IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES AND ARE NOT U.S. PERSONS.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. In order to be eligible to view the attached offering circular or make an investment decision with respect to the securities, investors must be outside the United States and are not U.S. persons.

Confirmation of Your Representation: The attached offering circular is being sent to you at your request, and by accepting the e-mail and accessing the attached offering circular, you shall be deemed to represent to CITIC Securities Finance MTN Co., Ltd. (the "**Issuer**"), CITIC Securities Company Limited (中信証券股份有限公司) (the "**Company**"), CLSA Limited (中信里昂證券有限公司), Bank of China Limited, Bank of China (Hong Kong) Limited, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited (the "**Arrangers**"), and CLSA Limited (中信里昂證券有限公司), Citigroup Global Markets Limited, Bank of China Limited, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited, ABCI Capital Limited (農銀國際融資有限公司), Australia and New Zealand Banking Group Limited, China CITIC Bank International Limited, CMB International Capital Limited (招銀國際融資有限公司), Crédit Agricole Corporate and Investment Bank, ICBC International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, SPDB International Capital Limited (浦銀國際有限公司) and UBS AG Hong Kong Branch (the "**Dealers**") that (1) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, (2) you and any customers you represent are not U.S. persons (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and (3) you consent to delivery of the attached offering circular and any amendments or supplements thereto by electronic transmission.

The attached offering circular has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and, consequently, none of the Issuer, the Company, the Arrangers, the Dealers, the Trustee or the Agents (the latter two as defined in the attached offering circular) or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents or each person who controls any of them accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. We will provide a hard copy version to you upon request.

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

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

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of the Issuer of the securities or the Company, the Arrangers, the Dealers, the Trustee or the Agents to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or Arranger or any of its respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such person or such affiliate on behalf of the Issuer in such jurisdiction. You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession the attached offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person.

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

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

PRIIPs REGULATION - PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

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

To the fullest extent permitted by law, none of the Arrangers or the Dealers accepts any responsibility for the contents of the attached offering circular or for any other statement, made or purported to be made by an Arranger or a Dealer or on its behalf in connection with the Issuer, the Company, the Group (as defined herein), the Guarantee, the Programme or the issue and offering of the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of the attached offering circular or any such statement.

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

IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN. YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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

OFFERING CIRCULAR **CONFIDENTIAL**

CITIC SECURITIES FINANCE MTN CO., LTD.

(incorporated with limited liability in the British Virgin Islands)

US$3,000,000,000

Medium Term Note Programme

guaranteed by

中信证券股份有限公司
CITIC Securities Company Limited

CITIC SECURITIES COMPANY LIMITED

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

(Hong Kong Stock Exchange Stock Code: 6030; Shanghai Stock Exchange Stock Code: 600030)

Under the US$3,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), CITIC Securities Finance MTN Co., Ltd. (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**") unconditionally and irrevocably guaranteed (the "**Guarantee**") by CITIC Securities Company Limited (中信証券股份有限公司) (the "**Company**"). The Issuer is an indirect wholly-owned subsidiary of the Company. The aggregate nominal amount of Notes outstanding will not at any time exceed US$3,000,000,000 (or the equivalent in other currencies), subject to increase as further described in "Summary of the Programme."

The Company will enter into a deed of guarantee (each, a "**Deed of Guarantee**") with the Trustee on the issue date of each Tranche (as defined under the "*Summary of the Programme*") of Notes issued under the Programme. The Company will be required to make an application for pre-issuance registration before the issue of each Tranche of Notes and submit requisite information on the issuance of each Tranche of Notes within the prescribed timeframe after the completion of the issuance of such Tranche of Notes to NDRC in accordance with the Circular on Accelerating the Reform on the Administration of Filing and Registration of Foreign Debts Issued by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015]2044號）, the "**NDRC Circular**") issued by NDRC which took effect on 14 September 2015. The Company will be required to register or cause to be registered with the State Administration of Foreign Exchange ("**SAFE**") the Deed of Guarantee in accordance with the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) promulgated by SAFE following the issue of each Tranche of Notes. The Company intends to complete the registration of the Deed of Guarantee with SAFE on or before the Registration Deadline (being 90 Registration Business Days (as defined in the "*Terms and Conditions of the Notes*") after the issue date of each Tranche of Notes under the Programme). The obligations of the Company under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(d) of the Terms and Conditions of the Notes, at all times rank at least pari passu with all its other present and future unsecured and unsubordinated obligations.

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. This offering circular is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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

The relevant pricing supplement (each, a "Pricing Supplement") in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange (or listed, traded or quoted on or by any other competent authority, other exchange or quotation system). Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined in "*Summary of the Programme*") will be set out in the Pricing Supplement which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of such Series of Notes.

Notes may be issued in bearer or registered form. The Notes of each Series issued in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**") (collectively, the "**Global Notes**"). Bearer Notes that are issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code, as amended (the "**Code**") ("**TEFRA D**") must be initially represented by a temporary Global Note, and interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent Global Note on or after the Exchange Date (as defined in "**Summary of Provisions Relating to the Notes While in Global Form**"), upon certification as to non-U.S. beneficial ownership. Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series, save as provided in Condition 2(c) of the Terms and Conditions of the Notes. The Notes of each Series in registered form will initially be represented by a global certificate (each a "**Global Certificate**"). Global Notes and Global Certificates may be deposited on the relevant issue date with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking, S.A. ("**Clearstream**"), or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**") operated by the Hong Kong Monetary Authority. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes or Global Certificates for Certificates are described in "*Summary of Provisions Relating to the Notes While in Global Form*."

The Notes and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state of the United States and may not be offered or sold in the United States or to or for the account or benefit of U.S. persons (as such term is defined in Regulation S under the Securities Act ("Regulation S")) except pursuant to an exemption from the registration requirements of the Securities Act. There will be no public offering of securities in the United States. The Notes and the Guarantee may be offered outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. The Notes may include Bearer Notes that are subject to U.S. tax law requirements. See "*Subscription and Sale*."

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer and the Company (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "Relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

The Programme has been assigned a rating of "Baa1" by Moody's Investors Service ("**Moody's**") and a long-term rating of "BBB+" and a short-term rating of "A-2" by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). These ratings are only correct as at the date of this Offering Circular. Tranches of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

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

Arrangers

CLSA **Bank of China** **Citigroup** **HSBC** **Standard Chartered Bank**

Dealers

CLSA **Bank of China** **Citigroup** **HSBC** **Standard Chartered Bank**

ABC International **ANZ** **China CITIC Bank International** **CMB International** **Crédit Agricole CIB** **ICBC** **J.P. Morgan** **Mizuho Securities** **SPDB International** **UBS**

Offering Circular dated 25 May 2020

NOTICE TO INVESTORS

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

Each Tranche of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by a Pricing Supplement. This Offering Circular is to be read in conjunction with all the documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are so incorporated and form part of this Offering Circular.

None of CLSA Limited (中信里昂證券有限公司), Bank of China Limited, Bank of China (Hong Kong) Limited, Citigroup Global Markets Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited (collectively, the "**Arrangers**") or CLSA Limited (中信里昂證券有限公司), Citigroup Global Markets Limited, Bank of China Limited, Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, Standard Chartered Bank (Hong Kong) Limited, ABCI Capital Limited (農銀國際融資有限公司), Australia and New Zealand Banking Group Limited, China CITIC Bank International Limited, CMB International Capital Limited (招銀國際融資有限公司), Crédit Agricole Corporate and Investment Bank, ICBC International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited, J.P. Morgan Securities plc, Mizuho Securities Asia Limited, SPDB International Capital Limited (浦銀國際有限公司) and UBS AG Hong Kong Branch (collectively, the "**Dealers**"), the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by any of the Arrangers, the Dealers, the Trustee or the Agents as to the accuracy or completeness of the information (including the financial information) contained in this Offering Circular, or any other financial statements or any further information supplied in connection with the Programme or the Notes. None of the Arrangers or the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) accept liability in relation to the financial or other information contained in this Offering Circular or any other financial statements or any further information supplied in connection with the Programme or the Notes or their distribution. The statements made in this paragraph are without prejudice to the responsibility of the Issuer or the Company under the Programme.

No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other financial statements or further information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by either the Issuer, the Company or any of the Arrangers or the Dealers (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them).

This Offering Circular, any other financial statements and any further information supplied in connection with the Programme or the Notes are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Company or any of the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) that any recipient of this Offering Circular or any other financial statements or any further information supplied in connection with the Programme or the Notes should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Company. None of this Offering Circular, any other financial statements and any further information supplied in connection with the Programme or the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Company, the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) or any of them to any person to subscribe for or to purchase any of the Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer or the Company is correct at any time subsequent to the date hereof or that any other financial statements or any further information supplied in connection with the Programme or the Notes is correct as of any time subsequent to the date indicated in the document containing the same. Each of the Arrangers, the Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) expressly does not undertake to review the financial condition or affairs of the Issuer, the Company or any of their respective subsidiaries during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Offering Circular when deciding whether or not to purchase any of the Notes.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and any Pricing Supplement and the offer or sale of Notes may be restricted by law in certain jurisdictions. Persons into whose possession this Offering Circular or any Pricing Supplement or any Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of the Notes in the United States, the European Economic Area (including the United Kingdom), Hong Kong, Singapore, Japan, the People's Republic of China, the British Virgin Islands, Taiwan and the Macau Special Administrative Region. See "*Subscription and Sale*." None of the Issuer, the Company, the Arrangers, the Dealers, the Trustee or the Agents represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular or any Pricing Supplement nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States or to or for the account or benefit of U.S. persons. See "*Subscription and Sale*."

In August 2014, the UK Financial Conduct Authority (the "**FCA**") published the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (the "**TMR**") which took effect on 1 October 2014. Under the rules set out in the TMR, firms regulated by the FCA must not sell certain contingent convertible or write-down securities such as notes that are subordinated in priority of payment to unsubordinated debt obligations ("**Subordinated Notes**") to retail clients in the European Economic Area (the "**EEA**") or in the United Kingdom (the "**UK**"), or do anything that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of those rules) or in the UK, other than in accordance with certain permitted exemptions set out in those rules. The main objective of the TMR is to ensure that firms regulated by the FCA do not sell, promote or intermediate transactions in securities such as any Subordinated Note that would result in retail investors investing in such securities, except in very limited circumstances.

By purchasing, or making or accepting an offer to purchase any Subordinated Notes from the Issuer and/or the Relevant Dealers you represent, warrant, agree with and undertake to the Issuer, the Company and each of the Relevant Dealers that:

- you are not a retail client in the EEA (as defined in the rules set out in the TMR) or in the UK;

- whether or not you are subject to the rules set out in the TMR and whether before or after 1 October 2014, you will not sell or offer any Subordinated Notes to retail clients in the EEA or do anything (including the distribution of this document) that would or might result in the buying of the Subordinated Notes or the holding of a beneficial interest in any Subordinated Notes by a retail client in the EEA (in each case within the meaning of the rules set out in the TMR) or in the UK, other than in circumstances that do not give rise to a contravention of those rules by any person; and

- you will at all times comply with all applicable local laws, regulations and regulatory guidance (whether inside or outside the EEA or in the UK) relating to sales of instruments such as any Subordinated Notes, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in any Subordinated Notes by investors in any relevant jurisdiction.

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

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

PRIIPs REGULATION - PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

In connection with the issue of any Tranche of Notes, the Dealer or the Dealers (if any) appointed acting as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws, regulations and rules.

To the fullest extent permitted by law, none of the Arrangers or the Dealers accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by an Arranger or a Dealer or on its behalf in connection with the Issuer, the Company, the Group (as defined below), the Guarantee, the Programme or the issue and offering of the Notes. Each Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Offering Circular using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company," "CITIC Securities," the "Group" and words of similar import, we are referring to CITIC Securities Company Limited, a joint stock company with limited liability incorporated in the PRC on 25 October 1995, or to CITIC Securities Company Limited and its consolidated subsidiaries, as the context requires.

References to the "PRC" or "China" are to the People's Republic of China, excluding, for the purpose of this Offering Circular only, the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan. "PRC government" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

All references to "US$," "U.S.$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America. All references to "RMB" or "Renminbi" are to the Renminbi, the official currency of the PRC. All references to "HK$" or "Hong Kong dollars" are the official currency of Hong Kong.

References to a "share" are to, unless the context indicates otherwise, an ordinary share, with a nominal value of RMB1.00 each, in our share capital, comprising the A-shares and H-shares.

In this Offering Circular, references to:

- "China AMC" are to China Asset Management Company Ltd., a company with limited liability incorporated in the PRC on 9 April 1998 and in which our Company holds a 62.2% interest;

- "China CITIC Bank" are to China CITIC Bank Corporation Limited, a listed company with limited liability incorporated in the PRC on 20 April 1987, which is 65.97% owned by CITIC Corporation Limited;

- "CITIC Futures" are to CITIC Futures Company Limited (formerly CITICS Futures Co., Ltd.), a company with limited liability incorporated in the PRC on 30 March 1993 and a wholly-owned subsidiary of our Company;

- "CITIC Group" are to CITIC Group Corporation and its subsidiaries, associates and joint ventures that use the brand name "CITIC" in their ordinary course of business;

- "CITIC PE Fund" are to CITIC Private Equity Funds Management Company Ltd., a company with limited liability incorporated in the PRC on 6 June 2008, which is 35% owned by our Company;

- "CITIC-Prudential" are to CITIC Prudential Life Insurance Co., Ltd., a company with limited liability incorporated in the PRC on 28 September 2000, which is 50% owned by CITIC Group;

- "CITIC Securities Investment" are to CITIC Securities Investment Limited, a company with limited liability incorporated in the PRC on 1 April 2012 and a wholly-owned subsidiary of our Company;

- "CITIC Securities (Zhejiang)" are to CITIC Securities (Zhejiang) Co., Ltd. (previously known as CITIC-Kington Securities Co., Ltd.), a company with limited liability incorporated in the PRC on 6 February 2002 and absorbed into our Company in September 2015;

- "CITIC Shandong" are to CITIC Securities (Shandong) Co., Ltd. (formerly CITIC Wantong Securities Co., Ltd.), a company with limited liability incorporated in the PRC on 2 June 1988 and a wholly-owned subsidiary of our Company;

- "CITIC Trust" are to CITIC Trust Co., Ltd., a company with limited liability incorporated in the PRC on 1 March 1988, which is 80% owned by CITIC Group Corporation;
- "CMU" are to a central depositary service provided by the Central Moneymarkets Unit of the HKMA;
- "CLSA" are to CLSA B.V., a private limited company established under the law of Netherlands and a wholly-owned subsidiary of CSI;
- "CSI" are to CITIC Securities International Co., Limited, a company with limited liability incorporated in Hong Kong on 9 April 1998 and a wholly-owned subsidiary of our Company;
- "CSI 300 Index" are to a capitalisation-weighted stock market index designed to replicate the performance of 300 stocks traded on either the Shanghai Stock Exchange or the Shenzhen Stock Exchange;
- "CSRC" are to the China Securities Regulatory Commission;
- "Dim Sum bond(s)" are to RMB-denominated bond(s) issued in Hong Kong;
- "GoldStone" are to GoldStone Investment Co., Ltd., a company with limited liability incorporated in the PRC on 11 October 2007 and a wholly-owned subsidiary of our Company;
- "HKMA" are to The Hong Kong Monetary Authority;
- "Hong Kong Stock Exchange" are to The Stock Exchange of Hong Kong Limited;
- "IMF" are to the International Monetary Fund;
- "IPO" are to initial public offering;
- "IT" are to information technology;
- "Jiantou Zhongxin" are to Jiantou Zhongxin Asset Management Co., Ltd., a company with limited liability incorporated on 30 September 2005, which is 30% owned by the Company;
- "Latest Practicable Date" are to 28 April 2020;
- "Main Board" are to the main board of the stock exchange (excluding the option 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" are to the Ministry of Finance of the PRC;
- "MOFCOM" are to the Ministry of Commerce of the PRC;
- "Moody's Investors Service, Inc." are to Moody's Investors Service, a division of Moody's Corporation;
- "NBSC" are to the National Bureau of Statistics of the PRC;
- "NEEQ" are to The National Equities Exchange and Quotations;
- "NSSF" are to the National Social Security Fund of the PRC;

- "PBOC" are to the People's Bank of China, the central bank of the PRC;
- "QDII" are to qualified domestic institutional investor;
- "QFII" are to qualified foreign institutional investor;
- "REIT" are to real estate investment trust;
- "SAFE" are to the State Administration of Foreign Exchange of the PRC;
- "Securities Act" are to the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;
- "SFC" are to the Securities and Futures Commission of Hong Kong;
- "SMEs" are to small and medium enterprises;
- "Standard & Poor's Rating Services, a part of McGraw Hill Financial" are to S&P Global Ratings, a division of S&P Global Inc.;
- "SSE" are to the Shanghai Stock Exchange; and
- "SZSE" are to the Shenzhen Stock Exchange.

PRESENTATION OF FINANCIAL DATA

The Company's consolidated financial statements as of and for the years ended 31 December 2017, 2018 and 2019 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board and were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PricewaterhouseCoopers**").

Certain amounts and percentages included in this Offering Circular have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column.

Solely for your convenience, this Offering Circular contains translations of certain Renminbi amounts into U.S. dollar amounts at specified rates. Unless indicated otherwise, the translation of Renminbi amounts into U.S. dollar amounts has been made at the rate of RMB6.9618 to US$1.00, the spot exchange rate in The City of New York for cable transfers in foreign currencies certified for customs purposes by the Federal Reserve Bank of New York on 31 December 2019. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any U.S. dollar at the rates indicated or at all.

