reserve fund of the Company shall be used to make up for the losses, expand the operating scale or increase the capital of the Company. However, the capital reserve shall not be used to recover the losses of the Company.

Upon the conversion of statutory common reserve into capital, the balance of the statutory common reserve shall not be less than 25% of the registered capital of the Company before such conversion.

The Company shall attach importance to the reasonable returns to investors in its profit distribution, and the Company adopts consistent and stable profit distribution policy. The Company may distribute dividends by way of cash, stock shares or a combination of both. When the Company does not occur such matters as material investment plan or material cash expenditure, the profits distributed by the Company in cash on a cumulated basis in any consecutive three years shall not be less than 30% of the average annual distributable profits achieved in such three years. Subject to the condition that there are sufficient amount of cash dividends for distribution, the Company may make profit distributions in the form of share dividends. The Board may propose to the Company to make payment of an interim cash bonus according to the business conditions of the Company.

Any amount paid up in advance of calls on any shares may bear interest but shall not entitle the holder of the shares to participate in respect thereof in a dividend subsequently declared.

Subject to the relevant laws, regulations, rules and normative documents, the Company may exercise the power to forfeit unclaimed dividends, provided that it does so only after the expiration of the applicable relevant period.

The Company has the power to cease sending dividend warrants by post to a given holder of overseas listed foreign shares, but may exercise such power only if such warrants have been left uncashed on two consecutive occasions. However, the Company may exercise such power after the first occasion on which such a warrant is returned undelivered.

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The Company has the power to sell by a method deemed fit by the Board the shares of a holder of overseas listed foreign shares who is untraceable, provided that it complies with the following conditions:

- the Company has distributed dividends on such foreign shares for at least three times in 12 years, which dividends are not claimed by anybody during the period;
- upon expiration of the 12-year period, the Company makes an announcement of its intention to sell such shares in one or more newspapers, and notify the local securities regulatory authority, at the place where the stock of the Company is listed.

Where the Company is granted the power by the Board to seize any dividends not claimed by anybody, this power may not be exercised until at least six years following the date that the dividends are announced.

The Company shall appoint collection agents for holders of overseas listed foreign shares. The collection agents shall, on behalf of the related shareholders, collect dividends and other payables distributed by the Company for the overseas listed foreign shares.

The collection agents appointed by the Company for holders of overseas listed foreign shares which are listed in Hong Kong shall be trust companies registered pursuant to Trustee Ordinance of Hong Kong.

**Internal Audit**

The Company maintains internal audit system, and the audit department performs the obligations of internal audit.

The Company’s internal audit system and duties of the auditors shall be subject to the approval of the Board. The officer in charge of auditing shall be accountable to the Board and report his work to the same.

**APPOINTMENT OF ACCOUNTING FIRM**

The Company shall appoint an accounting firm with the “qualification to engage in securities related business” to audit the financial statements, verify the net assets and provide other related consulting services.

The accounting firm appointed by the Company shall hold office for one year from the conclusion of the annual general meeting at which they were appointed until the conclusion of the next annual general meeting. The accounting firm is eligible to be re-appointed. The accounting firm appointed by the Company shall have the following rights:

- to access the account books, records and vouchers at any time, and to ask Directors, general managers or other senior management to provide relevant documents and explanations;

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- to require the Company to take all reasonable steps to obtain from its subsidiaries any information and explanations necessary for the discharge of its duties;
- to be present at general meetings, get notice of general meeting or other information relating to general meetings, and deliver speeches at general meetings in relation to the matters concerning the accounting firm of the Company.

Regardless of the terms in the contract concluded between the accounting firm and the Company, the general meeting may, through an ordinary resolution, dismiss the said accounting firm before expiry of the term thereof. In the event of any rights claimed by the accounting firm against the Company, the said rights shall not be affected.

The remunerations of the accounting firm or the method for determining the same shall be subject to the decision of the general meeting. The remunerations of the accounting firm appointed by the Board shall be determined by the Board.

Appointment, dismissal or non-retention of the accounting firm shall be subject to decision at the general meeting and shall be filed with the securities regulatory authority under the State Council.

Where the Company dismisses or ceases to re-appointing the accounting firm, a thirty-day prior notice shall be given to the accounting firm, and the accounting firm shall be entitled to state its opinions to the general meeting.

Where the accounting firm tenders its resignation, it shall state to the general meeting whether the Company has anything inappropriate.

The accounting firm may resign by placing a written notice of resignation at the legal address of the Company. The notice shall include a statement that its resignation does not involve any information to be disclosed to the shareholders or creditors of the Company and a statement that any information is to be disclosed. If the notice of resignation of the accounting firm contains a statement that any information is to be disclosed, the accounting firm may require the Board to convene an extraordinary general meeting to listen to its explanation about the resignation.

**NOTICE AND ANNOUNCEMENT**

Notices of the Company shall be sent via one or a number of the following methods:

- by personal delivery;
- by post;
- by facsimile or e-mail;



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- by making announcement on the website designated by the Company and stock exchanges in accordance with laws, administrative regulations, departmental rules, normative documents, relevant requirements of the regulatory authorities, the Articles of Association and the listing rules at the location where the Company’s shares are listed;
- by announcement;
- by other means agreed before between the Company and the recipient or approved by the recipient after receiving notice; and
- by other means approved by the relevant regulatory authorities at the location where the Company’s shares are listed or specified in the Articles of Association.

Where a notice of the Company is served by announcement, the aforesaid notice shall be deemed as received by the relevant persons once it is announced.

In the case where the listing rules of the place where the Company’s shares are listed require the Company to send, post, dispatch, issue, publish or otherwise provide the relevant documents of the Company in both the English version and the Chinese version, if the Company has made appropriate arrangements to confirm whether its shareholders wish to receive the English version only or the Chinese version only, the Company may, to the extent permitted under the applicable laws and regulations, only send the English version or the Chinese version of such documents to the relevant shareholder (in accordance with the intention expressed by the shareholder).

The accidental omission to give notice of a meeting to, or the failure to receive the notice of a meeting by any person entitled to receive such notice, shall not invalidate the meeting or the resolutions passed thereat.

**MERGER, DIVISION, CAPITAL INCREASE AND REDUCTION, DISSOLUTION AND LIQUIDATION**

**Merger, Division, Capital Increase and Reduction**

In respect of the merger or division of the Company, the Board shall propose a plan and have it adopted following the procedure specified in the Articles of Association and passed by the general meeting, and go through relevant examination and approval formalities pursuant to laws. Any shareholder objecting to merger or division of the Company shall be entitled to require the Company or the shareholders approving merger or division of the Company to buy his shares at a fair price.

In the event of merger of the Company, the parties concerned shall conclude a merger agreement and prepare balance sheets and property inventories. The Company shall notify its creditors within 10 days and make a public announcement in a newspaper within 30 days after the date of the Company’s merger or division resolution. The creditors may require the Company to repay debts or provide corresponding guarantees within 30 days after receipt of the notice or within 45 days after the announcement if the creditors haven’t received the notice. The credits and debts of the Company upon merger shall be inherited by the company subsisting after merger or by the newly established company. Where the Company is divided, its properties shall be divided accordingly.

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In the event of division of the Company, a balance sheet and a property inventory shall be prepared. The Company shall notify its creditors within 10 days and make a public announcement in a newspaper or otherwise within 30 days after the date of the Company's division resolution. The companies after division shall bear joint liability for the debts of the Company before division, except as otherwise specified in the written agreement on debt repayment reached between the Company and its creditors before division.

Where the Company finds it necessary to reduce its registered capital, it must formulate its balance sheet and property inventory. The Company shall, notify its creditors within 10 days and make a public announcement in a newspaper or otherwise within 30 days after the date on which it decides to reduce its registered capital. The creditors may require the Company to repay debts or provide corresponding guarantees within 30 days after receipt of the notice or within 45 days after the announcement if the creditors haven't received the notice. The reduced registered capital of the Company shall not be lower than the minimum prescribed by law.

Change in registered particulars arising from merger or division of the Company shall be registered with the company registration authority according to law. If the Company is dissolved, it shall be deregistered according to law. If a new company is established, such establishment shall be registered according to law.

**Dissolution and Liquidation**

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (I) the term of business operation stated in the Articles of Association expires or the Company is dissolved due to other causes stated in the Articles of Association;
- (II) the general meeting have resolved to dissolve the Company;
- (III) merger or division of the Company entails dissolution;
- (IV) the Company is legally declared insolvent due to its failure to repay due debts;
- (V) the business license is revoked or it is ordered to close down or be dissolved in accordance with the law;
- (VI) when serious difficulties occur to the Company's operation and management and significant losses will be incurred to the shareholders by its continuance, and such difficulties cannot be solved by other means, the shareholders holding more than 10% of the total voting rights of all the shareholders may request the people's court to dissolve the Company.

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In the circumstance set out in (I) above, the Company may continue to subsist by amending the Articles of Association. If the Company is dissolved pursuant to (I), (II), (V) or (VI) above, it shall establish a liquidation committee within 15 days after the dissolution circumstance arises. The liquidation committee shall comprise members determined by an ordinary resolution at a general meeting. If the liquidation committee is not duly set up, the creditors may request the people’s court to designate related persons to form a liquidation committee to carry out liquidation.

Upon the passing of the resolution by the shareholders in a general meeting in relation to the liquidation, all functions and powers of the Board of the Company shall immediately cease.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- to examine and take possession of the Company’s assets and prepare the balance sheet and a property inventory;
- to inform creditors by notice or announcement;
- to deal with the outstanding businesses of the Company relating to liquidation;
- to pay outstanding taxes and the taxes arising during liquidation;
- to settle claims and debts;
- to dispose of the remaining assets of the Company after repayment of debts; and
- to represent the Company in civil proceedings to which it is a party.

The liquidation committee shall notify all creditors within 10 days after its establishment and shall make a public announcement in a newspaper or otherwise within 60 days. The creditors shall declare their rights to the liquidation committee within 30 days after receipt of the notice or within 45 days after announcement if the creditors haven’t received the notice.