INDUSTRY DATA

Market data and certain industry forecasts and statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by the Issuer, the Company, the Arrangers or the Dealers or their respective directors and advisors, and none of the Issuer, the Company, the Arrangers or the Dealers or their respective directors and advisors make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. In making an investment decision, each investor must rely on its own examination of the Issuer, the Company and the terms of the Programme and the Notes, including the merits and risks involved.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular or the Pricing Supplement:

(1) the most recently published audited consolidated annual financial statements and the most recently published unaudited but reviewed condensed consolidated interim financial statements of the Company, in each case together with any audit or review reports prepared in connection therewith. Copies of these financial statements can be found on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk; and

(2) all supplements to this Offering Circular issued by the Issuer in accordance with the undertaking described below given by it in the Dealer Agreement (as defined in "*Subscription and Sale*"), save that any statement contained herein or in a document all or the relevant portion of which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document all or the relevant portion of which is or is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Copies of any or all of the documents which, or portions of which, are incorporated herein by reference will be available free of charge to any person, to whom a copy of this Offering Circular has been delivered, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the principal office of the Trustee set out at the end of this Offering Circular.

SUPPLEMENTAL OFFERING CIRCULAR

Each of the Issuer and the Company has given an undertaking to the Dealers that in the event (i) a significant new factor, material mistake or material inaccuracy arises or is noted relating to the information included in the Offering Circular which is capable of affecting an assessment by investors of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and/or the Company and/or of the rights attaching to the Notes and/or the Guarantee, or (ii) this Offering Circular otherwise contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements contained therein not misleading, the Issuer and the Company shall update or amend this Offering Circular (following consultation with the Dealers) by the publication of a supplement to it or a new Offering Circular, in each case in a form approved by the Dealers.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular are not historical facts and are "forward-looking statements." All statements other than statements of historical facts contained in this Offering Circular, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "estimate," "believe," "expect," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "would" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which 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 forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- future developments, trends and conditions in the industry and markets in which we operate;
- the competitive markets for our products and the actions and development of our competitors;
- general political and economic conditions, including those related to the PRC;
- the regulatory environment of the PRC and the industry in which we operate;
- our ability to reduce costs;
- fluctuations in our commissions and fees;
- our dividend policy;
- exchange rate fluctuations and developing legal systems, in each case pertaining to the PRC and the industry and markets in which we operate;
- changes to our expansion plans and estimated capital expenditures;

- macroeconomic measures taken by the PRC government to manage economic growth; and

- our business plan, strategies, objectives and goals and our ability to successfully implement these strategies.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*" and elsewhere in this Offering Circular. 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 document. 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 Offering Circular might not occur. All forward-looking statements contained in this Offering Circular are qualified by reference to the cautionary statements set out in this section.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS

The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

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SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is qualified in its entirety by the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. This summary must be read as an introduction to this Offering Circular, and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Phrases used in this summary and not otherwise defined shall have the meanings given to them in the section entitled "Terms and Conditions of the Notes."

Issuer	CITIC Securities Finance MTN Co., Ltd.
Company	CITIC Securities Company Limited (中信証券股份有限公司)
Guarantee	On the issue date of each Tranche of Notes, the Notes being issued on that date will have the benefit of a Deed of Guarantee provided by the Company. Pursuant to the Deed of Guarantee, the Company will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the relevant Notes, Receipts and Coupons and under the Trust Deed with respect to such Notes, Receipts and Coupons, as further described in Condition 3(a) of the Terms and Conditions of the Notes. So long as the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) promulgated by SAFE on 12 May 2014 (as may be amended from time to time and together with any successor laws and regulations thereto relating to the provision of cross-border guarantee, the "**Cross-border Security Rules**") are still in effect, the Company undertakes that it will, to the extent required by the Cross-border Security Rules, register or cause to be registered with SAFE the Deed of Guarantee in accordance with the Cross-border Security Rules (the "**Cross-border Security Registration**") and use its best endeavours to complete the Cross-border Security Registration and to obtain a registration record from SAFE on or before the Registration Deadline (being the day falling 90 Registration Business Days (as defined in the "*Terms and Conditions of the Notes*") after the issue date of each Tranche of Notes under the Programme), and it will comply with all applicable PRC laws and regulations in relation to the Deed of Guarantee.
Description	Medium Term Note Programme.
Size	Up to US$3,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of the Notes outstanding at any one time. The Issuer and the Company may increase the aggregate nominal amount of the Programme in accordance with the terms of the Dealer Agreement. Please see "*Subscription and Sale*" for description of the Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and

	the Company to fulfil their respective obligations in respect of the Notes, the Receipts or the Coupons, the Trust Deed and the Deed of Guarantee are discussed under "*Risk Factors*."
Arrangers	CLSA Limited (中信里昂證券有限公司) Bank of China Limited Bank of China (Hong Kong) Limited Citigroup Global Markets Limited The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank (Hong Kong) Limited
Dealers	CLSA Limited (中信里昂證券有限公司) Bank of China Limited Bank of China (Hong Kong) Limited Citigroup Global Markets Limited The Hongkong and Shanghai Banking Corporation Limited Standard Chartered Bank Standard Chartered Bank (Hong Kong) Limited ABCI Capital Limited (農銀國際融資有限公司) Australia and New Zealand Banking Group Limited China CITIC Bank International Limited CMB International Capital Limited (招銀國際融資有限公司) Crédit Agricole Corporate and Investment Bank ICBC International Securities Limited Industrial and Commercial Bank of China (Asia) Limited J.P. Morgan Securities plc Mizuho Securities Asia Limited SPDB International Capital Limited (浦銀國際融資有限公司) UBS AG Hong Kong Branch The Issuer and the Company may from time to time terminate the appointment of any Dealer under the Programme or appoint Dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to "Dealers" are to all persons appointed as a dealer in respect of one or more Tranches or the Programme.
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*"). Further restrictions may apply in connection with any particular Series or Tranches of Notes.
Trustee	Citicorp International Limited
Issuing and Paying Agent, and Transfer Agent	Citibank, N.A., London Branch

CMU Lodging and Paying Agent	Citicorp International Limited
Registrar	Citigroup Global Markets Europe AG
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the issue date, first Interest Payment Date, the Interest Commencement Date (if applicable) and/or the issue price (if applicable)), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price (if applicable), first Interest Payment Date, the Interest Commencement Date (if applicable) and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the relevant Pricing Supplement.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes	Notes may be issued in bearer or registered form as described in "*Terms and Conditions of the Notes*." Registered Notes will not be exchangeable for Bearer Notes and vice versa. Each Tranche of Bearer Notes will initially be in the form of either a temporary Global Note or a permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Tranche of Registered Notes will initially be represented by a Global Certificate. Where TEFRA D (as defined below) is applicable, Bearer Notes must initially be issued in the form of a temporary Global Note, exchangeable for permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.
Clearing Systems	Clearstream, Euroclear or the CMU. In addition, in relation to any Tranche, such other clearing system approved by the Issuer and the Company and notified to the Issuing and Paying Agent and/or the CMU Lodging and Paying Agent, the Trustee, the Relevant Dealer(s) and as applicable, the Registrar.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note or Global Certificate representing the Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a

sub-custodian for the CMU. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system *provided* that the method of such delivery has been agreed in advance by the Issuer, the Company and the Issuing and Paying Agent. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Company and the Relevant Dealer(s).
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Company and the Relevant Dealer(s).
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all relevant laws, regulations and directives. Unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuers in the United Kingdom or the activity of issuing the Notes is carried on from an establishment maintained by the Issuers in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Interest	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked, and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
Fixed Rate Notes	Fixed interest will be payable in arrear on such date or dates as may be agreed between the Issuer, the Company and the Dealer(s) and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer, the Company and the Relevant Dealer(s).
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: • on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporated the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the issue date of the first Tranche of the Notes of the relevant Series); or

	• by reference to LIBOR, EURIBOR, HIBOR or CNH HIBOR (or such other benchmark as may be specified in the relevant Pricing Supplement) as adjusted for any applicable margin; or • on such other basis as may be agreed between the Issuer, the Company and the Relevant Dealer(s).
Zero Coupon Notes	Zero Coupon Notes (as defined in "*Terms and Conditions of the Notes*") may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes (as defined in "*Terms and Conditions of the Notes*") will be made in such currencies, and based on such rates of exchange, as the Issuer, the Company and the Relevant Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes (as defined in "*Terms and Conditions of the Notes*") or of interest in respect of Index Linked Interest Notes (as defined in "*Terms and Conditions of the Notes*") will be calculated by reference to such index and/or formula or to changes in prices of securities or commodities or to such other factors as the Issuer, the Company and the Dealer(s) may agree and as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Pricing Supplement.
Redemption	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable (detailed in a formula, index or otherwise). Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuers in the United Kingdom or the activity of issuing the Notes is carried on from an establishment maintained by the Issuers in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Optional Redemption	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.

Redemption for Relevant Event	Following the occurrence of a Relevant Event, any Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all, but not some only, of such Noteholder's Note at 100% of their principal amount, together in each case with accrued interest, as further described in Condition 6(e) of the Terms and Conditions of the Notes.
Redemption for Taxation Reasons	Notes will be redeemable at the Issuer's option prior to maturity for taxation reasons as further described in Condition 6(c) of the Terms and Conditions of the Notes.
Status of the Notes	The Notes and the Receipts and the Coupons relating to them will constitute direct, unsubordinated, unconditional and (subject to Condition 4(d) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer and will rank at all times at least *pari passu* and without any preference among themselves. Unless specified thereon, the payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(d) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.
Status of the Guarantees	The payment obligations of the Company under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(d) of the Terms and Conditions of the Notes, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Conditions 4(d) of the Terms and Conditions of the Notes.
Event of Default	The Terms and Conditions of the Notes will contain events of default provisions, including a cross acceleration provision, as described in Condition 10(c) of the Terms and Conditions of the Notes.
Withholding Tax	All payments of principal, any premium and interest by or on behalf of the Issuer or the Company in respect of the Notes or under the Guarantee, the Receipts and the Coupons will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands or the PRC or other jurisdiction in which the Issuer or the Company, as the case may be, is tax resident, in each case including any political subdivision or authority therein or thereof having power to tax or the jurisdiction through which payments are made, unless such withholding or deduction is required by law. In such case, the Issuer or (as the case may be) the Company will pay such additional amounts as will result

	in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to exceptions described in Condition 8 of the Terms and Conditions of the Notes.
Ratings	The Programme has been assigned a rating of "Baa1" by Moody's and a long-term rating of "BBB+" and a short-term rating of "A-2" by S&P. In addition, the Company has been assigned a rating of "BBB+" by S&P and a rating of Baa1 by Moody's. These ratings are only correct as at the date of this Offering Circular. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.
Governing Law	The Notes, the Trust Deed, the Agency Agreement and the Dealer Agreement and any non-contractual obligations arising out of or in connection with them will be governed by, and construed in accordance with, the law of England and Wales, and the Deed of Guarantee will be governed by, and construed in accordance with Hong Kong law.
Jurisdiction	Exclusive jurisdiction of Hong Kong courts.
Listing and Admission to Trading	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only, and will be made to the Hong Kong Stock Exchange for permission to deal in and for the listing of Notes issued under the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).
Selling Restriction	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area, the United Kingdom, Japan, Hong Kong, the PRC, Singapore, the British Virgin Islands,

Taiwan, Macau and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*."

Any Bearer Notes issued under the Programme will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**Code**") ("**TEFRA D**") unless (i) the relevant Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the Code ("**TEFRA C**") or (ii) the Bearer Notes are issued other than in compliance with TEFRA D or TEFRA C. In the case of Bearer Notes, only Notes with a term of 365 days or less (taking into account any unilateral rights to rollover or extend the term) will be issued other than in compliance with TEFRA D or TEFRA C and will be referred to in the relevant Pricing Supplement as a transaction to which the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**") is not applicable. Bearer Notes with a term of more than 365 days (taking into account any unilateral rights to rollover or extend the term) that are held through the CMU must be issued in compliance with TEFRA C, unless at the time of issuance the CMU and CMU Lodging and Paying Agent have procedures in place so as to enable the Issuers to comply with the certification requirements under TEFRA D. Where TEFRA D is applicable, Bearer Notes must initially be issued in the form of temporary Global Notes, exchangeable for permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.

SUMMARY OF THE GROUP AND THE ISSUER

This summary highlights certain information contained in this Offering Circular. This summary does not contain all the information that you should consider before investing in the Notes. You should carefully read this Offering Circular in its entirety, including the sections entitled "Forward-Looking Statements", "Risk Factors" and "Description of the Group", as well as the financial statements and notes thereto included elsewhere in this Offering Circular. Capitalised terms used in this summary and not otherwise defined shall have the meanings given to them in the sections "Description of the Issuer" and "Description of the Group".

CITIC SECURITIES

We are the leading full-service investment bank in China. According to Wind Info, our investment banking business ranked No. 1 in China in terms of the total underwritten amount of equity securities in 2019, and our brokerage business ranked No. 1 nationwide in terms of total trading turnover of stocks and funds on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 2019. As of 31 December 2019, our asset management business ranked No. 1 in China in terms of assets under management, according to Wind Info.

We offer a wide range of products and services to a large and diverse client base that includes corporations, financial institutions, governments and individuals. The following table lists our products and services under our principal business lines.

Investment Banking	Brokerage	Trading	Asset Management	Investment
• Equity finance • Debt and structured finance • Financial advisory services	• Securities and futures dealing and brokerage • Distribution of financial products	• Equity, fixed income and derivatives trading and market-making • Margin financing and securities lending • Alternative investment	• Collective asset management • Directive asset management • Fund management • Other investment account management	• Private equity investment

Our principal operations are in China and Hong Kong, and we believe that we are well positioned to benefit from the strong growth potential of China's economy and the opportunities presented by the development of China's capital markets. The completion of our acquisition of the entire equity interest in CLSA on 31 July 2013 significantly reinforced our research capabilities and extended our global coverage. In addition to China and Hong Kong, CLSA also operates in the United States, the United Kingdom, the Netherlands, Australia, Mauritius, and Asian markets including India, Indonesia, Japan, Korea, Malaysia, Sri Lanka, the Philippines, Singapore, Thailand and Taiwan. The following sets forth the recent achievements of our core businesses:

- *Investment banking.* We ranked first in each of the years from 2017 through 2019 among all securities firms in China in terms of the total underwritten amount of equity securities, according to Wind Info. Among all securities firms in China in terms of the number of issues and the total underwritten amount of debt securities, we ranked first, according to Wind Info.

- *Equity trading and brokerage.* We maintained a leading position in the domestic institutional brokerage business, ranking first in the industry.

- *Fixed income trading and brokerage.* We ranked first in 2017, 2018 and 2019 in terms of the total sales of interest rate products in China, according to Wind Info.

- *Brokerage network.* We have a broad nationwide brokerage network, with 273 securities branches and four futures branches covering 21 provinces and municipalities in China and four branches in Hong Kong as of 31 December 2019. We ranked second in 2017 and 2018 and first in 2019 in terms of total trading volume on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. In addition to China and Hong Kong, we also provide brokerage services in other overseas locations in Asia Pacific, North America and Europe.

- *Asset management.* We ranked first among investment banks in China in terms of total assets under management of mutual funds as of 31 December 2017, 2018 and 2019, according to Securities Association of China and the Asset Management Association of China.

- *Private equity.* We were one of the first two investment banks licensed to engage in the private equity business in China in 2007. Our private equity arm, Goldstone, was ranked one of the "Top 30 Best Private Equity Investment Institutions in China for 2016" by *ChinaVenture*, a "Top 5 Best Private Equity Investment Institutions in China" and "Top 10 Best Direct Investment Securities Houses in China" in 2017 and "No. 17 2018 Top 50 Best Private Equity Investment Institutions in China (No. 1 in securities industry)" in 2018 by *Zero2IPO Group* and was the "Golden Bull Broker's Equity Investment Annual Winner" issued by *China Securities Journal*.

- *Research*. CLSA was rated "Most Independent Research Brokerage for Asia (excluding Australia and Japan)" by *Asiamoney* in each of the years from 2013 to 2018 "No. 1 Best Team for Quantitative/ Technical Analysis" for Asia (excluding Australia and Japan) by *Asiamoney* in 2019.

Established on 25 October 1995, our Company was one of the first companies approved by CSRC to be an integrated securities company. The founders of our Company were CITIC Group Corporation (under its former name of China International Trust Investment Company), our then largest shareholder, and three other investors. On 29 December 1999, the Company was converted into a joint stock limited company in the PRC, under its current name of CITIC Securities Company Limited, with CITIC Group Corporation and 47 other investors as its shareholders. We were the first China-based investment bank listed on the Shanghai Stock Exchange, having completed our IPO in January 2003.