The creditors shall explain matters relating to their rights and provide relevant evidential documents. The liquidation committee shall register the creditor’s rights.

In the creditor’s rights declaration period, the liquidation committee shall not make repayment to the creditors.

After the liquidation committee has examined and taken possession of the assets of the Company and prepared a balance sheet and a property inventory, it shall formulate a liquidation proposal and submit it to the general meeting or the people’s court for confirmation.

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The Company shall, in proportion to the shares held by the shareholders, distribute the properties of the Company remaining after successive payment of the liquidation expenses, employees' salaries, social insurance expenses and statutory compensations, outstanding taxes, and the Company's debts.

During the liquidation period, the Company continues to exist but cannot carry out operating activities irrelevant to the liquidation. The Company's property will not be distributed to the shareholders before repayment according to the preceding provision.

After the liquidation committee has examined and taken possession of the assets of the Company and prepared a balance sheet and a property inventory, if it discovers that the Company's assets are insufficient to repay its debts in full, it shall apply to the people's court to declare the Company bankrupt pursuant to law.

Following a ruling by the people's court that the Company is bankrupt, the liquidation committee shall transfer to the people's court all matters relating to the liquidation.

After completion of liquidation of the Company, the liquidation committee shall prepare liquidation reports, income and expenditure statements and account books in respect of the liquidation period and, after verification of the Chinese certified public accountants, shall submit the same to the general meeting or the relevant competent authority for confirmation.

The liquidation committee shall, within 30 days after the confirmation of general meeting or the relevant competent authority, submit the documents referred to in the preceding paragraph to the company registration authorities and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

**Amendment to the Articles of Association**

The Company shall amend the Articles of Association in any of the following circumstances:

- after amendments are made to PRC Company Law or other relevant laws and administrative regulations, the Articles of Association becomes contradict to the said amendments;
- the conditions of the Company have changed, and such change is not covered in the Articles of Association; and
- the general meeting has resolved to amend the Articles of Association.

The particulars of amendment adopted by way of resolutions at a general meeting that shall be reviewed and approved by the competent authority are required to be reported to the competent authority for approval; if the amendment involves registration of the Company, the involved change shall be registered pursuant to law.

**Resolution of Disputes**

The Company shall comply with the following principles for dispute resolution:

- (I) Whenever any disputes or claims arise between: holders of overseas listed foreign shares and the Company; holders of overseas listed foreign shares and the Company’s directors, supervisors, general manager or other senior management; or holders of overseas listed foreign shares and holders of domestic shares, in relation to the affairs of the Company arising as a result of any rights or obligations arising from the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company or the Company’s shareholders, directors, supervisors, general manager or other senior management, comply with the decisions made in the arbitration.

Disputes in respect of the identification of shareholders and disputes in relation to the register of shareholders need not to be resolved by arbitration.

- (II) A claimant may elect for arbitration to be carried out at either at the China International Economic and Trade Arbitration Commission in accordance with its Rules or at the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral institution elected by the claimant.

If a claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (III) If any disputes or claims of rights as set out in item (I) above are settled by means of arbitration, the laws of the PRC shall apply, unless otherwise provided in the laws and administrative regulations.
- (IV) The arbitration award of an arbitral institution shall be final and conclusive and binding on parties thereto.

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**A. FURTHER INFORMATION ABOUT OUR GROUP**

**1. INCORPORATION**

With the approval of the PBOC, Guangdong Development Bank (now known as China Guangfa Bank) established a securities department on April 9, 1991. With the approval of the Guangdong Administration for Industry and Commerce, we were duly established as the Securities Department of Guangdong Development Bank on May 21, 1993. On January 25, 1994, we converted into Guangdong Guangfa Securities Company. On December 26, 1996, we converted into a limited liability company and changed our name to Guangfa Securities Limited Liability Company. On July 25, 2001, we converted into a joint stock company and changed our name to GF Securities Co., Ltd. On February 12, 2010, we became listed on the Shenzhen Stock Exchange by completing a reverse takeover of Yan Bian Road Construction Co., Ltd., a company then listed on the Shenzhen Stock Exchange.

Our current registered address is at 43rd Floor (Room 4301-4316), Metro Plaza, No. 183-187, Tianhe North Road, Tianhe District, Guangzhou, PRC. We have established a place of business in Hong Kong at 29-30/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong and registered as a non-Hong Kong company in Hong Kong on October 14, 2014 under Part 16 of the Hong Kong Companies Ordinance. Ms. Yau Ching Ching has been appointed as our authorized representative for the acceptance of service of process and notices in Hong Kong. The address for service of process on our Company in Hong Kong is the same as our principal place of business in Hong Kong. As our Company was established in the PRC, we are subject to the relevant laws and regulations of the PRC and our Articles of Association. Certain aspects of the PRC laws and regulations and a summary of certain provisions of our Articles of Association are set out in Appendices IV and V to this [Redacted], respectively.

**2. CHANGES IN THE SHARE CAPITAL OF OUR COMPANY**

Upon our establishment on May 21, 1993, the initial registered share capital of our Company was RMB10,000,000.

On January 25, 1994, we increased our registered share capital to RMB150,000,000.

On November 1, 1995, we increased our registered share capital to RMB200,000,000.

On December 26, 1996, we increased our registered share capital to RMB800,000,000.

On December 14, 1999, we increased our registered share capital to RMB1,600,000,000.

On July 25, 2001, we increased our registered share capital to RMB2,000,000,000.

On February 10, 2010, we increased our registered share capital to RMB2,507,045,732 after the completion of the reverse takeover of Yan Bian Road Construction Co., Ltd.

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On August 17, 2011, we issued 452,600,000 A Shares to ten investors by way of private placement. As a result, on December 15, 2011, we increased our registered share capital to RMB2,959,645,732.

On September 17, 2012, we increased our registered share capital by RMB2,959,645,732 to RMB5,919,291,464 through a capitalization of our capital reserves.

Upon completion of the [Redacted], but without taking into account any exercise of the [Redacted], our registered capital will increase to RMB[Redacted], comprising [Redacted] A Shares and [Redacted] H Shares fully paid up or credited as fully paid up, representing approximately [Redacted]% and [Redacted]% of our registered capital, respectively.

### **3. SHAREHOLDERS’ RESOLUTIONS**

At a general meeting held on December 8, 2014, our Shareholders resolved, among other things, that:

- (a) the issue by our Company of the H Shares with a nominal value of RMB1.00 each and the listing of such H Shares on the Hong Kong Stock Exchange be approved. The proposed number of H Shares to be [Redacted] must not exceed 20% of the total enlarged issued share capital after the issue of H Shares (assuming the [Redacted] is not exercised) and the [Redacted] must not exceed 15% of the Shares initially available under the [Redacted] if fully exercised;
- (b) our Articles of Association be approved and become effective on the Listing Date;
- (c) the Board and the authorized persons of the Board be authorized to draft, amend, sign and submit the applications, relevant reports or materials relating to the proposed listing of H shares to the relevant authorities in the PRC and the Hong Kong Stock Exchange and to deal with approval, registration, filing, verifications or other formalities; and
- (d) the Board and the authorized persons of the Board be authorized to do any acts and things relating to the [Redacted] and the Listing.

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**4. OUR SUBSIDIARIES AND INTERESTS IN OTHER COMPANIES**

Details of our subsidiaries, associates and joint ventures (for the purpose of the Hong Kong Listing Rules) are set out in the Accountants' Report in Appendix I to this [Redacted]. The following alterations of the registered capital of our principal subsidiaries have taken place within the two years preceding the date of this [Redacted]:

<u>Name of Subsidiary</u>	<u>Alteration Date of Registered Capital</u>	<u>Status of Alteration of Registered Capital</u>
GF Xinde .....	December 2014	Increased from RMB2,000,000,000 to RMB2,300,000,000
GF Asset Management .	November 2014	Increased from RMB300,000,000 to RMB500,000,000
GF Qianhe .....	April 2013	Increased from RMB500,000,000 to RMB1,000,000,000
	March 2015	Increased from RMB1,000,000,000 to RMB2,000,000,000
GF Fund .....	August 2014	Increased from RMB120,000,000 to RMB126,880,000

Except as disclosed above, there was no alteration of registered capital of our subsidiaries during the two years immediately preceding the date of this [Redacted].

**B. FURTHER INFORMATION ABOUT OUR BUSINESS**

**1. SUMMARY OF MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company within the two years preceding the date of this [Redacted] and are or may be material:

- (a) the Guangdong Province Project Construction Contract dated May 16, 2013 entered into between our Company and Guangzhou Construction Co., Ltd. (廣州建築股份有限公司), pursuant to which Guangzhou Construction Co., Ltd. shall act as our general contractor for the construction of commercial buildings located in Tianhe district, Guangzhou; and
- (b) [REDACTED];
- (c) [REDACTED];



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(d) [REDACTED];

(e) [REDACTED];

(f) [REDACTED];

(g) [REDACTED];

(h) [REDACTED];

(i) [REDACTED];

(j) [REDACTED];

(k) [REDACTED];

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(l) [REDACTED];

(m) [REDACTED];

(n) [REDACTED];

(o) [REDACTED];

(p) [REDACTED];

(q) [REDACTED];

(r) [REDACTED];

(s) [REDACTED];

(t) [REDACTED];

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(u) [REDACTED]; and

(v) the Hong Kong Underwriting Agreement.

2. INTELLECTUAL PROPERTY RIGHTS

*Trademarks*

As of the Latest Practicable Date, we had registered the following trademarks which we consider to be or may be material to our business:

Trademark	Place of Registration	Class <sup>(1)</sup>	Registration Number	Registration Date	Expiry Date
	PRC	36	1675793	November 28, 2001	November 27, 2021
	PRC	36	9225500	March 21, 2012	March 20, 2022
	PRC	36	9225607	March 21, 2012	March 20, 2022
	PRC	36	9225616	March 21, 2012	March 20, 2022
	PRC	36	9225600	February 7, 2014	February 6, 2024
	Hong Kong	36	303046310	June 25, 2014	June 24, 2024

(1) The class number represents the specifications of products or services which have already been registered. Detailed specifications of products or services represented by that class number are set out in the relevant registration certificates.