Through organic growth and acquisitions, we have established a track record of growth to stay competitive:

- In 2004, we acquired a controlling interest in CITIC Shandong (formerly CITIC Wantong Securities Co., Ltd. and Qingdao Wantong Securities Co., Ltd.) to expand our securities services businesses. On 16 September 2013, CITIC Shandong became our wholly-owned subsidiary;

- In 2005, we acquired CSC Financial Co., Ltd. (formerly known as China Securities Co., Ltd.) ("**CSC**") to expand our securities services businesses. We divested a majority equity interest in CSC in 2010, and we held a 5.0069% equity interest in CSC as of 31 December 2019;

- In 2006, we acquired the equity business of CITIC Capital Holdings Limited and incorporated that business into CITIC Securities (HK) Company Limited, which was later renamed CITIC Securities International Company Limited. This marked the beginning of our global expansion;

- In 2006, we acquired CITIC-Kington Securities Co., Ltd. (which in 2014 was split into two entities, CITIC Securities (Zhejiang) and Kington Securities Limited Liability Company, with CITIC Securities (Zhejiang) merged by absorption with the Company and the equity interest in Kington Securities Limited Liability Company divested) to expand our securities services businesses;

- In 2007, we acquired China AMC to expand into the asset management business. We divested a majority equity interest in China AMC in 2011 in response to regulatory requirements. On 24 September 2013, with a relaxation of regulatory requirements, we regained a controlling interest in China AMC by acquiring a further 10% equity interest in China AMC. As of 31 December 2019, we held a 62.2% equity interest in China AMC;

- In 2007, we established GoldStone to expand into the private equity business and we were one of the first two investment banks licensed to engage in the private equity business in China at the time;

- In 2008, we co-founded CITIC PE Fund as part of our principal investment business;

- In 2011, the Company conducted the initial public offering of 1,071 million H shares, raising RMB11,271 million. The Company was listed and traded on the Main Board of the Hong Kong Stock Exchange (stock code: 6030) on 6 October 2011;

- In 2012, we established CITIC Securities Investment to expand into the financial product investment business;

- In 2013, we completed the acquisition of CLSA to further extend our international operations. In July 2012, we acquired a 19.9% equity interest in CLSA, and on 31 July 2013, we acquired the remaining 80.1% equity interest in CLSA;

- Our shares have been included in both northbound and southbound trading lists of the Shanghai-Hong Kong Stock Connect since its launch on 17 November 2014;

- In 2015, we issued 1.1 billion H shares by private placement to 10 investors, including Kuwait Investment Authority, at the price of HK$24.60 per H-share;

- In 2015, we acquired a 59.04% equity interest in KVB Kunlun Financial Group Limited (which changed its name to CLSA Premium Limited) to speed up the development of our foreign exchange business and build up a foreign exchange platform;

- In 2016, CITIC Corporation Limited, through its own stock account, increased its shareholding in the Company by an aggregate of 110,936,871 A Shares. Upon the completion of the increase in shareholding, the total number of Shares of the Company directly held by CITIC Corporation Limited increased from 1,888,758,875 shares to 1,999,695,746 shares, and the direct shareholding increased from 15.59% to 16.50%; and

- In 2020, we acquired a 100% equity interest in Guangzhou Securities Company Limited (which changed its name to CITIC Securities South China Company Limited) so as to enhance our service capabilities in South China and to better serve the national strategy of building the "Guangdong-Hong Kong-Macau Greater Bay Area".

After its listing on SSE, the Company has since been included in the SSE 180 Index, SSE 50 Index, CSI 300 Index, SSE Corporate Governance Index, FTSE/Xinhua A50 China Index, Dow Jones China 88 Index, and SSE Social Responsibility index. After its listing on the Hong Kong Stock Exchange, the Company has since been included in constituent stocks of indices including the Hang Seng China H-Financials Index, Hang Seng China AH Index Series, Hang Seng Global Composite Index, Hang Seng Composite Index, Hang Seng Composite Industry Index — Financials and Hang Seng Composite MidCap Index, Hang Seng China Enterprises Index, Hang Seng Mainland 100 Index, Hang Seng CSI Shanghai- Hong Kong AH Smart Index, SSE SH Equities Index, FTSE China 25 Index and MSCI China Index, which greatly enhanced the prestige of the Company. Since the launch of Shanghai-Hong Kong Stock Connect on 17 November 2014, the Shares of the Company have been included in both its northbound trading list and southbound trading lists respectively. Upon the launch of Shenzhen-Hong Kong Stock Connect on 5 December 2016, H Share of the Company has become an eligible stock of Shenzhen-Hong Kong Stock Connect.

The Company has received the Approval of the State Administration of Foreign Exchange regarding the Operation Qualification of Settlement and Sale of Foreign Exchange Business of CITIC Securities Company Limited (Hui Fu [2019] No. 32) (the "**Approval**") (《國家外匯管理局關於中信証券股份有限公司結售匯業務經營資格的批覆》(匯覆[2019]32號)), pursuant to which, the State Administration of Foreign Exchange has agreed that: (1) the Company may carry out the business of sale and settlement of spot foreign exchange on its own and as an agency in accordance with the Measures for the Administration of Banks' Settlement and Sale of Foreign Exchange Business (《銀行辦理結售匯業務管理辦法》) (PBOC Order [2014] No. 2) (中國人民銀行令[2014]第2號) and other regulations; and (2) the Company may carry out Renminbi spot foreign exchange transactions and derivative trading in the interbank foreign exchange market in accordance with the Notice on the Relevant Administrative Policy for Adjusting the Entry of Financial Institutions into the Interbank Foreign Exchange Market Issued by the State Administration of Foreign Exchange (Hui Fa [2014] No. 48) (《國家外匯管理局關於調整金融機構進入銀行間外匯市場有關管理政策的通知》) (匯發[2014] 48號) and other regulations.

Building on our success in China, we commenced our international operations in 2006 when we acquired the equity business of CITIC Capital Holdings Limited and incorporated it into CITIC Securities (HK) Company Limited, the predecessor of CSI, our wholly-owned Hong Kong-based subsidiary. With CSI's acquisition of the entire equity interest in CLSA, which was completed on 31 July 2013, and the alignment of our international business under the CLSA brand, we have expanded our overseas business network to the United States, the United Kingdom, Australia, Europe, and certain Asian markets in which CLSA operates. We are gradually extending our presence in emerging markets in Africa, South America and the Middle East. We have extended our services, including investment banking, institutional sales and trading, brokerage, asset management and private equity investment, to a diverse clientele in Hong Kong and other jurisdictions. We believe that we are well positioned to capitalise on the growing cross-border business opportunities arising from the globalisation of China's economy and companies, such as equity offerings by China-related companies in Hong Kong and issuances of RMB-denominated products, as well as the demand for brokerage services arising from the growing financial needs of China's high-net-worth individuals and institutional investors, such as QDIIs and sovereign funds.

Our largest shareholder, CITIC Corporation Limited, is owned by CITIC Limited (formerly known as CITIC Pacific Limited). As of 31 December 2019, CITIC Limited was 58.13% owned by CITIC Group Corporation. CITIC Group Corporation is one of the largest state-owned conglomerates, with a more than 35-year track record in China. It operates in a wide range of industry sectors including finance, real estate and infrastructure, construction, energy and resources, manufacturing, IT, trading and consumer. We believe that the CITIC brand name connotes innovation, integrity, dedication and excellence and enhances our competitive edge in winning new clients and mandates.

For the years ended 31 December 2017, 2018 and 2019, our total revenue and other income was RMB57.0 billion, RMB51.1 billion and RMB57.1 billion respectively, and our respective profit attributable to owners of the parent for the corresponding periods was RMB11.4 billion, RMB9.4 billion and RMB12.2 billion) respectively. As of 31 December 2017, 2018 and 2019, we had total assets of RMB625.6 billion, RMB653.1 billion and RMB791.7 billion, respectively, and total equity attributable to owners of the parent of RMB149.8 billion, RMB153.1 billion and RMB161.6 billion, respectively.

COMPETITIVE STRENGTHS

We believe that the following strengths have contributed to our success and differentiated us from our competitors:

- Comprehensive support and business collaboration from the CITIC Group;
- Well-balanced business mix with diversified income sources;
- Domestically-leading investment banking franchise with global strategic presence and largest area coverage with respect to the Belt and Road Initiative;
- Strong balance sheet and solid capital base;
- Prudent risk management and effective internal control system; and
- A steady team of visionary and experienced senior management.

STRATEGIES

Our vision is to become a domestically leading and internationally first-class Chinese investment bank trusted by clients around the world. To achieve this goal, we intend to implement differentiated development strategies in our various business lines. See "*Description of the Group - Strategies*".

RECENT DEVELOPMENTS

March 2020 financial information

We have published the Group's first quarterly report for the first quarter ended 31 March 2020 (the "**March 2020 Financial Information**"), financial information in which was prepared according to PRC GAAP. The report is available on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk and the website of the Company at http://www.cs.ecitic.com/newsite/.

The March 2020 Financial Information is not included in and does not form a part of this Offering Circular. The March 2020 Financial Information has not been audited or reviewed by the Group's independent accountants, or any other independent accountants and may be subject to adjustments if audited and reviewed. Consequently, none of the Arrangers, Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) makes any representation, warranty or undertaking, express or implied, regarding the accuracy or completeness of such financial information, and potential investors should not place undue reliance on such information. The Group's March 2020 Financial Information should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the six months ending 30 June 2020.

We summarise below some of the changes to our income statement and statement of cash flows for the three months ended 31 March 2020 compared to the three months ended 31 March 2019.

- Net interest income decreased because of an increase in interest expenses.
- Other income increased because of an increase in gains from government subsidies relating to the daily operations of the Company.

- Gains and losses arising from changes in the fair value increased because of changes in the fair value of financial instruments caused by securities market fluctuation.

- Foreign exchange gains and losses decreased because of changes in exchange rate.

- Other operating income increased because of an increase in sales income of bulk commodities trading of subsidiaries.

We summarise below some of the significant changes to our financial position as at 31 March 2020 compared to 31 December 2019.

- Cash and bank balances increased because of an increase in the scale of cash held on behalf of customers.

- Derivative financial assets increased because of changes in the scale and fair value of derivative financial instruments.

- Accounts receivables increased because of an increase in the brokerage accounts due from clients.

- Refundable deposits increased because of an increase in the scale of trading deposits and performance bonds.

- Assets held for sale decreased because our subsidiaries have disposed of assets held for sale.

- Short-term loans increased because of an increase in the scale of short-term loans.

- Short-term financing instrument payables increased because of an increase in the scale of short-term financial instrument payables.

- Amounts due to banks and other financial institutions decreased because of a decrease in the scale of amounts due to banks and other financial institutions.

- Derivative financial liabilities increased because of changes in the scale and fair value of derivative financial instruments.

- Customer brokerage deposits increased because of an increase in deposits from brokerage customers.

- Funds payable to securities issuers increased because of an increase in the unsettled funds payable to securities issuers.

- Tax payable increased because of an increase in the balance of enterprise income tax payables.

- Accounts payable increased because of an increase in the agent and client deposits payable.

- Contractual liabilities increased because of an increase in amounts payable for bulk commodity trading.

- Accrued liabilities increased because of the addition of new consolidated subsidiaries.

- Other liabilities increased because of the addition of new consolidated subsidiaries.

- Other comprehensive income decreased because of changes in the fair value of other equity instrument investments.

Impact of COVID-19 pandemic

Since the outbreak of the COVID-19 pandemic in January 2020, the Company has focused on ensuring the safety and welfare of its employees and on implementing the requirements of the Notice, that was jointly issued by the PBOC, MOF, the China Banking and Insurance Regulatory Commission, CSRC and SAFE on 31 January 2020. The Notice directs financial institutions such as ourselves to prioritise the extension of credit to customers who are involved in responding to the COVID-19 pandemic and to customers located in areas severely impacted by the pandemic. To the extent that our business involves such customers and such areas, we have exercised reasonable and prudent flexibility in the provision of new credit and the temporary waiver of certain existing obligations of our customers. As a provider of a broad range of financial services, our business is inherently more able to withstand the economic impact of a public health emergency than companies in many other industries. As of the date of this Offering Circular, the COVID-19 pandemic has not had, and is not expected to have, any material impact on the Company's overall business, financial condition or results of operations.

THE ISSUER

The Issuer is a BVI business company with limited liability incorporated in the British Virgin Islands on 10 September 2014 with company number 1840773. Its registered office is located at the offices of Intertrust Corporate Services (BVI) Limited, Ritter House, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands. The Issuer is a wholly-owned subsidiary of CSI, a Hong Kong subsidiary wholly-owned by CITIC Securities. So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer undertakes not to, and the Company undertakes to cause the Issuer not to, conduct any business or any activities other than the issue of the Notes or any other bonds or notes which are, or are capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements) and the lending of the proceeds thereof to the Company or any of the Company's subsidiaries and affiliates and any other activities reasonably incidental thereto. As of the date of this Offering Circular, the Issuer has not engaged, since its incorporation, in any material activities other than those relating to the establishment of the Programme, the issue of the 2022 Notes and the 2024 Notes on 25 October 2019, the issue of the 2021 Notes on 10 December 2018, the issue of the 2020 Notes and the Further 2022 Notes on 20 April 2017, the issue of the 2019 Notes on 30 October 2014, which were redeemed in full on 30 October 2019, the issue of the 2018 Notes on 6 May 2013, which were redeemed in full on 6 May 2018, and on-lending of the proceeds thereof to the Company or the Company's Subsidiaries and affiliates, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The summary consolidated financial data as of and for the years ended 31 December 2017, 2018 and 2019 has been extracted from the Company's published audited consolidated financial statements. The summary financial data below should be read in conjunction with the consolidated financial statements as well as the notes thereto, included elsewhere or incorporated by reference in this Offering Circular. The Company's consolidated financial statements were prepared and presented in accordance with IFRS.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS DATA

	Year ended 31 December		
	2017	**2018**	**2019**
		RMB millions	
Revenue			
Fee and commission income	22,665	20,295	21,515
Interest income	12,807	13,654	13,257
Investment income	12,713	8,046	15,891
	48,185	41,995	50,663
Other income	8,775	9,066	6,417
Total revenue and other income	56,960	51,061	57,080
Fee and commission expenses	3,708	2,868	3,493
Interest expenses	10,402	11,232	11,212
Staff costs	12,141	10,525	12,441
Depreciation	503	420	379
Business tax and surcharges	256	255	293
Other operating expenses and costs	12,659	11,816	10,478
Impairment losses on assets	1,721		
Expected credit losses		2,187	1,892
Impairment losses on other assets		24	699
Total operating expenses	41,390	39,327	40,887
Operating profit	15,570	11,734	16,194
Share of profits and losses of:			
Associates	603	743	793
Joint ventures	1	(11)	8
Profit before income tax	16,174	12,466	16,995
Income tax expense	4,197	2,589	4,346
Profit for the year	11,977	9,876	12,648
Attributable to:			
Owners of the Parent	11,433	9,390	12,229
Non-controlling interests	544	486	420
	11,977	9,876	12,648
Earnings per share attributable to Owners of the Parent (in RMB yuan)			
— Basic	0.94	0.77	1.01
— Diluted	0.94	0.77	1.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As of 31 December		
	2017	2018	2019
		RMB millions	
Non-current assets			
Property, plant of equipment	8,265	8,046	7,762
Investment properties	871	1,333	1,255
Goodwill	10,281	10,507	10,023
Land-use rights and intangible assets	3,447	3,269	3,073
Investments in associates	8,580	8,638	8,926
Investments in joint ventures	5	400	75
Available-for-sale financial assets	28,195		
Financial assets at fair value through other comprehensive income		15,532	16,279
Financial assets designated as at fair value through profit or loss	8,503		
Financial assets at fair value through profit or loss		22,562	26,202
Refundable deposits	972	1,113	1,460
Deferred income tax assets	3,385	4,223	5,241
Right-of-use assets			1,601
Other non-current assets	3,572	4,050	2,187
Total non-current assets	76,076	79,673	84,083
Current assets			
Fee and commission receivables	1,487	1,397	1,712
Margin accounts	73,983	57,198	70,674
Available-for-sale financial assets	31,032		
Financial assets at fair value through other comprehensive income		36,328	23,684
Financial assets held for trading	158,449		
Financial assets designated as at fair value through profit or loss	11,202		
Financial assets at fair value through profit and loss		224,875	329,147
Derivative financial assets	5,901	11,388	7,351
Reverse repurchase	114,592	67,370	58,830
Assets held for sale			195
Other current assets	26,164	30,255	33,203
Cash held on behalf of customers	92,386	92,421	118,401
Cash and bank balances	34,303	52,227	64,442
Total current assets	549,499	573,459	707,639
Current liabilities			
Customer brokerage deposits	99,855	97,774	123,352
Derivative financial liabilities	13,301	9,312	13,992
Financial liabilities at fair value through profit or loss	45,990	38,880	44,318
Repurchase agreements	111,620	121,669	174,448
Due to banks and other financial institutions	9,835	19,315	33,136
Taxes payable	1,793	2,873	2,885
Short-term loans	5,991	5,657	7,405
Short-term financing instruments payable	33,538	18,059	20,137
Lease liabilities			464
Other current liabilities	67,771	82,014	97,607
Total current liabilities	389,694	395,553	517,743
Net current assets	159,805	177,906	189,896
Total assets less current liabilities	235,881	257,580	273,980
Non-current liabilities			
Debt instruments issued	77,642	88,057	89,421
Deferred income tax liabilities	2,632	1,968	2,844
Long-term loans	1,085	953	383
Financial liabilities designated as at fair value through profit or loss	461	8,766	13,399
Lease liabilities			1,103
Other non-current liabilities	918	1,005	1,379
Total non-current liabilities	82,738	100,749	108,530
Net assets	153,143	156,831	165,450

	As of 31 December		
	2017	2018	2019
	RMB millions		
Equity			
Equity attributable to Owners of the Parent			
Issued share capital	12,117	12,117	12,117
Reserves	85,675	85,826	89,404
Retained earnings	52,007	55,198	60,104
	149,799	153,141	161,625
Non-controlling interests	3,344	3,690	3,825
Total equity	153,143	156,831	165,450

RISK FACTORS

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this Offering Circular and, in particular, the risks described below before deciding to invest in the Notes. The following describes some of the significant risks that could affect us and the value of the Notes. Some risks may be unknown to us and other risks, currently believed to be immaterial, could be material. All of these could materially and adversely affect our business, financial condition and results of operations. The market price of the Notes could decline due to any of these risks and you may lose all or part of your investment. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this Offering Circular. You should note that we are a PRC company, governed by a legal and regulatory environment that may differ significantly from that of other countries. For more information concerning China and certain related matters discussed below, please see "Summary of Relevant PRC and Hong Kong Laws and Regulations."

RISKS RELATING TO OUR BUSINESS

Unfavourable economic and market conditions in China and other jurisdictions in which we operate could undermine investor confidence, which could affect our businesses, results of operations and prospects.

Our businesses, including our investment banking, sales, trading and brokerage, asset management and investment businesses, are highly dependent on economic and market conditions in China and other jurisdictions in which we operate, such as Hong Kong. Due to various factors such as a shift in economic development from high-speed growth to high-quality development, stricter financial regulation and a slow recovery in the global economy, all of which are currently exacerbated by the effects of the ongoing COVID-19 pandemic, there has been a significant level of volatility in China's capital markets from 2014 to the present. Market volatility is expected to materially and adversely affect our results of operations and financial condition. In addition, unfavourable global market conditions including the shutdown of business activities in many countries caused by the COVID-19 pandemic, the financial instability in the U.S., the European sovereign debt crisis, and the US-China trade dispute, have adversely affected, and may continue to adversely affect, market conditions in China. Volatility in the capital markets in the United States, Europe and other jurisdictions in recent years has had a corresponding effect on Asian financial markets and may persist in the future.

Unfavourable financial or economic conditions, caused in recent years by international events including the ongoing COVID-19 pandemic, the European sovereign debt crisis, the United Kingdom's withdrawal from the European Union, the China-U.S. trade dispute and the imposition of tariffs on imports by both countries, have adversely affected investor confidence. Tensions in political relationships, such as the armed conflicts in Ukraine and instability in Syria and Iraq, may increase asset price volatility and adversely affect investor confidence. In addition, protests, demonstrations or other civil disturbances causing disruption to businesses and transportation in Hong Kong may affect Hong Kong's economy, which in turn may impact investor confidence. Weakening investor confidence has resulted and could continue to result in significant declines in the number and size of transactions for which we provide underwriting and financial advisory services. A significant portion of our investment banking revenue is derived from our participation in high-value transactions, and any decline in the number of these transactions because of unfavourable financial or economic conditions would adversely affect our investment banking business.

Market volatility and adverse financial or economic conditions may adversely affect our sales, trading and brokerage businesses. In particular, against the backdrop of the PBOC's easing monetary policy and lowering of entity financing costs, the bond market yield rate is expected to further decrease and the issuance size in the primary market is expected to maintain a mild increase. Given the constant exposure to credit risk, there is an increased risk of defaults by highly leveraged enterprises and private enterprises. These conditions tend to reduce the value of our clients' portfolios, decrease investor confidence and reduce investing activities, making it more difficult for us to retain existing clients and attract new clients. These conditions in turn may adversely affect our brokerage revenue and may increase the risk of default in the margin loan financing we provide to our clients through our prime services business. Our proprietary trading business may also be adversely affected by the reduction in the value of our trading and investment positions, which in turn would adversely affect our results of operations and financial condition and access to liquidity.

Under adverse financial or economic conditions, the value of our asset management portfolios may be adversely affected, thereby reducing the fees that we earn from our asset management business, and we may face an influx of client redemptions in our asset management portfolios, which in turn could also adversely affect the fee revenue from our asset management business. To the extent that clients do not withdraw their funds, they may switch their funds to other investment products that generate less fee revenue for us.

During periods of adverse financial or economic conditions, our private equity investment business may be adversely affected by reduced opportunities to exit and realise gains on our investments. We may also not be able to find desirable investment targets to effectively deploy capital, which could adversely affect our ability to raise new funds.

We recorded an increase in profit for the year ended 31 December 2019 relative to the same period in 2018. However, future results may differ from past performance due to a variety of factors including unforeseen changes in financial or economic conditions.

Our businesses are highly regulated in China and other jurisdictions in which we operate our businesses and may be adversely affected by changes in the regulatory environment and measures in China or these other jurisdictions.

As a participant in the financial services industry, we are subject to extensive regulation and face the risk of significant intervention by regulatory authorities in China and other jurisdictions in which we operate our businesses, including Hong Kong. The regulatory authorities limit the types of products and services we may offer by imposing capital requirements, and restrict our business activities by specifying the types of securities in which we may invest. Relevant regulatory authorities conduct inspections, examinations and inquiries on a regular basis in respect of our compliance with relevant regulatory requirements. For example, CSRC periodically evaluates and assigns a regulatory rating to each securities firm, including us, based on each firm's risk management capabilities, competitiveness and compliance with regulatory requirements. We are also subject to various regulations as well as inspections and restrictions imposed by relevant regulatory authorities in other jurisdictions where we operate our business, including Hong Kong. See "*Summary of Relevant PRC and Hong Kong Laws and Regulations*."

In recent years, regulatory authorities have regularly promulgated new rules and guidance. These new rules and guidance may directly affect our business strategies, competitiveness and prospects. Changes in the rules and regulations could impose more stringent requirements or additional limitations on the business that we conduct, require us to modify our existing business practices and lead to increased compliance costs or competition. Failure to adapt to the changing regulatory environment and maintain our compliance and competitiveness could have a material and adverse effect on our business, financial condition, operating results and prospects. The introduction and implementation of new rules, regulations or guidance, or changes in the interpretation or enforcement of existing ones, may adversely affect our business, financial condition and results of operations. In addition, new laws or regulations could be imposed on a selected category of financial institutions (either based on size, activities, geography or other criteria), which may adversely affect our ability to compete with other institutions that are not similarly affected.

We may be subject to administrative or regulatory penalties, restrictions or disciplinary actions resulting from any non-compliance with applicable regulatory requirements.

We operate in a highly regulated industry. Any failure to comply with the applicable regulatory requirements could result in fines, penalties or other disciplinary actions, including, among other things, a downgrade of our regulatory rating and limitations or prohibitions on our future business activities, which may limit our ability to carry out pilot programmes and conduct new businesses and may harm our reputation. In particular, we could be subject to administrative or regulatory penalties and restrictions or conditions on our business activities in China or other jurisdictions, including Hong Kong, due to certain instances of non-compliance in the ordinary course of business, including but not limited to:

- warnings;
- fines;
- forfeiture of illegal proceeds;
- revocation of business permits;
- required closure of business;
- limitation on business activities;
- suspension of parts of our business activities;
- suspension of approval of new businesses;
- limitations on dividend distributions;
- limitations on provision of remuneration or benefits to directors, supervisors and senior management;
- limitations on transfer of assets or creation of encumbrances on assets;
- required changes of directors, supervisors or senior management or limitation on their rights;
- required transfer of equity interests held by controlling shareholders or limitations on the exercise of their shareholders' rights;
- winding-up of business for rectification; and
- required take-over of management by other institutions.

We and our employees have in the past been found to be non-compliant with regulatory requirements and may, from time to time, become the subject of investigations by regulatory authorities overseeing our operation. Please see "*Risk Management and Internal Control — Legal and Regulatory — Regulatory Review and Proceedings*" for certain material incidents of non-compliance of our Group. Material incidents of non-compliance may subject us to penalties or restrictions on our business activities, which could have a material adverse effect on our business, financial conditions or results of operations.

Our investment banking business is dependent on our ability to identify, execute and complete projects successfully, which is subject to a number of risks, including market and regulatory risks.

Our investment banking business contributed approximately 7.6%, 5.9% and 8.1% of our total revenue and other income for the years ended 31 December 2017, 2018 and 2019, respectively. As we derive a large portion of our investment banking revenue and other income from sponsor fees and underwriting commissions, our ability to complete the projects we sponsor or underwrite in a timely manner may materially affect the level of income we derive from our investment banking business.

We are exposed to transaction-specific execution risks for each project we sponsor or underwrite. We generally receive payment of sponsor fees and underwriting commissions only after we successfully complete a transaction or our client decides to terminate a project. If a project is not completed as scheduled or at all for any reason, including for failure to obtain regulatory approval, we may not receive payment for our services in a timely manner, or at all, which could materially and adversely affect our results of operations. If we fail to sell the securities we underwrite, we would suffer reputational damage, and would incur capital expenditure to purchase the underwritten securities and may suffer losses on the value of these securities, thereby materially and adversely affecting our results of operations and financial condition.

Companies that wish to list their securities in China and Hong Kong are required to have an investment bank to act as sponsor for the transaction. When we act as a sponsor, we are required to fulfil certain due diligence and disclosure requirements in connection with each project that we sponsor. Any failure to satisfy the applicable requirements could subject us to fines and other administrative or regulatory penalties including suspension of our licences, which could materially and adversely affect our business, reputation, results of operations and financial condition.

We generate a high percentage of our revenue from brokerage commissions, and our business, results of operations or financial condition could be materially and adversely affected by a reduction in brokerage commission rates or trading activities by our clients, or by our failure to grow our brokerage client base.

We derive a high percentage of our income from our brokerage business. For the years ended 31 December 2017, 2018 and 2019, our brokerage business contributed 24.8%, 25.9% and 22.9% of our total revenue and other income, respectively.

Revenue from our brokerage business is primarily derived from the commissions we charge our clients for their trading activities. Accordingly, revenue from our brokerage business depends significantly on the number and size of trades that we execute for our clients, which in turn is influenced by market conditions in China and Hong Kong. In a market downturn, investors, including our clients, tend to reduce their trading activities, which could adversely affect the commissions we derive from our brokerage business.

China's capital markets are characterised by short-term investing behaviour among investors, which has resulted in a high level of trading activity by our clients. However, as the capital markets in China develop and our clients become more sophisticated, they may reduce their trading activities, which could adversely affect the commissions we derive from our brokerage business.

As of 31 December 2019, we had 273 securities branches and four futures branches in the PRC and four branches in Hong Kong. However, there is no assurance that we will be successful in expanding our branch network due to regulatory limitations and other unforeseeable reasons. For example, we may not be able to obtain approvals for our applications to open new branches. In addition, we plan to expand our brokerage business by focusing on wealth management and broadening our product offering with more high-value-added products and services. We cannot assure you that this strategy will be successful.

In addition, our brokerage business could also be adversely affected by a reduction in our brokerage commissions as a result of increased competition in the brokerage industry or the availability of alternative trading systems. In addition, CSRC lifted the "one investor one account" restriction on retail investors' A-share account opening in 2015 by allowing them to open multiple A-share accounts and exchange traded closed-end fund accounts on the Shanghai Stock Exchange and Shenzhen Stock Exchange based on their actual needs. Our retail customers can open accounts with multiple securities firms, which may divert client transactions to other firms. If we are unable to address the needs of our customers by maintaining high-quality customer service, continuing product innovation or providing value-added services, or if we otherwise fail to meet our customers' demands or expectations, we may lose our existing customers to our competitors or fail to attract new customers. Accordingly, we cannot assure you that our revenue derived from the brokerage business can be sustained.

Our trading business is subject to market volatility and our investment decisions.

We trade various types of investment products, including equity and equity-linked securities, fixed-income securities, commodities, as well as derivatives. Our trading business contributed 30.2%, 37.2% and 38.6% of our total revenue and other income for the years ended 31 December 2017, 2018 and 2019, respectively. The market value of the equity and fixed-income securities we hold for trading purposes are subject to market volatility and, therefore, the results of our securities trading activities are generally related to the condition of the securities markets where we trade. We also trade commodities such as precious metals, thermal coal, iron ore, copper premium and crude oil. Given the volatility of oil prices, we regularly measure, monitor and initiative the various risks that arise in connection with our commodity trading business. In addition, we engage in derivative instruments transactions, including but not limited to stock options, treasury futures and stock index futures. We generally use derivative instruments (including commodity futures, commodity swaps and commodity options) to hedge against the impact of price volatility on our investment portfolio or adjust the risk exposure of the investment portfolio. However, the types of financial investment products currently available in the PRC securities market remain limited. Although stock index futures provide investors with tools for arbitrage and managing risks related to their investments, such financial instruments for PRC investors remain inadequate, which may make it difficult for us to fully hedge against fluctuations in the price of our investment portfolio, and the derivatives that we use may not be as effective as we would expect. In addition, we are exposed to risks associated with derivatives contracts that we enter into, which could result in losses. Since the PRC derivative markets on the exchanges are unstable and the OTC derivative markets are under-developed, we may lack experience in managing new products or trading derivative products.

The performance of our trading business relies on our investment judgements and decisions based on our assessment of current and future market conditions. We closely monitor the market value of our investment portfolio and actively refine the structure of our portfolio based on market conditions and internal risk management guidelines. However, our investment decisions are made based on our judgement, which involves management discretion and assumptions. If our decision-making process fails to effectively minimise losses while capturing gains, or our forecasts do not conform to actual changes in the market conditions, our proprietary trading business may not achieve the investment returns we anticipate or may even suffer material losses, all of which could materially and adversely affect our business, financial condition and results of operations.

In addition, the values of certain classes of our assets, such as our available-for-sale financial assets, are marked to market. A decline in the value of our available-for-sale financial assets can result in the recognition of impairment losses if management determines that such decline in value is not temporary. This impairment recognition is based on evaluation of several factors and involves significant judgement. If we recognise impairment losses, our financial condition and operating results will be adversely affected.

Our asset management revenue and earnings could decline if the investments we manage perform poorly, our clients withdraw assets we manage on short notice, or if we lose clients.

Our asset management business contributed 14.1%, 12.8% and 13.0% of our total revenue and other income for the years ended 31 December 2017, 2018 and 2019, respectively. We charge asset management fees based on the size and the performance of the assets under our management. The investment performance of the assets we manage affects the quantity and type of our assets under management, and is one of the most important factors in retaining clients and competing for new asset 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. Poor investment performance could adversely affect our revenue and growth because:

- existing clients might withdraw funds from our asset management business in favour of better performing products provided by our competitors, resulting in a decline in our management fees;
- clients may request that we lower the fees for our asset management services, given the intense competition in the asset management industry;
- our incentive fees, which are based on a percentage of investment returns, would decline; and
- other securities or asset management firms with which we have strategic alliances may terminate these relationships with us, and future strategic alliances may be unavailable.

We may not be able to keep or increase the size of assets under our management due to increased competition from insurance companies, trust companies, banks and other competitors, which would adversely affect our results of operations and financial condition.

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

Our business is subject to concentration risks due to significant holdings of financial assets or significant commitments of capital.

In the course of our business, we often commit substantial amounts of capital to certain types of businesses or asset classes, including in our investment banking, equity and fixed income sales and trading, private equity and margin financing businesses. These commitments of capital expose us to concentration risks, including market risk, in the case of our holdings of concentrated or illiquid positions in a particular asset class as part of our equity and fixed income sales and trading and private equity activities, and credit risk, in the case of our margin financing business. Any decline in the value of these assets may reduce our revenues or result in losses, and our financial condition and results of operations may be adversely affected.

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 the changing market environment, our new business initiatives often lead us to offer new products and services and transact with individuals and entities that are not within our traditional client and counterparty base, exposing us to risks related to new asset classes and new markets.

These activities expose us to new and enhanced risks, including reputational concerns arising from dealing with less sophisticated counterparties and investors, greater regulatory scrutiny, and increased credit-related, sovereign, operational and market risks, which could adversely affect our business and results of operations. For example, we may suffer losses on the stock index futures contracts we enter into if stock prices move unfavourably. We are also subject to substantial risks in our margin financing business, if borrowers of margin loans default on payments and the value of the collateral for the loans is insufficient to cover the margin loan amount.

Our business is increasingly subject to the risks associated with international expansion.

We have expanded our operations beyond China and we plan to continue to expand our overseas operations. For example, with the acquisition of CLSA in 2013, we have expanded our business network to cover more developed regions such as Europe, North America, Asia and Australia, and we are gradually extending our presence to emerging regions such as Africa and South America. In expanding our business internationally, we have entered and intend to continue to enter into and expand our operations in markets in which we have limited or no experience. We may not be able to attract a sufficient number of clients in these markets due to our limited presence in these markets. Furthermore, we may fail to anticipate competitive conditions in new markets that are different from those in our existing markets. These competitive conditions may make it difficult or impossible for us to effectively operate in these markets. In addition, our expansion into new markets may increasingly subject us to the risks inherent in conducting business internationally, including but not limited to:

- economic instability and recessions;
- approval or licensing requirements;
- obligations to comply with foreign laws and other regulatory requirements;
- potential adverse tax consequences;
- political instability;
- changes in tariffs;
- difficulties in administering foreign operations generally;
- limited protection for intellectual property rights;

- increased risk of exposure to terrorist activities;
- foreign exchange losses;
- inability to effectively enforce contractual or legal rights; and
- difficulties in recruiting and retaining qualified personnel.

In particular, despite our efforts to comply with all applicable regulations of all the jurisdictions in which we operate, we may from time to time fail to comply with the regulations of certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against us or our employees, representatives, agents and third party service providers. If we are unable to manage the risks resulting from our expansion outside China, our business, reputation, financial condition and results of operations may be adversely affected.

We may pursue acquisitions or joint ventures that could present unforeseen integration obstacles or costs and may not enhance our business as we expect.

We have in the past pursued joint ventures and other transactions aimed at expanding the scope and scale of our operations geographically and otherwise, such as the acquisition of CLSA in 2013, the acquisition of a 59.04% equity interest in CLSA Premium Limited (formerly known as KVB Kunlun Financial Group Limited) in 2015 and the acquisition of CITIC Securities South China Company Limited (formerly known as Guangzhou Securities Company Limited) in January 2020. Acquisitions and joint ventures involve a number of risks and present financial, managerial and operational challenges, including potential disruption of our ongoing business and distraction of management's attention, difficulty with integrating personnel and financial and other systems, hiring additional, or retaining existing, management and other critical personnel and increasing the scope, geographic diversity and complexity of our operations.