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As of the Latest Practicable Date, we were applying for the following trademarks which we consider to be or may be material to our business:

<b>Trademark</b>	<b>Place of Registration</b>	<b>Class<sup>(1)</sup></b>	<b>Application Number</b>	<b>Application Date</b>
<b>GF HONG KONG</b>	Hong Kong	36	303046293	June 25, 2014
<b>廣發香港</b>	Hong Kong	36	303046301	June 25, 2014
	Canada	36	1685786	July 17, 2014
<b>GF SECURITIES</b>	Canada	36	1685785	July 17, 2014
<b>廣發</b>	Canada	36	1685789	July 17, 2014
<b>廣發</b>	Taiwan	36	103041218	July 18, 2014
	Taiwan	36	103041764	July 21, 2014
<b>GF SECURITIES</b>	Taiwan	36	103041765	July 21, 2014
<b>广发证券</b>	United Kingdom, Germany, France, Russia, Ukraine, Italy, Spain, Portugal, Sweden, Denmark, Switzerland, Finland, Benelux, South Korea, Japan, Singapore, the Philippines, India, Vietnam, United States, Australia, New Zealand	36	1227358	July 21, 2014

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<b>Trademark</b>	<b>Place of Registration</b>	<b>Class<sup>(1)</sup></b>	<b>Application Number</b>	<b>Application Date</b>
	United Kingdom, Germany, France, Russia, Ukraine, Italy, Spain, Portugal, Sweden, Denmark, Switzerland, Finland, Benelux, South Korea, Japan, Singapore, the Philippines, India, Vietnam, United States, Australia, New Zealand	36	9225616	July 21, 2014
<b>GF SECURITIES</b>	United Kingdom, Germany, France, Russia, Ukraine, Italy, Spain, Portugal, Sweden, Denmark, Switzerland, Finland, Benelux, South Korea, Japan, Singapore, the Philippines, India, Vietnam, United States, Australia, New Zealand	36	1226512	July 21, 2014
	Macao	36	N/88735(199)	July 28, 2014
<b>GF SECURITIES</b>	Macao	36	N/88736(175)	July 28, 2014
 <b>廣發證券</b> GF SECURITIES	Macao	36	N/88737(541)	July 28, 2014
	Indonesia	36	J002014035390	August 7, 2014
<b>廣發</b>	Indonesia	36	J002014035389	August 7, 2014
<b>GF SECURITIES</b>	Indonesia	36	J002014035388	August 7, 2014

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<b>Trademark</b>	<b>Place of Registration</b>	<b>Class<sup>(1)</sup></b>	<b>Application Number</b>	<b>Application Date</b>
<b>廣發證券</b>	Hong Kong	36	303106340	August 19, 2014
<b>廣發證券</b>				
<b>广发证券</b>				
<b>广发证券</b> (in series)				
<b>GUANGFA</b>	Hong Kong	36	303106331	August 19, 2014
<b>GF SECURITIES</b>	Hong Kong	36	303106359	August 19, 2014
<b>GF SECURITIES</b>				

(1) The class number represents the specifications of products or services which are in the process of registration. Detailed specifications of products or services represented by that class number are set out in the relevant application forms.

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*Domain Names*

As of the Latest Practicable Date, we have registered the following domain names:

<b>Domain Name</b>	<b>Registration Date</b>	<b>Expiry Date</b>
gfeli.com .....	August 24, 2006	August 24, 2015
gfqz.cn.....	August 24, 2006	August 24, 2015
gfqz.com.....	August 24, 2006	August 24, 2015
gfqzw.cn .....	August 24, 2006	August 24, 2015
gfqzw.com .....	August 24, 2006	August 24, 2015
gfwarrant.cn.....	August 24, 2006	August 24, 2015
gfwarrants.cn .....	August 24, 2006	August 24, 2015
gficltd.com.....	November 9, 2011	November 9, 2015
gfpartnersltd.com .....	November 9, 2011	November 9, 2015
gfzcgcl.com.cn.....	January 2, 2014	January 2, 2016
gffunds.com .....	January 25, 2003	January 25, 2016
gfzq.cn.....	March 23, 2003	March 23, 2016
gfwarrant.com .....	August 24, 2006	August 24, 2016
广发基金.com .....	September 2, 2004	September 2, 2016
广发基金.net.....	September 2, 2004	September 2, 2016
gfqh.com.cn .....	September 20, 2000	September 20, 2016
广发基金公司.com .....	September 22, 2006	September 22, 2016
广发基金公司.net .....	September 22, 2006	September 22, 2016
gffunds.net.....	September 22, 2006	September 22, 2016
广发基金管理有限公司.com .....	September 22, 2006	September 22, 2016
广发基金管理有限公司.net.....	September 22, 2006	September 22, 2016
gfasset.cn.....	September 22, 2006	September 22, 2016
gfasset.com.cn.....	September 22, 2006	September 22, 2016
gfasset.net.....	September 22, 2006	September 22, 2016
gfassetmanagement.cn .....	September 22, 2006	September 22, 2016
gfassetmanagement.com .....	September 22, 2006	September 22, 2016
gfassetmanagement.com.cn.....	September 22, 2006	September 22, 2016
gfassetmanagement.net .....	September 22, 2006	September 22, 2016
gffund.net .....	September 22, 2006	September 22, 2016
广发基金公司.cn .....	September 25, 2006	September 25, 2016
广发基金公司.中国 .....	September 25, 2006	September 25, 2016
广发基金管理有限公司.cn.....	September 25, 2006	September 25, 2016
广发基金管理有限公司.中国 .....	September 25, 2006	September 25, 2016
gf-funds.com .....	October 18, 2002	October 18, 2016
gffunds.com.cn.....	October 21, 2002	October 21, 2016
gfgroup.com.hk .....	October 1, 2007	November 1, 2016
gffm.com .....	December 12, 2013	December 12, 2016
gfsecurities.com .....	January 16, 2003	January 16, 2017