We may not be able to realise any anticipated benefits or achieve the synergies we expect from these acquisitions or joint ventures; our clients may react unfavourably to our acquisition and joint venture strategy; and we may be exposed to loss of key personnel or management or additional liabilities of any acquired business or joint venture. Any of these could materially and adversely affect our revenue and results of operations.

We are exposed to risks associated with divestments or reorganisation of our subsidiaries, businesses, assets or investments.

We are exposed to risks associated with divestments of our subsidiaries, businesses, assets or investments. We may divest subsidiaries, businesses, assets or investments that represent a significant portion of our business. For example, we transferred our equity interest in Xiamen Cross-strait Equity Exchange in 2018 through a public bidding process. These types of divestments may significantly reduce our total revenue and other income from the relevant business segments. These divestments may also subject us to numerous risks including unanticipated costs, diversion of management's attention and potential adverse effects on our existing business relationships with clients, which could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure you that we will be able to divest our subsidiaries, businesses, assets or investments at an advantageous price or at all. Our failure to realise the anticipated value of our subsidiaries, businesses, assets or investments could adversely affect our business, financial condition and results of operations.

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

We operate in the highly regulated financial industry, where many aspects of our business depend upon obtaining and maintaining the necessary approvals, licences or permits from government authorities, such as CSRC and SFC. We are required to comply with the relevant regulatory requirements prescribed by regulatory authorities when applying for approvals, licences or permits for conducting new businesses or offering new products. For our China operations, as China's legal system and financial services industry continues to evolve, changes in the relevant laws and regulations or in their interpretation or enforcement may make it difficult for us to maintain compliance with regulatory requirements. If we cannot comply with the regulatory requirements of the various markets in which we operate, we may not be able to obtain or maintain the necessary approvals, licences or permits from the relevant regulatory authorities, which may adversely affect our growth prospects, business, financial condition or results of operations.

The use of the "CITIC" brand name by other members of CITIC Group may expose us to reputational risks if these entities take actions that damage the "CITIC" brand name.

Our Company's largest shareholder, CITIC Limited, is a majority-owned subsidiary of CITIC Group Corporation, one of China's largest conglomerates. CITIC Limited has significant interests in various industry sectors, including commercial banking, securities, insurance, investment and other financial services, as well as resources and energy, manufacturing, real estate and infrastructure, and engineering contracting. As the "CITIC" brand name is also used by other members of CITIC Group, if any of these entities takes any action that damages the "CITIC" brand name, or any negative publicity is associated with any of these entities, our reputation, business, growth prospects, financial condition and results of operations may be adversely affected.

Our businesses may be adversely affected if we are unable to retain and hire qualified employees.

Our performance is largely dependent on the talents and efforts of highly skilled individual employees. As a result, our continued ability to effectively compete in our industry, manage our businesses and expand into new businesses areas and geographic regions depends on our ability to retain and motivate our existing employees and attract new talented and diverse employees. Factors that affect our ability to retain and attract such employees include our compensation and benefits, and our reputation as a successful business with a culture of fairly hiring, training and promoting qualified employees.

Competition from within and outside the financial services industry for qualified employees has often been intense. This is particularly the case in new markets that we enter into, where we often compete for qualified employees with entities that have a significantly greater presence or more extensive experience in the region. If we are unable to retain our existing employees or attract new employees, our business, financial condition and results of operations may be adversely affected.

A failure in our operational and IT systems could disrupt our businesses, result in the leakage of confidential information, damage our reputation and cause losses.

Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions, some of which are highly complex and time sensitive. Consequently, we rely heavily on our financial, accounting, data processing and other operational systems and facilities. If any of these systems fails to operate properly or becomes compromised, our ability to process the transactions will be adversely affected. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. Although we have invested significant resources into upgrading our systems to reduce the risk of potential failure in our systems and expect to continue to do so, we cannot assure you that such upgrades will be effective in preventing future system failures or that the revenue generated from such upgrades will yield an adequate return on our investment.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks and may be vulnerable to unauthorised access, computer viruses or other malwares and other events that have an adverse effect on security. If one or more of such events occur, this potentially could jeopardise confidential information processed and stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in reputational damage, litigation and/or financial losses.

We routinely transmit and receive personal, confidential and proprietary information through the Internet, by email and other electronic means and may not be able to ensure that our clients, vendors, service providers, counterparties and other third parties have appropriate controls in place to protect the confidentiality of the information. The interception or mishandling of personal, confidential or proprietary information, or such information being sent to or received from these third parties, could result in legal liability, regulatory action and reputational harm, and our efforts to ensure that these third parties have appropriate controls in place may not be successful.

Our business is susceptible to the operational failure of third parties.

We face the risk of operational failure or termination of any of the exchanges, depositaries, clearing agents or other financial intermediaries that 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 effect 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 may fail to detect or deter employee misconduct which could harm our reputation and business.

Employee misconduct could result in violations of law by us, regulatory penalties and material reputational or financial harm. Employee misconduct could include binding us to a transaction that exceeds authorised limits, hiding unauthorised 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, engaging in fraudulent or otherwise improper activity including insider trading, engaging in unauthorised or excessive trading to the detriment of us or our customers, or otherwise not complying with laws or our internal control procedures. We have, from time to time, detected certain incidents of regulatory non-compliance committed by our employees. We cannot assure you that future incidents of employee misconduct will not subject us to serious penalties or restrictions on our business activities. It is not always possible to deter all employee misconduct, and the precautions we take to prevent and to detect such activity may not be effective in all cases. Employee misconduct may also expose us to negative publicity, reputational damage or litigation losses, which may have a material adverse effect on our business, financial condition and results of operations.

Our businesses and prospects may be materially and adversely affected if we fail to maintain our risk management and internal control systems or these systems prove to be ineffective or inadequate.

We have established risk management and internal control systems and procedures. Certain areas within our risk management and internal control systems require constant monitoring, maintenance and continual improvements by our senior management and staff. Our businesses and prospects may be materially and adversely affected if our efforts to maintain these systems prove to be ineffective or inadequate. Deficiencies in our risk management and internal control systems and procedures may adversely affect our ability to record, process, summarise 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 internal control system may contain inherent limitations caused by misjudgement or fault. As a result, there is no assurance that our risk management and internal control systems are adequate or effective notwithstanding our efforts, and our failure to address any internal control matters and other deficiencies may result in investigations and disciplinary actions against us, or even prosecution being initiated against us or our employees, disruption to our risk management system, and material and adverse effects on our financial condition and results of operations.

Substantial legal liability or significant regulatory action against us could materially and adversely affect our results of operations and financial condition, or cause us significant reputational harm and seriously harm our business prospects.

We face significant legal risks in our business, and the volume and amount of claims in litigation and regulatory proceedings against financial institutions are high. These risks include potential liabilities under securities or other laws for material false or misleading statements made in connection with securities or other transactions, potential liabilities for the advice provided to clients in corporate transactions and possible disputes over the terms and conditions of 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 often be difficult to assess or quantify, and their existence and magnitude often remain unknown for substantial periods of time. We have encountered legal proceedings arising from the ordinary course of our business. Please see "*Risk Management and Internal Control — Legal and Regulatory*". We may incur significant legal expenses in defending against litigation proceedings or cooperating with the relevant authorities in regulatory investigations. Substantial legal liability or significant regulatory action against us could materially and adversely affect our business, financial condition and results of operations or cause us significant reputational harm and seriously harm our business prospects.

We may not be able to fully identify money laundering activities or other illegal or improper activities or on a timely basis, which could expose us to additional liability and adversely affect our business.

We are required to comply with applicable anti-money laundering, counter-terrorism financing laws and other regulations in China, Hong Kong and other jurisdictions in which we operate. These laws and regulations require us, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious transactions to the applicable regulatory authorities in different jurisdictions. While we have adopted policies and procedures aimed at detecting and preventing the use of our networks for money-laundering activities or by terrorists and terrorist-related organisations and individuals, these policies and procedures may not completely identify all instances where such parties attempt to use (or succeed in using) our networks to engage in money laundering and other illegal or improper activities due to, in part, the short history of these policies and procedures. To the extent that 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, financial condition and results of operations.

Our liquidity, financial results and businesses may be adversely affected by an inability to access the equity and debt capital markets or to sell assets.

Liquidity is essential to our businesses, particularly those businesses that involve investing, lending and market-making. Our liquidity may be impaired by an inability to access the short-term and long-term debt and equity markets, an inability to sell assets at market prices or at all, or unforeseen outflows of cash or collateral. These situations 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 even by the perception among market participants that we, or other market participants, are experiencing greater 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 stress 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 may increase our cost of funding, both of which could reduce our profitability and negatively affect our financial position and results of operations.

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

CSRC requires investment banks in China to maintain certain minimum net capital ratios and net capital requirements. For example, investment banks in China must maintain a minimum net capital to net assets ratio of 20%, a net capital to risk capital reserves ratio of 100%, a core net capital to total on- and off-balance sheet assets ratio of 8%, a net capital to total adjusted liabilities ratio of 8%, and a net assets to total adjusted liabilities ratio of 10%. We may also be subject to capital requirements in other jurisdictions where we operate, especially after our acquisition of CLSA in 2013, which extended our operations to cover the United States, the United Kingdom, Australia, Mauritius, and Asian markets including India, Indonesia, Japan, Korea, Malaysia, Sri Lanka, the Philippines, Singapore, Thailand and Taiwan. If we fail to promptly adjust our asset composition to meet the relevant capital requirements, we may be restricted from operating our businesses and our business, financial condition and results of operations may be adversely affected.

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

We engage in derivatives transactions, including interest rate swaps, 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 portfolios. However, as China's derivatives market is still in an early stage of development, our ability to hedge the market risks associated with our businesses in China is constrained by the limited derivative products available. 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 derivatives we utilise as hedges may not be completely effective.

We also engage in derivative transactions as part of our equity and fixed income sales and trading activities. Derivative contracts we enter into expose us to the risks associated with these instruments and their underlying assets, which could result in substantial unexpected losses. Derivative transactions also expose us to the credit risk of transaction counterparties. In addition, the secondary market for derivatives is volatile and we may be inexperienced in dealing with new products or making appropriate judgements in trading derivative products.

We also engage in derivative transactions that require us to deliver to the counterparty the underlying security or other obligation in order to receive payment. In a number of cases, we do not hold the underlying security or other obligation and may have difficulty in obtaining, or be unable to obtain, the underlying security or other obligation through the physical settlement of other transactions. As a result, we are subject to the risk that we may not be able to obtain the security or other obligation within the required contractual time frame for delivery. This could cause us to forfeit the payments due to us under these contracts or result in settlement delays with the attendant credit and operational risk as well as increased costs to us. In addition, derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties on a timely basis. While the transaction remains unconfirmed, we are subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce the contract.

Our clients and counterparties may be unable to perform their obligations to us as a result of deterioration in their credit quality or defaults.

We enter into swap and other derivative contracts under which counterparties have obligations to make payments to us. We also extend credit to clients through margin financing and other arrangements that are secured by physical or financial collateral, the value of which may at times be insufficient to fully cover the loan repayment amount. As a result, we are exposed to the risks that third parties may default on their obligations to us because of bankruptcy, lack of liquidity, operational failures or other reasons. Failure of a significant market participant, or even concerns about a default by such an institution, could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. We are also subject to the risk that our rights against third parties may not be enforceable in all circumstances. While in many cases we are permitted to require additional collateral from counterparties that experience financial difficulties, disputes may arise as to the amount of collateral we are entitled to receive and the value of pledged assets. The termination of contracts and the foreclosure on collateral may subject us to claims for the improper exercise of our rights. Default rates, downgrades and disputes with counterparties as to the valuation of collateral increase significantly in times of market stress and illiquidity.

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, such as fraud. We may also fail to receive full information with respect to the trading risks of counterparties.

Conflicts of interest are increasing and our failure to appropriately identify and address conflicts of interest could adversely affect our businesses.

As we expand the scope of our businesses and our client base, it is increasingly important for us to address various potential conflicts of interest. These conflicts include situations where our services to a particular client or our own investments or other areas conflict, or are perceived to conflict, with the interests of another client, as well as situations where one or more of our businesses have access to material non-public information that may not be shared with other businesses within the firm. They also include 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. However, appropriately identifying and dealing with conflicts of interest is complex and difficult, and our reputation, which is one of our most important assets, 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 appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions.

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

The occurrence of major natural disasters, serious health pandemics or outbreaks of contagious diseases, wars or terrorist attacks may severely disrupt our business, and materially and adversely affect our financial condition and results of operations. The occurrence of these or any other unforeseen or catastrophic events could create economic and financial disruptions or lead to operational difficulties (including travel limitations) that could impair our ability to manage our businesses and expose our business activities to significant losses.

The COVID-19 outbreak, which started in the PRC earlier this year and has since spread to other parts of the world including Hong Kong, was declared a pandemic by the World Health Organisation on 20 March 2020. Many cities in China have imposed restrictions on travel and movement of people in an effort to curb the spread of COVID-19, and the pandemic also caused a delay in the resumption of business in the PRC after the Chinese New Year holiday. Public health authorities around the world are also intensifying containment efforts, leading to a severe drop in business activities and curtailing global travel and trade. COVID-19 may create further negative economic impact on the PRC and Hong Kong and result in increased volatility in global markets. Any adverse changes in the PRC national and regional economies and the international financial markets may materially and adversely affect our business, financial condition and results of operations.

The financial services industry is highly competitive. Competitive pressure could adversely affect our businesses and prospects.

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

We compete principally with other large investment banks in China and Hong Kong. We also face increasing competition from smaller investment banks, especially in our investment banking and brokerage businesses. In addition, we compete with commercial banks, insurance companies, fund management companies and private equity funds in particular areas, such as equity and fixed income sales and trading and asset management businesses and any new business areas that they may enter in the future.

We also face increasing competition from international institutions as we have expanded our business internationally. Many of the financial institutions that we compete with are larger in terms of asset size and customer base and have greater financial resources, more specialised capabilities or more extensive distribution capabilities. Some of the international financial institutions that we compete with have been expanding their operations in China, either setting up their own entities or partnering with existing financial institutions in China. International financial institutions are currently subject to limitations on their business activities in China. We expect that we will face greater competition from these international institutions if these limitations and restrictions are lifted in the future. We also face increasing competition in overseas financial markets due to the expansion of our international operations.

We also compete for clients, professionals and other skilled employees in every aspect of our businesses. If we are unable to compete successfully in any of our principal lines of business, our financial condition and results of operations would be materially and adversely affected.

We may continue to experience pricing pressures as some of our competitors seek to increase market share by reducing prices.

We have experienced intense price competition in some of our businesses in recent years. There has been considerable pressure on commissions, especially brokerage commissions. The growing trend to execute trades electronically, through the Internet and through other alternative trading systems, has increased the pressure on brokerage commissions. There is also a trend in certain markets (in particular the United States) to make stock trading free, and if such business practice becomes common in China, Hong Kong and other regions in which we operate, our business could be significantly affected. In addition, underwriting fees, financial advisory fees, as well as asset management fees, have also been subject to pricing pressure. We believe that we will continue to experience competitive pressures in these and other areas as some of our competitors seek to obtain market share by reducing prices.

RISKS RELATING TO CHINA

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

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

Uncertainties with respect to China's legal system could materially and adversely affect us.

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

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

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

China government's control of foreign currency conversion may limit our foreign exchange transactions.

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

It may be difficult to enforce any judgements obtained from non-PRC courts against us or our directors, supervisors or senior executive officers residing in China.

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 judgements of courts with the United States, the United Kingdom, Japan and many other countries. As a result, it may be difficult for investors to serve process on us or those persons in China, or to enforce against us or them in China any judgements obtained from non-PRC courts.

Fluctuations in the value of the RMB could materially affect our financial condition and results of operations.

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

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

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

However, due to the fact that these laws and regulations have not been fully developed, and because of the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. The interpretation of statutes, regulations and rules may also be subject to government policies which can change to reflect domestic political factors. Depending on the government agency or how or by whom an application or case is presented to such agency, we may receive less favourable interpretation of laws and regulations than our competitors. For example, on 14 September 2015, NDRC issued the Circular on Accelerating the Reform on the Administration of Filing and Registration of Foreign Debts Issued by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044 號), the "**NDRC Circular**"), which came into effect on the same date. According to the NDRC Circular, if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue debt securities outside of the PRC with a maturity of more than one year, such enterprise must, in advance of issuing such debt securities, file certain prescribed documents with NDRC and procure a registration certificate from the NDRC in respect of such issuance. In addition, unless otherwise approved by NDRC, the enterprise must also provide information on the issuance of the debt securities to NDRC within ten PRC business days of the completion of the issue (the "**Post-Issuance Filing**"). The NDRC Circular is a recent regulation and its interpretation may involve significant uncertainty. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by NDRC.

Under the Enterprise Income Tax Law, the Issuer may be classified as a "resident enterprise" of China, which could result in unfavourable tax consequences to the Issuer and the non-PRC holders of the Notes.

Under the *Enterprise Income Tax Law* ("**EIT Law**"), an enterprise established outside of China with a "*de facto* management body" within China is deemed a "resident enterprise," meaning that it can be treated as a PRC enterprise for enterprise income tax purposes. The implementing rules of the EIT Law define "*de facto* management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 ("**Circular 82**") provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "*de facto* management body" located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within China; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within China. On 27 July 2011, the State Administration of Taxation issued *Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group* ("**Circular 45**"), to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group." Circular 45 provides two ways for a foreign enterprise "controlled by a PRC enterprise or a PRC enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its *de facto* management body is located in China based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

We believe that the Issuer is currently not a PRC resident enterprise. However, since substantially all of the Issuer's management is currently based in China, we cannot assure you that the Issuer will not be deemed a "resident enterprise" under the EIT Law and, therefore, be subject to enterprise income tax at a rate of 25% on its global income in the future.

Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-sourced income derived by non-resident enterprises, subject to reduction under applicable treaties. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-sourced income if the enterprise or the establishment that pays or bears the interest is situated in China. If the Issuer is deemed a PRC resident enterprise for tax purposes, interest paid to non-PRC holders of the Notes may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at a rate of 10% for non-PRC holders of Notes that are enterprises and 20% for non-PRC individual holders of Notes. Any gains realised on the transfer of the Notes by such investors may also be subject to PRC income tax at a rate of 10% for holders of Notes that are enterprises or 20% for non-PRC individual holders of Notes, if such gains are regarded as PRC-sourced.

In addition, as the Company is a PRC resident enterprise, in the event that the Company is required to fulfil its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Company will be obliged to withhold PRC enterprise income tax at a rate of 10% on such payments for non-PRC holders of the Notes that are enterprises and 20% for non-PRC holders of the Notes that are individuals. If the Issuer or the Company is required to withhold PRC taxes from payments on the Notes or the Guarantee, the Issuer or the Company (as the case may be) will pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to exceptions described in Condition 8 of the Terms and Conditions of the Notes.

On 23 March 2016, MOF and the State Administration of Taxation ("**SAT**") jointly issued the Circular of Full Implementation of Business Tax to VAT Reform (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知) (財稅[2016]36號) (the "**Circular 36**"), which provides that all business tax payers are included into the pilot programme to pay VAT from 1 May 2016. VAT is applicable where the entities or individuals provide services within the PRC. VAT is unlikely to be applicable to any transfer of Notes between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Notes, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC or is deemed a PRC resident. As Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

RISKS RELATING TO THE NOTES ISSUED UNDER THE PROGRAMME

The Notes and the Guarantee are unsecured obligations.

As the Notes and the Guarantee are unsecured obligations, the repayment of the Notes and payment under the Guarantee may be adversely affected if:

(i) the Issuer or the Company enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;

(ii) there is a default in payment under the Issuer's or the Company's future secured indebtedness or other unsecured indebtedness; or

(iii) there is an acceleration of any of the Issuer's or the Company's indebtedness.

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

The Notes do not contain restrictive operating covenants.

The Trust Deed will contain various covenants intended to benefit the holders of the Notes that limit the ability of the Issuer or the Company to, among other things, incur liens. Under such covenants, however, the Company and its subsidiaries (other than the Issuer) may incur liens on up to 7.5% of the Group's Consolidated Total Assets (as defined in the "*Terms and Conditions of the Notes*"), to secure any Relevant Indebtedness (as defined in the "*Terms and Conditions of the Notes*") (or any guarantee or indemnity in respect of such Relevant Indebtedness) outside the PRC without securing the Notes at least equally and ratably therewith. If the Company or such subsidiary does so, the Notes and the Guarantee will be effectively subordinated to such Relevant Indebtedness to the extent of the value of assets serving as security therefor.

The Trust Deed, however, does not contain restrictions on the payment of dividends or making of other restricted payments. In addition, the Trust Deed does not contain any other covenants or provisions designed to afford holders of the Notes protection in the event of a highly-leveraged transaction involving the Issuer or the Company that could adversely affect such holders. Subject to the terms of the existing debt and credit facilities of the Issuer and the Company, the Issuer and the Company may incur substantial additional indebtedness in the future.

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

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

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

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolios;

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

- understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

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

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

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

The regulation and reform of "benchmarks" may adversely affect the value of Notes linked to or referencing such benchmarks.

Interest rates and indices which are deemed to be "benchmarks" (including LIBOR and EURIBOR) are the subject of recent guidance and proposals for reform from the European Union (the "**EU**") national and international regulatory bodies. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, disappear entirely or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to or referencing such a "benchmark". Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the "**Benchmark Regulation**") was published in the Official Journal of the EU on 29 June 2016 and applies from 1 January 2018. The Benchmark

Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It, among other things: (i) requires benchmark administrators to be authorised or registered (or, if non-EU based, to be subject to an equivalent regime or otherwise recognised or endorsed); and (ii) prevents certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmark Regulation could have a material impact on any Notes linked to or referencing benchmarks, including LIBOR or EURIBOR, in particular, if the methodology or other terms of the relevant benchmark are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the national or international reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks" (including, but not limited to, LIBOR or EURIBOR): (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark"; or (iii) lead to the disappearance of the "benchmark."

Any of the above changes or any other consequential changes as a result of national or international reforms or other initiatives or investigations could have a material adverse effect on the value of and return on any Notes linked to or referencing the relevant benchmark. Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Notes linked to or referencing the relevant benchmark.

Future discontinuance of LIBOR may adversely affect the value of floating rate notes which reference LIBOR.

Regulators and law enforcement agencies in the United Kingdom and elsewhere are conducting civil and criminal investigations into the calculation of daily LIBOR by banks that contributed to the British Bankers' Association (the "**BBA**") when it was the body which exclusively set the relevant LIBOR benchmark rates. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to the alleged manipulation of LIBOR. In 2014, ICE Benchmark Rate Administration Ltd. ("**ICE Administration**") was appointed as the independent LIBOR administrator. Actions by ICE Administration, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Some of these reforms are already effective, while others are still to be implemented or formulated.

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. Moreover, any of the proposals for reform or for general increased regulatory scrutiny of LIBOR could increase the costs and risks of administering or otherwise participating in the setting of a LIBOR rate and of complying with any such regulations or requirements. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted. Further, at this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on the floating rate Notes which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the LIBOR rate is to be determined under the terms of the applicable Notes, this may: (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time; or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, the floating rate Notes which reference LIBOR.

The Notes may be modified without the consent of all investors.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend or vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. There is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of individual Noteholders.

The Terms and Conditions of the Notes provide that the Trustee may, without the consent of Noteholders, agree to any modification of any of the Conditions or any of the provisions of the Trust Deed or the Deed of Guarantee (other than in respect of Reserved Matters as defined in the "*Terms and Conditions of the Notes*"), which in the opinion of the Trustee will not be materially prejudicial to the interests of the Noteholders. The Terms and Conditions of the Notes also provide that the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Trust Deed or the Deed of Guarantee (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

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

Notes issued under the Programme may be represented by one or more Global Notes. Global Notes will be deposited with a common depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**"). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes.

While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through the Clearing Systems and the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream for distribution to their account holders, or in the case of the CMU, to the persons for whose account a relevant interest in such Global Notes is credited as being held by the CMU Service at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service.

A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the respective Global Notes to take enforcement actions against the Issuer or the Company in the event of a default under the relevant Notes but will have to rely upon their rights under the Trust Deed.

Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts of the minimum denomination plus integral multiples of an amount lower than the minimum denomination. Definitive Notes will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announce(s) an intention to permanently cease business or does in fact do so. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and any Notes issued for lower amounts will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

The Issuer is a special purpose company with no material assets and will rely on remittances from the Company and its subsidiaries to make payments under the Notes.

The Issuer will not conduct business or any other activities other than the offering, sale or issuance of indebtedness and the on-lending of the proceeds thereof to any company controlled, directly or indirectly, by the Company and any other activities in connection therewith or related thereto. The Issuer does not and will not have any material assets other than amounts due to it from the Company or its subsidiaries, and its ability to make payments under the Notes will depend on its receipt of timely remittances from the Company or its subsidiaries. There is no assurance that the Issuer will receive timely and sufficient funds from the Company and/or the Company's subsidiaries to meet its payment obligations under the Notes.

On 11 May 2018, the NDRC and MOF jointly issued the Circular of the National Development and Reform Commission and the Ministry of Finance on Improving the Market Regulatory Regime and Taking Strict Precautions against Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委、財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知) ("**Circular 706**"), which took effect on the same day. Pursuant to the Circular 706, an enterprise that intends to issue medium and long-term foreign debts shall not make any statement or disclosure that implicitly or explicitly indicates government endorsement by describing the government's creditworthiness, such as financial information regarding revenue and expenditures and government debt, nor issue any misleading public statement which implies such issuer having a connection or an association with the government's creditworthiness. The PRC government is not an obligor in respect of the Notes nor does it guarantee the Notes, and there will be no recourse to the PRC government in respect of any obligation arising out of or in connection with the Notes or the Guarantee. This is supported by the Circular of the Ministry of Finance on Matters Concerning Regulating the Investment and Financing Activities of Financial Institutions for Local Governments and State-owned Enterprises (財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知，財金[2018]23號) ("**Circular 23**") promulgated on 28 March 2018 and which took effect on the same day. Both Circular 23 and Circular 706 do not, however, restrict the PRC government from providing support to our Group, provided that such support is granted in compliance with PRC laws.

The Company may be unable to make payments on the Guarantee and the Guarantee may be structurally subordinated to existing and future liabilities and obligations of the Company's subsidiaries.

The Company's ability to make payments under the Guarantee and to make payments to the Issuer under the loan arrangement to fund payments on the Notes depends in part upon the receipt of dividends, distributions, interest, loan repayments or advances from its wholly-owned or partly-owned subsidiaries, associated companies and jointly controlled entities. The ability of the subsidiaries, jointly controlled entities and associated companies of the Company to pay dividends is subject to their performance and cash flow requirements and may be subject to applicable laws and regulations. The outstanding indebtedness of subsidiaries of the Company may contain covenants restricting the ability of such subsidiaries to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Company's percentage interests in its subsidiaries, jointly controlled entities and associated companies could be reduced in the future.

Payments under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Company's subsidiaries and associated companies, except for those liabilities and obligations of the Issuer. Claims of creditors of such companies will have priority as to the assets of such companies over the Company and its creditors, including holders of the Notes seeking to enforce the Guarantee. The Company's obligations under the Guarantee will not be guaranteed by any of its subsidiaries. The Notes do not contain any restrictions on the ability of the Company's subsidiaries to incur additional unsecured indebtedness.

If the Company fails to complete the SAFE registration in connection with the Guarantee within the time period prescribed by SAFE, there would be obstacles for cross-border payment under the Guarantee.

The Company has agreed to enter into a Deed of Guarantee (as defined in the "*Terms and Conditions of the Notes*") with the Trustee for each Tranche of Notes. Pursuant to the Deed of Guarantee to be executed by the Company, the Company will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by the Issuer under the Tranche of Notes and under the Trust Deed with respect to such Notes. The Company is required to submit the Deed of Guarantee to the local SAFE for registration in accordance with the Cross-border Security Rules. Although the non-registration does not render the Guarantee ineffective or invalid under PRC law, SAFE may impose penalties on the Company if registration is not carried out within the stipulated time frame. The Company intends to register the Guarantee as soon as practicable and in any event before the Registration Deadline (being a day falling 90 Registration Business Days after the relevant issue date). In addition, if the Company fails to complete the SAFE registration, there would be administrative burdens at the time of remittance of funds (if any cross-border payment is to be made by the Company under the Guarantee) as evidence of SAFE registration in connection with the Deed of Guarantee is required in order to effect such remittance and it is unclear if such payments could be made.

The Issuer may be unable to redeem the Notes.

On certain dates, including the occurrence of any early redemption event specified in the relevant Pricing Supplement or otherwise, including but not limited to a Change of Control and a No Registration Event as described in "*Terms and Conditions of the Notes*," and at maturity of the Notes, the Issuer may, and at maturity, will, be required to redeem all of the Notes. If such an event were to occur, the Issuer and the Company may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Notes by the Issuer would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Group.

If any of the Company or its subsidiaries, including the Issuer, is unable to comply with the restrictions and covenants in its debt agreements, the Notes or the Guarantee (as applicable), there could be a default under the terms of these agreements, the Notes or the Guarantee, which could cause repayment of the relevant debt to be accelerated.

If the Issuer or the Company is unable to comply with the restrictions and covenants in the Notes or the Guarantee (as applicable), or if any of the Company or its subsidiaries, including the Issuer, is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, the Company or its relevant subsidiary, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements may contain (or may in the future contain) cross-acceleration or cross-default provisions. As a result, the default by the Company or such subsidiary under one debt agreement may cause the acceleration of repayment of debt or result in a default under its other debt agreements. If any of these events occur, there can be no assurance that the assets and cash flows of the Company and its subsidiaries would be sufficient to repay in full all of their indebtedness, or that they would be able to find alternative financing. Even if alternative financing could be obtained, there can be no assurance that it would be on terms that are favourable or acceptable to the Company or its subsidiaries.

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

In certain circumstances (including the giving of notice to the Issuer pursuant to Condition 10 (Events of Default) of the Terms and Conditions of the Notes), the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Trust Deed (as defined in the "*Terms and Conditions of the Notes*") and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

A change in English law which governs the Notes and/or a change in Hong Kong law which governs the Deed of Guarantee may adversely affect Noteholders.

The Terms and Conditions of the Notes are governed by English law in effect as at the date of issue of the relevant Notes. The Deed of Guarantee for each Tranche of Notes is governed by Hong Kong law in effect as at the date of the Deed of Guarantee. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes, or to Hong Kong law or administrative practice after the date of the relevant Deed of Guarantee.

The insolvency laws of the British Virgin Islands or the PRC may differ from those of another jurisdiction with which the holders of the Notes are familiar.

Because the Issuer is incorporated under the laws of the British Virgin Islands and the Company is incorporated under the laws of the PRC, any insolvency proceeding relating to the Issuer or the Company (as applicable) would likely involve insolvency laws of British Virgin Islands or the PRC (as applicable), the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

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

The Terms and Conditions of the Notes and the transaction documents (other than the Deed of Guarantee) are governed by English law, while parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken.

Furthermore, under the "Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned," judgements of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgements have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgement could be refused if the PRC courts consider that the enforcement of such judgement is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgement given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgements as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside of Hong Kong will be limited.

The liquidity and price of the Notes may be volatile.

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

RISKS RELATING TO THE STRUCTURE OF A PARTICULAR ISSUE OF NOTES

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

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

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specifies otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, the PRC or other jurisdiction in which the Issuer or the Company, as the case may be, is a tax resident, in each case including any political subdivision or any authority therein or thereof having power to tax, as a result of any change in, or amendment to, the laws or regulations of any such jurisdiction, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), the Issuer may redeem all outstanding Notes in accordance with the Conditions. Specifically, as described under "*Risks Relating to China — Under the Enterprise Income Tax Law, the Issuer may be classified as a "resident enterprise" of China, which could result in unfavourable tax consequences to the Issuer and the non-PRC holders of the Notes*", we may be deemed a PRC resident enterprise under the EIT Law. If we were to be deemed a PRC resident enterprise and were required to withhold tax on interest payable on the Notes, we would be required to pay additional amounts as described in Condition 8 (*Taxation*). As described in Condition 6(c) (*Redemption for Taxation Reasons*), we may redeem the Notes if such requirement to pay additional amounts results from certain changes in tax law.

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

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

Dual currency Notes have features different from single currency Notes.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of partly-paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice-versa, may have lower market values than other Notes.

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

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index-Linked Notes issued.

If, in the case of a particular Tranche of Notes, the relevant Pricing Supplement specifies that the Notes are Index-Linked Notes or variable redemption amount Notes, there is a risk that the investor may lose the value of its entire investment or part of it.

RISKS RELATING TO THE MARKET GENERALLY

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes that is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Company. If the Notes are trading at a discount, investors may not be able as receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes that may be issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity would have an adverse effect on the value of the Notes.

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

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

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

Changes in market interest rates may adversely affect the value of fixed rate Notes.

Investment in fixed rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of fixed rate Notes.

Credit ratings may not reflect all risks and the ratings may be downgraded or withdrawn.

One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to structure, market and additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. While the Programme has been assigned a rating of "Baa1" by Moody's and a long-term rating of "BBB+" and a short-term rating of "A-2" by S&P, Tranches of Notes to be issued under the Programme may be unrated or assigned with a different rating. In addition, the ratings on the Programme or the Notes may be downgraded or withdrawn. A downgrading or withdrawal of the ratings may adversely affect the relevant Issuer's or Company's ability to access the debt capital markets and/or the market price of the relevant Notes.

International financial markets and world economic conditions may adversely affect the market price of the Notes.

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

RISKS RELATING TO RENMINBI-DENOMINATED NOTES

Notes denominated in RMB ("**RMB Notes**") may be issued under the Programme. RMB Notes contain particular risks for potential investors.

Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into or out of the PRC which may adversely affect the liquidity of RMB Notes.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by the PRC government in recent years over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi by foreign investors into the PRC for the purposes of capital account items, such as capital contributions, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into the PRC for settlement of capital account items are developing gradually.

Although starting from 1 October 2016, the Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund, there is no assurance that the PRC government will continue to liberalise its control over cross-border remittance of Renminbi in the future, that any pilot schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

The availability of Renminbi outside the PRC may be limited, which may affect the liquidity of RMB Notes and the Issuer's ability to source Renminbi outside the PRC to service such RMB Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

While the PBOC has entered into agreements on the clearing of Renminbi business with financial institutions in a number of financial centres and cities (the "**Renminbi Clearing Banks**"), including but not limited to Hong Kong, and are in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions (the "**Settlement Arrangements**"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Banks only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

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

Investment in RMB Notes is subject to exchange rate risks.

The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Issuer will make all payments of interest and principal with respect to the RMB Notes in Renminbi. As a result, the value of these Renminbi payments in U.S. dollar or other applicable foreign currency terms may vary with changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against the U.S. dollar or other applicable foreign currency between then and when the Issuer pays back the principal of the RMB Notes in Renminbi at maturity, the value of a Noteholder's investment in U.S. dollar or other applicable foreign currency terms will have declined. In August 2015, the PBOC changed the way it calculates the mid-point price of the Renminbi against the US dollar, requiring the market-makers who submit reference rates to the PBOC to consider the previous day's closing spot rate, demand and supply of foreign exchange as well as changes in major currency rates. This change, and other changes such as widening the trading band that may be implemented, may increase volatility in the value of the Renminbi against foreign currencies. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Notes.