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<b>Domain Name</b>	<b>Registration Date</b>	<b>Expiry Date</b>
gffutures.cn.....	February 15, 2006	February 15, 2017
广发国际.com.....	November 13, 2000	March 13, 2017
广发香港.com.....	November 14, 2000	March 14, 2017
gfs.cn.....	March 17, 2003	March 17, 2017
guangfa.cn.....	March 17, 2003	March 17, 2017
gfsecurities.cn.....	March 24, 2003	March 24, 2017
gfbrokrage.cn.....	March 25, 2003	March 25, 2017
gffund.cn.....	March 25, 2003	March 25, 2017
gfinvestment.cn.....	March 25, 2003	March 25, 2017
gffunds.com.hk.....	July 14, 2011	July 25, 2017
gffunds.hk.....	July 14, 2011	July 25, 2017
金快线.com.....	May 17, 2013	May 17, 2018
jinkuaixian.com.....	May 17, 2013	May 17, 2018
gf95575.com.....	May 20, 2013	May 20, 2018
gf95575.com.cn.....	May 21, 2013	May 21, 2018
rycapital.cn.....	June 25, 2013	June 25, 2018
rycapital.com.cn.....	June 25, 2013	June 25, 2018
rycapital.net.....	June 25, 2013	June 25, 2018
guangfa.com.cn.....	July 5, 2000	July 5, 2019
gfqzw.com.cn.....	August 24, 2006	August 24, 2019
gfeli.com.cn.....	August 24, 2006	August 24, 2019
gfwarrant.com.cn.....	August 24, 2006	August 24, 2019
gfqz.com.cn.....	August 24, 2006	August 24, 2019
gfwarrants.com.....	August 26, 2005	August 26, 2019
gfwarrants.com.cn.....	August 27, 2005	August 27, 2019
广发证券.com.....	November 14, 2003	November 14, 2019
gfzq.cc.....	February 22, 2008	February 22, 2020
gf.com.cn.....	July 1, 1997	July 1, 2023
gfgh.cn.....	March 17, 2003	March 17, 2025

Except as disclosed in this sub-section headed “Intellectual Property Rights”, there are no other trade or service marks, patents or other intellectual property rights which are or may be material to our business.



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**STATUTORY AND GENERAL INFORMATION**

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**C. FURTHER INFORMATION ABOUT OUR DIRECTORS, MANAGEMENT AND STAFF**

**1. DISCLOSURE OF INTERESTS**

Immediately following the completion of the [Redacted], none of our Directors or Supervisors will have any interests and short positions in the Shares, underlying Shares or debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO) once the shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Hong Kong Listing Rules to be notified to us and the Hong Kong Stock Exchange or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein once the shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our Supervisors.

**2. DIRECTORS’ COMPETING INTERESTS**

Our executive Director, Mr. Qin Li was nominated by us as a director of E Fund, a fund manager in China, in which we held a 25.0% equity interest as of December 31, 2014. E Fund provides asset management services to insurance companies, finance companies, enterprise annuities, other institutional investors, high-net-worth individuals and NCSSE. As E Fund is mainly engaged in fund management, it competes or is likely to compete, either directly or indirectly, with some aspects of our business. As of December 31, 2014, the AUM of mutual funds managed by E Fund amounted to RMB208.8 billion, according to Wind Info.

Our Directors are of the view that we are capable of carrying on our business independently of E Fund and entering into transactions with it on an arm’s length basis because (i) we do not control E Fund’s board as only one out of nine of its directors was nominated by us, (ii) E Fund’s management team is independent from us, (iii) we are not involved in its daily management, nor do we share operational facilities with it, and (iv) we are financially independent from E Fund.

Except as disclosed above, none of our Directors has any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business.

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**3. SUBSTANTIAL SHAREHOLDERS**

So far as our Directors are aware, immediately following the completion of the [Redacted] and assuming the [Redacted] is not exercised, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO.