Payments for the RMB Notes will only be made to investors in the manner specified in the RMB Notes.

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by a temporary Global Note or a permanent Global Note (as defined in the Conditions) held with the common depositary, for Euroclear and Clearstream or with a sub-custodian for the CMU or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong, or (ii) for so long as the Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

TERMS AND CONDITIONS OF THE NOTES

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

The Notes are issued by CITIC Securities Finance MTN Co., Ltd. (the "**Issuer**") and guaranteed by CITIC Securities Company Limited (中信證券股份有限公司) (the "**Company**"), and are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the relevant Tranche (the "**Issue Date**"), the "**Trust Deed**") dated 17 October 2014 between the Issuer, the Company, and Citicorp International Limited (the "**Trustee**", which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 17 October 2014 has been entered into in relation to the Notes between the Issuer, the Company, the Trustee, Citibank, N.A., London Branch as initial issuing and paying agent and transfer agent, Citicorp International Limited, as the CMU lodging and paying agent, Citigroup Global Markets Deutschland AG, as registrar and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**CMU Lodging and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**". For the purposes of these Conditions, all references to the Issuing and Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Copies of the Trust Deed, the Agency Agreement and the Deed of Guarantee (as defined in Condition 3(a)) are available for inspection during usual business hours at the principal office of the Trustee (presently at 39th Floor, Champion Tower, 3 Garden Road, Hong Kong) and at the specified offices of the Paying Agents and the Transfer Agents.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (such holders of Coupons and Talons, collectively, the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement and the Deed of Guarantee. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Deed of Guarantee.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects, and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series with such Tranche of Notes and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, the first Interest Payment Dates, Interest Commencement Dates (if applicable) and/or issue prices (if applicable).

1. **Form, Denomination and Title**

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/ Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes, in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. **No Exchange of Notes and Transfers of Registered Notes**

(a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed by the holder or holders thereof or the attorney or attorneys of such holder or holders duly authorised in writing, and any other evidence as the Registrar or the Transfer Agent may reasonably require. In the case of a transfer of only part of a holding of Registered Notes represented by one Certificate, a new

Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon written request.

(c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within seven business days of receipt of a duly completed form of transfer or Exercise Notice (as defined in Condition 6(f)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday or public holiday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment by the relevant Noteholders of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or pre-funding as the Registrar or the relevant Transfer Agent may require).

(f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption, in whole or in part, by the Issuer at its option pursuant to Condition 6(d), (iii) after any such Note has been called for redemption where not all the Notes are so called for redemption, or (iv) during the period of seven days ending on (and including) any Record Date.

3. Guarantee and Status

(a) **Guarantee:** The Company has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes, the Receipts and the Coupons and under the Trust Deed with respect to such Notes, Receipts and Coupons. The Company's obligations in that respect with respect to each Tranche (each, a "**Guarantee**") shall be contained in a deed of guarantee to be dated as at the Issue Date in respect of the relevant Tranche (each, a "**Deed of Guarantee**") to be entered into by the Company and the Trustee.

(b) **Status of Notes and Guarantee:** The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated and (subject to Condition 4(d)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and the obligations of the Company under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(d), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations of the Issuer or the Company, as the case may be.

4. **Covenants**

(a) **Rating Maintenance:** So long as any Note remains outstanding (as defined in the Trust Deed), save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders, the Issuer and the Company undertake that they will use all their reasonable endeavours to maintain a rating on the Notes by a Rating Agency.

(b) **Limitations on the Issuer:**

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer undertakes not to, and the Company undertakes to cause the Issuer not to, conduct any business or any activities other than the issue of the Notes or other bonds or notes which are, or are capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the People's Republic of China (for the purposes hereof, not including the Hong Kong and Macau Special Administrative Regions or Taiwan) (the "**PRC**") (without regard, however, to whether or not such instruments are sold through public offerings or private placements) and the lending of the proceeds thereof to the Company or any of the Company's Subsidiaries and affiliates and any other activities reasonably incidental thereto as necessary in connection therewith.

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer will remain 100% owned by CITIC Securities International Company Limited, which will remain 100% owned by the Company, and all of the outstanding shares of the Issuer will be free and clear of any security interest, claim, lien or encumbrance.

(c) **Financial Statements:**

So long as any Note remains outstanding (as defined in the Trust Deed), the Company shall send to the Trustee:

(i) as soon as practicable after their date of publication and in any event not more than 120 days after the end of each financial year, two copies of audited annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**") (audited by an internationally recognised firm of independent accountants) of the Company and its Subsidiaries and if such statements shall be in the Chinese language, together with an English translation of the same translated by (A) an internationally recognised firm of accountants or (B) a professional translation service provider and checked by an internationally recognised firm of accountants, together with a certificate signed by a director of the Company certifying that such translation is complete and accurate; and

(ii) as soon as practicable after their date of publication and in any event not more than 90 days after the end of each second financial quarter, two copies of unaudited semi-annual consolidated financial statements prepared on a basis consistent with the audited consolidated financial statements of the Company and its Subsidiaries and if such statements shall be in the Chinese language, together with an English translation of the same and a certificate signed by a director of the Company certifying that such translation is complete and accurate;

provided that if at any time the capital stock of the Company is listed for trading on any stock exchange, the Company may make available to the Trustee (including by way of publication on its or another publicly available website), as soon as they are available but in any event not more than 10 calendar days after any financial or other reports of the Company are filed with the exchange on which the Company's capital stock is at such time listed for trading, a true and correct copy of any financial or other report filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above.

(d) **Negative Pledge**

So long as any Note remains outstanding:

(i) the Issuer shall not, and shall procure that none of its Subsidiaries will, create or permit to exist any Security upon any of its property or assets, now owned or hereafter acquired, to secure any Relevant Indebtedness (or any guarantee or indemnity in respect of such Relevant Indebtedness) of any Person, without, in any such case, making effective provision whereby the Notes and the Coupons issued by the Issuer will be secured either (a) at least equally and ratably with such Relevant Indebtedness (or any guarantee or indemnity in respect of such Relevant Indebtedness) or (b) by such other Security as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; and

(ii) the Company shall not, and shall procure that none of its Subsidiaries (other than any Subsidiary, the common shares of which are listed for trading on any recognised stock exchange, to the extent that the property or assets of such Subsidiary (or any Subsidiary of such Subsidiary) do not secure any Relevant Indebtedness (or any guarantee or indemnity in respect of such Relevant Indebtedness) outside the PRC of any Person other than itself or any of its Subsidiaries) will, create or permit to exist any Security upon any of its property or assets, at any time, with a book value exceeding 7.5% of the Consolidated Total Assets in the aggregate, now owned or hereafter acquired, to secure any Relevant Indebtedness (or any guarantee or indemnity in respect of such Relevant Indebtedness) outside the PRC of any Person without, in any such case, making effective provision whereby the Notes and the Coupons issued by the Issuer will be secured either (a) at least equally and ratably with such Relevant Indebtedness (or any guarantee or indemnity in respect of such Relevant Indebtedness) or (b) by such other Security as may be approved by an Extraordinary Resolution of the Noteholders.

For the purposes of these Conditions:

"**Consolidated Total Assets**" means, as of any date, the consolidated total assets *less* the sum of (i) cash held on behalf of customers and (ii) customers' refundable deposits of the Company, each measured in accordance with IFRS as of the balance sheet date of the most recent audited annual consolidated financial statements published by the Company under Condition 4(c)(i) or, if published later, the most recent unaudited semi-annual consolidated financial statements published by the Company under Condition 4(c)(ii);

a “**Person**” means any state-owned enterprise, individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity;

“**Relevant Indebtedness**” of any Person means any present or future indebtedness that is in the form of, or represented or evidenced by, any bonds, notes, debentures, debenture stocks, loan stock certificates or other securities, which are, or intended to be, quoted, listed or dealt in or traded on any stock exchange or over-the-counter market or other securities market and has a final maturity of one year or more from its date of incurrence or issuance;

“**Security**” means any mortgage, charge, pledge, lien or other security interest; and

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

(e) **Undertakings Relating to the Deed of Guarantee:**

So long as the Foreign Exchange Administration Rules on Cross-border Security (跨境擔保外匯管理規定) promulgated by SAFE on 19 May 2014 (as may be amended from time to time and together with any successor laws and regulations thereto relating to the provision of cross-border guarantee, the “**Cross-border Security Rules**”) are still in effect, the Company undertakes that it will, to the extent required by the Cross-border Security Rules, register or cause to be registered with SAFE the Deed of Guarantee in accordance with the Cross-border Security Rules (the “**Cross-border Security Registration**”) and use its best endeavours to complete the Cross-border Security Registration and to obtain a registration record from SAFE on or before the Registration Deadline, and it will comply with all applicable PRC laws and regulations in relation to the Deed of Guarantee. The Company further undertakes that on the date the documents comprising the Registration Conditions are delivered to the Trustee, it shall procure that copies of such documents are also delivered to each of the Rating Agencies. In addition, the Company shall procure that within five Registration Business Days after such delivery, the Issuer releases a notice to the Noteholders confirming the completion of the Registration Conditions. The Trustee shall have no obligation to monitor or ensure the registration of a Deed of Guarantee with SAFE on or before the Registration Deadline and shall not be liable to Noteholders or any other person for not doing so.

For the purposes of these Conditions:

“**Rating Agency**” means (i) Standard & Poor’s Rating Services, a part of McGraw Hill Financial, and its affiliates; or (ii) Moody’s Investors Service, Inc. and its affiliates;

“**Registration Business Day**” means a day, other than a Saturday, Sunday or a day on which SAFE is authorised or obligated by law or executive order to remain closed;

“**Registration Conditions**” means the receipt by the Trustee of:

(i) a certificate signed by any one Director or one duly authorised officer of the Company confirming the completion of the Cross-border Security Registration together with a copy of the relevant SAFE registration record; and

(ii) a legal opinion as to PRC law issued by a reputable PRC law firm in connection with the issue of the Notes, addressed to the Trustee and otherwise in form and substance satisfactory to the Trustee, that the Deed of Guarantee (x) constitutes legal, valid and binding obligations of the Company and (y) is enforceable against the Company;

"**Registration Deadline**" means the day falling 90 Registration Business Days after the Issue Date; and

"**SAFE**" means the State Administration of Foreign Exchange or its local branch.

5. **Interest and Other Calculations**

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) **Interest Payment Dates:** Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) **Business Day Convention:** If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) **Rate of Interest for Floating Rate Notes:** The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) **ISDA Determination for Floating Rate Notes**

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the

Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) **Screen Rate Determination for Floating Rate Notes**

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR, Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (in the case of CNH HIBOR) on the relevant Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR or HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or if, sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is

HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time), or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH HIBOR, the Hong Kong inter-bank market, as the case may be, *provided* that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) **Linear Interpolation**

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period *provided however* that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(iv) **Rate of Interest for Index Linked Interest Notes:** The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgement) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

(ii) If any maximum or minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant figure shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the countries of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangement may be made for the adjustment thereof) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro or Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks in Hong Kong are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

(iv) in the case of a currency and/or one or more Business Centres a day (other than a Saturday, a Sunday or public holiday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

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

(ii) if "Actual/365 (Fixed)" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if “30E/360” or “Eurobond Basis” is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

“Y1” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“Y2” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“M1” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“M2” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“D1” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

“D2” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

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

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30;

(viii) if "Actual/Actual-ICMA" is specified hereon,

A. if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

B. if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"Determination Date" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s); and

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified hereon.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR; or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi; or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR.

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified hereon.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon.

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon.

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market and, in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Renminbi in the Hong Kong inter-bank market, in each case selected by the Calculation Agent or as specified hereon.

"**Reference Rate**" means the rate specified as such hereon.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service).

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall (with prior notification to the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) **Redemption by Instalments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) **Zero Coupon Notes:**

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(b)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above of this Condition 6(b)(i), except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgement) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) **Other Notes:** The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued to the date fixed for redemption), if (i) the Issuer (or, if the demand was made under the Guarantee, the Company) informs the Trustee in writing immediately prior to the giving of such notice that the Issuer (or, if applicable, the Company) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes or, in the case of a jurisdiction in which the Issuer or the

Company, as the case may be, was not tax resident on such date, the date the Issuer or the Company, as the case may be, became tax resident in such jurisdiction, and (ii) such obligation cannot be avoided by the Issuer or the Company, as the case may be, taking reasonable measures available to it; *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Company, as the case may be, would be obliged to pay such Additional Tax Amounts if a payment in respect of the Notes were then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer or the Company, as the case may be, shall deliver or procure that there is delivered to the Trustee a certificate signed by two directors of the Issuer or the Company, as the case may be, stating that the circumstances referred to above prevail, setting forth a statement of facts showing that the conditions precedent to the right of the Issuer or the Company, as the case may be, so to redeem have occurred. The Trustee shall be entitled to accept and rely upon such certificate (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out above, in which event such evidence shall be conclusive and binding on the Noteholders and the Trustee shall be protected and shall have no liability to any Noteholder or any other person for so accepting and relying on such certificate.

For the purposes of this Condition 6(c) and Condition 8, "**Relevant Jurisdiction**" means the British Virgin Islands, the PRC or other jurisdiction in which the Issuer or the Company, as the case may be, is tax resident, in each case including any political subdivision or any authority thereof or therein having power to tax.

(d) **Redemption at the Option of the Issuer:** If Issuer Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes, shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes to be redeemed, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption for Relevant Events:**

At any time following the occurrence of a Relevant Event, the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all, but not some only, of such holder's Notes on the Put Settlement Date at 100 per cent. of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the holder of the relevant Note must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note (together with all unmatured Receipts and Coupons and unexchanged Talons) (in the case of Bearer Notes) or the Note Certificate (in the case of Registered Notes) evidencing the Notes to be redeemed, by not later than 30 days following the occurrence of a Relevant Event or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the

Issuer in accordance with Condition 16. The "**Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes that are the subject of the Put Exercise Notice delivered as aforesaid on the Put Settlement Date.

The Issuer and the Company shall give notice to Noteholders in accordance with Condition 16 and the Trustee in writing by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 6(e).

The Trustee shall have no obligation or duty to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the Registration Condition and shall not be liable to Noteholders or any other person for not doing so.

While any Bearer Note that was issued in accordance with TEFRA D is held in the form of a temporary Global Note, the right described in this Condition 6(e) will be available only to the extent that non-U.S. beneficial ownership certification has been received by the relevant Issuer or its agent pursuant to TEFRA D.

For the purposes of this Condition 6(e):

"**Capital Stock**" means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation);

"**Change of Control**" means any Person or Persons, acting as a group, other than a Permitted Holder acquiring ownership or control directly or indirectly or in combination (through controlled Subsidiaries) of more than 50% of the Voting Shares of the Company;

"**No Registration Event**" occurs when the Registration Conditions are not complied with on or before the Registration Deadline;

"**Permitted Holder**" means any of CITIC Group Corporation, CITIC Limited, CITIC Corporation Limited, the Ministry of Finance of the PRC or any other Persons directly or indirectly controlled by the government of the PRC;

"**Person**" includes any individual, company, state owned enterprise, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of state (in each case whether or not being a separate legal entity); and

"**Relevant Event**" will be deemed to occur if:

(i) there is a No Registration Event; or

(ii) there is a Change of Control; and

"**Voting Shares**" means, with respect to any Person, the Capital Stock having the general voting power under ordinary circumstances to vote on the election of the members of the board of directors or other governing body of such Person (irrespective of whether or not at the time stock of any other class or classes shall have or might potentially obtain voting power by reason of the happening of any contingency).

(f) **Redemption at the Option of Noteholders:** If Investor Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an "**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

While any Bearer Note that was issued in accordance with TEFRA D is held in the form of a temporary Global Note, the right described in this Condition 6(f) will be available only to the extent that non-U.S. beneficial ownership certification has been received by the relevant Issuer or its agent pursuant to TEFRA D.

(g) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

(h) **Purchases:** Each of the Issuer, the Company and any of their respective Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. All Notes purchased by or on behalf of the Issuer, the Company or any of their respective Subsidiaries may be held, reissued, resold or surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). The Notes so purchased, while held by or on behalf of the Issuer, the Company or any such Subsidiary, shall not entitle the holder to vote at any meetings of the holders and shall not be deemed to be outstanding for certain purposes, including without limitation for the purpose of calculating quorums at meetings of the holders or for the purposes of Condition 10 and Condition 11(a) and as provided in the Trust Deed.

7. **Payments and Talons**

(a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:

(i) in the case of a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Renminbi, by transfer from the Paying Agent's office outside the United States to a Renminbi account maintained by or on behalf of the Noteholder with a Bank in Hong Kong.

In this Condition 7(a) and in Condition 7(b), "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) **Registered Notes:**

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(b)(ii).

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifth (in the case of Renminbi) and fifteenth (in the case of a currency other than Renminbi) day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made:

(A) in the case of a currency other than Renminbi, in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank; and

(B) in the case of Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(b)(ii), "**registered account**" means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Laws:** Payments are subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents:** The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the other Paying Agents, the Registrar, the other Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (v) one or more Calculation Agent(s) where the Conditions so require, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Trustee and (vii) if the Issuer is required to maintain a Paying Agent in a European Union member state, the Issuer shall maintain a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC (as amended from time to time).

In addition, the Issuer may appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given by the Issuer to the Noteholders in accordance with Condition 16.