<u>Name of Shareholder</u>	<u>Class</u>	<u>Number of Shares directly or indirectly held</u>	<u>Approximate percentage of shareholding (%)</u>
Liaoning Cheng Da Co., Ltd. ....	A Shares	[Redacted]	[Redacted]
Jilin Aodong Pharmaceutical Group Co., Ltd. ...	A Shares	[Redacted]	[Redacted]
Zhongshan Public Utilities Group Co., Ltd. ...	A Shares	[Redacted]	[Redacted]
<u>Total</u> .....		<u>[Redacted]</u>	<u>[Redacted]</u>

**4. SERVICE CONTRACTS**

We [have] entered into a service contract with each of the Directors and employee representative Supervisors in respect of, among other things, compliance with relevant laws and regulations, observation of the Articles of Association and provisions on arbitration. Except as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of the Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**5. DIRECTORS’ AND SUPERVISORS’ REMUNERATION**

The aggregate remuneration after tax (including fees, salaries, contributions to pension schemes, housing allowances and other allowances, benefits in kind and discretionary bonuses) paid to our Directors and Supervisors for the year ended December 31, 2014 was approximately RMB18.2 million.

Under arrangements currently in force, we estimate the total compensation after tax payable to our Directors and Supervisors for the year ending December 31, 2015 is approximately RMB29.5 million.

**6. AGENCY FEES OR COMMISSIONS RECEIVED**

Except as disclosed in this [Redacted], none of our Directors or any of the persons whose names are listed in the paragraph headed “Consents” in this Appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any share capital of any member of our Group within the two years preceding the date of this [Redacted].

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**APPENDIX VI**

**STATUTORY AND GENERAL INFORMATION**

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**7. DISCLAIMERS**

Except as disclosed in this [Redacted]:

- (a) none of the Directors, Supervisors and any parties listed in the paragraph headed “Qualifications of Experts” in this Appendix is interested in our promotion, or in any assets which, within the two years immediately preceding the date of this [Redacted], have been acquired or sold by or leased to us, or are proposed to be acquired or sold by or leased to our Company;
- (b) none of the Directors, Supervisors and any parties listed in the paragraph headed “Qualifications of Experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this [Redacted] which is significant in relation to our business;
- (c) except in connection with the Hong Kong Underwriting Agreement and the International Underwriting Agreement, none of the parties listed in the paragraph headed “Qualifications of Experts” in this Appendix is interested legally or beneficially in any of our Shares or our securities, or has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;
- (d) none of our Directors or Supervisors is a director or employee of a company which has an interest in our share capital which, once the H Shares are listed on the Hong Kong Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO; and
- (e) none of our Directors or Supervisors or their respective associates (as defined under the Hong Kong Listing Rules) or any Shareholders who to the knowledge of our Directors owns more than 5% of our issued share capital has any interest in our top five customers or top five suppliers.

**D. OTHER INFORMATION**

**1. ESTATE DUTY**

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group.

**2. LITIGATION**

Except as disclosed in this [Redacted], no member of our Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group as of the Latest Practicable Date.

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**APPENDIX VI****STATUTORY AND GENERAL INFORMATION**

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**3. JOINT SPONSORS**

GF Capital (Hong Kong), being one of the Joint Sponsors, is one of our subsidiaries. It is not an independent sponsor according to the independence criteria applicable to sponsor set out in Rule 3.07 of the Hong Kong Listing Rules.

Apart from GF Capital (Hong Kong), the other Joint Sponsor Goldman Sachs (Asia) L.L.C. satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Hong Kong Listing Rules.

The aggregate sponsor fee of the Joint Sponsors is [Redacted], and is payable by our Company. |

The Joint Sponsors have made an application on our behalf to the Listing Committee for the granting of listing of, and permission to deal in, our H Shares (including any [Redacted] which may be issued pursuant to the exercise of the [Redacted]). All necessary arrangements have been made to enable the relevant Shares to be admitted into CCASS.

**4. PRELIMINARY EXPENSES**

We have not incurred any preliminary expense.

**5. PROMOTERS**

The information about our Promoters is as follows:

No.	Name of the Promoters
1.	Liaoning Cheng Da Co., Ltd. (遼寧成大股份有限公司)
2.	Zhongshan Public Utilities Group Co., Ltd. (中山公用事業集團股份有限公司)
3.	Jilin Aodong Pharmaceutical Group Co., Ltd. (吉林敖東藥業集團股份有限公司)
4.	Guangdong Zhujiang Investment Co., Ltd. (廣東珠江投資有限公司)
5.	Guangdong Meiyuan Enterprise (Group) Co., Ltd. (廣東梅雁企業(集團)股份有限公司)
6.	Heungkong Group Limited (香江集團有限公司)
7.	Zhejiang Xinlian Co., Ltd. (浙江信聯股份有限公司)
8.	Kunming Yunda Science & Technology Industry Co., Ltd. (昆明雲大科技產業股份有限公司)
9.	Jiuquan Iron & Steel (Group) Co., Ltd. (酒泉鋼鐵(集團)有限責任公司)
10.	Hengtong Group Co., Ltd. (亨通集團有限公司)
11.	Anhui Huamao Textile Co., Ltd. (安徽華茂紡織股份有限公司)
12.	Shenzhen Special Economic Zone Estate (Group) Co., Ltd. (深圳經濟特區房地產(集團)股份有限公司)
13.	Guangdong Fenghua High Technology Group Co., Ltd. (廣東風華高新科技集團有限公司)
14.	Guangdong Xinhui Meida Nylon Co., Ltd. (廣東新會美達錦綸股份有限公司)
15.	Liaoning Foreign Trading Property Development Co., Ltd. (遼寧外貿物業發展公司)
16.	Jilin Aodong Pharmaceutical Group Yanji Co., Ltd. (吉林敖東藥業集團延吉股份有限公司)

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No.	Name of the Promoters
17.	Guangzhou Iron & Steel Enterprises Holdings Limited (廣州鋼鐵企業集團有限公司)
18.	Fujian Fufa Co., Ltd. (福建省福發股份有限公司)
19.	Shenzhen Zhongke Chuanye (Group) Co., Ltd. (深圳市中科創業(集團)股份有限公司)
20.	Guandong Zhaoqing Starlake Bioscience Co., Inc. (廣東肇慶星湖生物科技股份有限公司)

Save for the [Redacted] and as disclosed in this [Redacted], within the two years immediately preceding the date of this [Redacted], no cash, securities, amount or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the Promoters in connection with the [Redacted] or the related transactions described in this [Redacted].

**6. QUALIFICATIONS OF EXPERTS**

The qualifications of the experts (as defined under the Hong Kong Listing Rules and the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions or advice in this [Redacted] are as follows:

Name of Expert	Nature of Interest
GF Capital (Hong Kong) .....	a corporation licensed under the SFO to conduct Type 6 (advising on corporate finance) regulated activity
Goldman Sachs (Asia) L.L.C.....	a corporation licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Jia Yuan Law Offices.....	PRC legal advisor
Deloitte Touche Tohmatsu.....	certified public accountant

**7. CONSENTS**

Each of the Joint Sponsors, Deloitte Touche Tohmatsu as our reporting accountants and independent auditor, and Jia Yuan Law Offices as our PRC legal advisors has given and has not withdrawn their respective written consents to the issue of this [Redacted] with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

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**APPENDIX VI**

**STATUTORY AND GENERAL INFORMATION**

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**8. BINDING EFFECT**

This [Redacted] shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provision) of sections 44A and 44B of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

**9. NO MATERIAL ADVERSE CHANGE**

Our Directors believe that there has been no material adverse change in our financial or trading position or prospects since December 31, 2014.

**10. BILINGUAL [REDACTED]**

The English language and the Chinese language versions of this [Redacted] are being published separately, in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**E. MISCELLANEOUS**

Except as disclosed in this [Redacted]:

- (a) Within the two years preceding the date of this [Redacted]: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any Shares of our Company.
- (b) No Share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option.
- (c) We have not issued nor agreed to issue any founder shares, management shares or deferred shares.
- (d) There are no arrangements under which future dividends are waived or agreed to be waived.
- (e) There have been no interruptions in our business which may have or have had a significant effect on our financial position in the last twelve months.
- (f) We have no outstanding convertible debt securities.

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**STATUTORY AND GENERAL INFORMATION**

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- (g) Save for the A Shares and the corporate bonds of our Company that are listed on the Shenzhen Stock Exchange, the subordinated bonds and the security-firm short-term corporate bonds of our Company that are traded on the comprehensive agreement transactions platform of the Shenzhen Stock Exchange, and the short-term financing bills that are traded on the PRC inter-bank market, no part of the share capital or debt securities of our Company, if any, is currently listed on any stock exchange or traded on any trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought.
  
- (h) We currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC.

**APPENDIX VII DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION**

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**A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this [Redacted] and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the [Redacted];
- (b) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 7. Consents” in Appendix VI to this [Redacted]; and
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix VI to this [Redacted].

**B. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of Latham & Watkins at 18th Floor, One Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this [Redacted]:

- (a) our Articles of Association;
- (b) the Accountants’ Report from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this [Redacted];
- (c) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II to this [Redacted];
- (d) the PRC legal opinion(s) dated the [Redacted] date issued by Jia Yuan Law Offices, our legal advisors on the PRC law;
- (e) the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts” in Appendix VI to this [Redacted];
- (f) our audited consolidated financial statements for each of the three years ended December 31, 2012, 2013 and 2014;
- (g) the consents referred to in the section headed “Statutory and General Information — D. Other Information — 7. Consents” in Appendix VI to this [Redacted];
- (h) the service agreements referred to in the section headed “Statutory and General Information — C. Further Information about Our Directors, Management and Staff — 4. Service Contracts” in Appendix VI to this [Redacted];



**APPENDIX VII      DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
IN HONG KONG AND AVAILABLE FOR INSPECTION**

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- (i) the PRC Company Law together with its unofficial English translation version;
- (j) the Mandatory Provisions together with its unofficial English translation version; and
- (k) the Special Regulations together with its unofficial English translation version.