(f) **Unmatured Coupons and Receipts and unexchanged Talons:**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity and/or security as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**business day**" means a day (other than a Saturday, Sunday or public holiday) on which banks and foreign exchange markets are open for business in Hong Kong and the relevant place of presentation in such jurisdictions as shall be specified as "**Financial Centres**" hereon, and:

(i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8. Taxation

All payments of principal, any premium and interest by or on behalf of the Issuer or the Company in respect of the Notes or under the Guarantee, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Relevant Jurisdiction or the jurisdiction through which payments are made, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or the Company, as the case may be, shall pay such additional amounts ("**Additional Tax Amounts**") as shall result in receipt by the Noteholders and Couponholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no Additional Tax Amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) held by a holder that is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note, Receipt or Coupon; or

(b) where such withholding or deduction is imposed pursuant to European Council Directive 2003/48/EC on the taxation of savings income (as amended from time to time) or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) where such withholding or deduction is imposed pursuant to FATCA; or

(d) held by a holder who would have been able to avoid such withholding or deduction by presenting the Note, Receipt or Coupon (where presentation is required) to another Paying Agent; or

(e) where such withholding or deduction would not have been imposed but for the failure of the holder or beneficial owner to comply with a timely request of the Issuer, addressed to the holder, to provide information concerning the holder or beneficial owner's nationality, residence, identity or other connection with the Relevant Jurisdiction if and to the extent that due and timely compliance with such request is required under the domestic law of the Relevant Jurisdiction in order to reduce or eliminate the withholding or deduction; or

(f) where (in the case of a payment of principal or interest on redemption) the relevant Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant Note, Receipt or Coupon on the last day of such period of 30 days.

In these Conditions:

"**FATCA**" means Sections 1471 through 1474 of the Code, any agreement with the U.S. Treasury entered into with respect thereto, any U.S. Treasury regulation issued thereunder or any other official interpretations or guidance issued with respect thereto; any intergovernmental agreement entered into with respect thereto, and any law, regulation, or other official interpretation or guidance promulgated pursuant to such intergovernmental agreement.

"**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal, redemption price or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 8 or any undertaking given in addition to or in substitution of this Condition 8 pursuant to the Trust Deed.

If the Issuer or the Company, as the case may be, becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands or the PRC, references in these Conditions to the British Virgin Islands or the PRC shall be construed as references to the British Virgin Islands and/or such other jurisdiction or the PRC.

9. **Prescription**

Claims against the Issuer and/or the Company for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

If an Event of Default (as defined below) occurs, then the Trustee at its discretion may and, if so requested in writing by holders of at least 25% of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer and the Company declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Redemption Amount together with (if applicable) accrued interest without further action or formality. An "**Event of Default**" occurs if:

(a) **Non-payment:** there has been a failure to pay the principal or interest on any of the Notes when due and, in the case of interest, such failure continues for a period of seven days; or

(b) **Breach of other obligations:** the Issuer or the Company defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Trust Deed or the Deed of Guarantee and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer or the Company, as the case may be; or

(c) **Cross-acceleration:**

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

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

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

provided that (x) the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above individually or in the aggregate exceeds US$20,000,000 (or its equivalent in any other currency or currencies) and (y) such Indebtedness (other than any such Indebtedness of the Issuer) has an original maturity of more than 365 days; or

(d) **Unsatisfied judgement:** one or more judgement(s) or order(s) for the payment of an aggregate amount in excess of US$20,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer, the Company or any of their respective Subsidiaries and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) **Security enforced:** a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any material part of the undertaking, assets and revenues of the Issuer, the Company or any Company Material Subsidiary and such action is not discharged within 45 days after the date thereof; or

(f) **Insolvency, etc.:** (i) the Issuer, the Company or any Company Material Subsidiary becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the

Company or any Company Material Subsidiary or the whole or any material part of the undertaking, assets and revenues of the Issuer, the Company or any Company Material Subsidiary is appointed (or application for any such appointment is made), (iii) the Issuer, the Company or any Company Material Subsidiary takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any guarantee of any Indebtedness given by it or (iv) the Issuer, the Company or any Company Material Subsidiary ceases or threatens to cease to carry on all or any substantial part of its business, except (a) in the case of any Company Material Subsidiary, where the cessation is for the purpose of and followed by a solvent winding up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Company Material Subsidiary are transferred to or otherwise vested in the Issuer, the Company, and/or another Subsidiary, or (b) on terms approved by an Extraordinary Resolution of the Noteholders; or

(g) **Winding-up, etc.:** an order by any court of competent jurisdiction or other authority is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Company or any Company Material Subsidiary, except (i) in the case of any Company Material Subsidiary, for the purpose of and followed by a solvent winding up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Company Material Subsidiary are transferred to or otherwise vested in the Issuer, the Company and/or another Subsidiary or (ii) on terms approved by an Extraordinary Resolution of the Noteholders; or

(h) **Nationalisation:** any step is taken by the authority of any national, regional or local government with a view to the seizure, compulsory acquisition or expropriation of the assets of the Issuer, the Company or any Material Company Subsidiary; *provided* that the value of the assets subject to the seizure, compulsory acquisition or expropriation individually or in the aggregate exceeds 50% of the total assets of the Company and its Subsidiaries; or

(i) **Analogous events:** any event occurs which under the laws of the British Virgin Islands or the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgement*) to (h) (*Nationalisation*) above; or

(j) **Failure to take action, etc.:** any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Company lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, the Trust Deed, the Deed of Guarantee or the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Trust Deed, the Deed of Guarantee or the Agency Agreement admissible in evidence in the courts of England is not taken, fulfilled or done; or

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

(l) **Ownership:** the Issuer ceases to be a wholly-owned subsidiary of the Company; or

(m) **Unenforceability of Guarantee**: except as permitted under the Trust Deed, any part of the Deed of Guarantee is unenforceable or invalid or shall for any reason cease to be in full force and effect or is claimed to be unenforceable, invalid or not in full force and effect by the Issuer or the Company.

In this Condition 10:

"**Company Material Subsidiary**" means any Subsidiary of the Company:

(i) whose revenue (consolidated in the case of a Subsidiary which has Subsidiaries) attributable to the Company, as shown by its latest audited or reviewed income statement prepared in accordance with IFRS is at least five per cent. of the consolidated total revenue and other income as shown by the latest audited or reviewed income statement of the Company and its consolidated Subsidiaries sent or made available to the Trustee under Condition 4(c); or

(ii) whose assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Company, as shown by its latest audited or reviewed balance sheet prepared in accordance with IFRS, are at least five per cent. of the consolidated total assets of the Company and its Subsidiaries as shown by the latest audited or reviewed consolidated balance sheet of the Company and its Subsidiaries sent or made available to the Trustee under Condition 4(c).

In addition, any Subsidiary which is not itself a Company Material Subsidiary shall nevertheless be treated as a Company Material Subsidiary in respect of any of the events referred to in this Condition 10 if its revenue or assets (or consolidated revenue or consolidated assets in the case of a Subsidiary which has Subsidiaries) when aggregated with the revenue or assets of each Subsidiary which is not itself a Company Material Subsidiary (or consolidated revenue or consolidated assets in the case of a Subsidiary which has Subsidiaries) with respect to which any of the events referred to in this Condition 10 has occurred during the preceding 12 months, exceeds five per cent. of the consolidated total revenue and other income or consolidated total assets of the Company and its Subsidiaries.

A certificate signed by any Director of the Company confirming that a Subsidiary is or is not, or was or was not, a Company Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

"**guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

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

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

(ii) amounts raised under any note purchase facility;

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

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

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

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality; and

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

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

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

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

11. **Meetings of Noteholders, Modification, Waiver and Substitution**

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Trust Deed or the Deed of Guarantee. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Company (acting together) or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however*, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment or to change the method of calculating the Make Whole Amount, to change the currency of payments under the Notes, to amend the terms of the Deed of Guarantee or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than 75 per cent. of the aggregate principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) **Modification and waiver:** The Trustee may, without the consent of the Noteholders, agree to any modification of any of these Conditions or any of the provisions of the Trust Deed or the Deed of Guarantee (other than in respect of a Reserved Matter) which in the opinion of the Trustee will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Trust Deed or the Deed of Guarantee which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Trust Deed or the Deed of Guarantee (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

(c) **Entitlement of the Trustee:** In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 11), the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

(d) **Rule 144A offerings:** The Issuer may also issue medium term notes pursuant to Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") from time to time on the terms to be agreed with the Relevant Dealer(s) at the time of their issue.

12. **Enforcement**

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such proceedings, actions or steps against the Issuer and/or the Company as it may think fit to enforce the terms of the Trust Deed, the Deed of Guarantee, the Notes, the Receipts and/or the Coupons, but it need not take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least 25 per cent. in nominal amount of the Notes then outstanding, and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Company unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee and any entity related to the Trustee is entitled to enter into business transactions with the Issuer, the Company and any entity related to the Issuer or the Company without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on any report, information, confirmation, opinion or certificate or any advice or opinion of any accountants, auditors, lawyers, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, information, confirmation, certificate, advice or opinion and such report, confirmation or certificate or advice shall be binding on the Issuer, the Company and the Noteholders.

The Trustee shall have no obligation to monitor whether an Event of Default, Rating Downgrade, Change of Control or Put Event has occurred, and shall not be liable to Noteholders or Couponholders or any other person for not so doing.

14. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, inter alia, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer or the relevant Agent may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either (i) having the same terms and conditions as the Notes in all respects (or in all respects save for the Issue Dates, the first Interest Payment Dates, Interest Commencement Dates (if applicable) and/or issue prices (if applicable)) and so that such additional securities shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (ii) upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities which are to form a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other future securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series in certain circumstances where the Trustee so decides.

In the case of further Bearer Notes which are issued in accordance with the TEFRA D rules (and therefore must be initially represented by a temporary Global Note exchangeable for interests in a permanent Global Note or Definitive Notes), any consolidation of such further Bearer Notes with outstanding Bearer Notes into a single series can only occur following the exchange of interests in the temporary Global Note for interests in the permanent Global Note or Definitive Notes upon certification of non-U.S. beneficial ownership.

16. **Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing and, so long as the Notes are listed on any stock exchange and the rules of that stock exchange so require, duly published in a manner that complies with the rules and regulations of such stock exchange.

Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Asia and, so long as the Notes are listed on any stock exchange and the rules of that stock exchange so require, duly published in a manner that complies with the rules and regulations of such stock exchange. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

So long as the Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held (i) on behalf of Euroclear or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by these Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate; or (ii) on behalf of the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Certificate.

17. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. **Governing Law and Jurisdiction**

(a) **Governing law:** The Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and the Talons and any disputes or claims arising out of or in connection with any of them or their subject matter or formation (including any non-contractual obligations arising out of or in connection with them) are governed by, and shall be construed in accordance with, English law. The Deed of Guarantee is governed by, and shall be construed in accordance with, Hong Kong law.

(b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes or claims that may arise out of or in connection with any Notes, Receipts, Coupons or Talons, the Trust Deed, the Agency Agreement and the Deed of Guarantee and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons, the Trust Deed, the Agency Agreement and the Deed of Guarantee (including any non-contractual disputes or claims) ("**Proceedings**") may be brought in such courts. Each of the Issuer, the Company and the Trustee has in the Trust Deed, the Agency Agreement and the Deed of Guarantee irrevocably submitted to the jurisdiction of such courts and waived any objection to Proceedings in any such courts including on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum, and further irrevocably agrees that a judgement in any Proceedings brought in any such courts shall be conclusive and binding upon it and may be enforced in the court of any other jurisdiction.

(c) **Waiver of Immunity:** Each of the Issuer and the Company hereby waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence whether in the Hong Kong courts or in any other courts or tribunals where a judgement or award may be enforced, agrees not to plead or claim any such immunity in any Proceedings or arbitration, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgement made or given in connection with any Proceedings or arbitration and/or any pre-judgement interim relief or post execution judgement.

(d) **Service of Process:** The Issuer irrevocably appoints CITIC Securities International Company Limited at 11/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong to receive, for it and on its behalf, service of process in any Proceedings in Hong Kong. If for any reason the Company ceases to be a non-Hong Kong company under Part 16 of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), the Company irrevocably agrees to appoint a process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. If for any reason the process agent appointed by the Issuer or, if applicable, by the Company, ceases to be able to act as such or no longer has an address in Hong Kong, each of the Issuer and the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing shall affect the right to serve process in any manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Terms used in this section that are not otherwise defined shall have the meanings given to them in "Terms of Conditions of the Notes."

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary for Euroclear and Clearstream or a sub-custodian for the CMU.

Upon the initial deposit of a Global Note or a Global Certificate with a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or with a sub-custodian for the CMU or registration of Registered Notes in the name of (i) any nominee for Euroclear and Clearstream or (ii) the HKMA as operator of the CMU and delivery of the relative Global Note or Global Certificate to the Common Depositary or the sub-custodian for the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent (as agent of the Issuer) for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

Exchange

Temporary Global Notes

Bearer Notes issued in accordance with TEFRA D must be initially represented by a temporary Global Note. Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA D only, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreements for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes; and

(ii) otherwise, in whole, but not in part, for interests in a permanent Global Note or, if so provided in the relevant Pricing Supplement, the Definitive Notes defined and described below.

Bearer Notes with a term of more than 365 days (taking into account any unilateral rights to rollover or extend the term) that are held through the CMU must be issued in compliance with TEFRA C, unless at the time of issuance the CMU and the CMU Lodging and Paying Agent have procedures in place so as to enable the Issuer to comply with the certification requirements under TEFRA D.

The CMU may require that any such exchange for a permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

The holder of a temporary Global Note issued pursuant to TEFRA D will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreements, exchange of the temporary Global Note for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. The payments in respect of a Note issued under TEFRA D pursuant to Condition 6(e) may not be collected without certificate as to non-U.S. beneficial ownership.

Further Issues

In respect of a Bearer Note issued under TEFRA D, a further issue of Notes by the Issuer pursuant to Condition 15 may be consolidated with outstanding securities of any series (including the Notes) only after certification of non-U.S. beneficial ownership has been received in accordance with TEFRA D and the temporary Global Note has been exchanged for a permanent Global Note or Definitive Note.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except in limited circumstances, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Notes held in Euroclear, Clearstream, the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfer of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made in part if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

In the event that a Global Certificate is exchanged for a definitive certificate, such definitive certificate shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive certificate in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent).

In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "Definitive Notes" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"Exchange Date" means, in relation to a temporary Global Note, the first day following the expiry of 40 days after its issue date and, in relation to an exchange of a permanent Global Note for Definitive Notes, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent or the CMU Lodging and Paying Agent, as the case may be, is located and except in the case of exchange for Definitive Notes if the permanent Global Note is held on behalf of a clearing system, in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due on or after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note (except with respect to a Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(f)(vii) and Condition 8(d) will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation (if applicable) shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except 25 December and 1 January.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant bearer Global Note or Global Certificate shall be required for such purpose.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and 5 years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholders holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or its presentation to or to the order of the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) for endorsement in the relevant schedule of such permanent Global Note or, in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the Register, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a permanent Global Note or by a Global Certificate may only be purchased by the Issuer, the Company or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note or by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions of the Notes substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised and the option may be exercised in respect of the whole or any part of the permanent Global Note, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Issuing and Paying Agent (or, in the case of Notes lodged with the CMU, the CMU Lodging and Paying Agent), for notation. Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Certificate may be exercised in respect of all or some of the Notes represented by the Global Certificate.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of, or in the name of any nominee for, a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interest if such accountholders were the holders of the Notes represented by such Global Note or the relevant Global Certificate, as the case may be.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or the relevant Global Certificate, as the case may be, rather than by mailing to the addresses in the Register as required by the Conditions, and any such notice shall be deemed to have been given to the Noteholders on the second business day on which such notice is delivered to the persons shown in the CMU Instrument Position Report.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holders in respect of them.

FORM OF PRICING SUPPLEMENT

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

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

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

To be added to each subscription agreement of each Tranche: [*The Dealers may elect to include the following legend with respect to each Tranche:* [**MiFID II product governance/Professional investors and ECPs only target market** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [MiFID II]; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. A "distributor should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**PRIIPs REGULATION — PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA or in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II, or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

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

The form of Pricing Supplement that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

[Date]

CITIC Securities Finance MTN Co., Ltd.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

guaranteed by

CITIC Securities Company Limited
(中信證券股份有限公司)

under its US$3,000,000,000

Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated [date] (the "**Offering Circular**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular. Full information on the Issuer, the Company and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**"). This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date], save in respect of the Conditions which are extracted from the Offering Circular dated [previous date] and are attached hereto.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.*]

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[1] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

1.	(i)	Issuer:	CITIC Securities Finance MTN Co., Ltd.
	(ii)	Guarantor:	CITIC Securities Company Limited (中信證券股份有限公司)
2.	[(i)]	Series Number:	[●]
	[(ii)	Tranche Number:	[●]]
	(iii)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [identify earlier Tranches] on [the Issue Date/exchange of the temporary Global Note for interests in the permanent Global Note, as referred to in paragraph [l] below, which is expected to occur on or about [date]][Not Applicable] *(The Notes will not be consolidated and form a single Series with earlier Tranches until the completion of the Registration Conditions (as defined under the Conditions).)*
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount		[●]
	[(i)]	Series:	[●]
	[(ii)	Tranche:	[●]]
5.	[(i)]	Issue Price	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
	[(ii)	Net proceeds:	[●]] [Delete for unlisted issuances.]
	[(iii)	Use of proceeds:	[●]]
6.	(i)	Specified Denominations:	[●] *(N.B Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).)* *(N.B. If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No notes in definitive form will be issued with a denomination above €199,000." In relation to any issue of Notes which*

		are a "Global Note exchangeable to Definitive Notes" in circumstances other than in the limited circumstances specified in the Global Note, such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.)
	(ii) Calculation Amount:	[●]
7.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:	[*Fixed rate — specify date/Floating rate — specify Interest Payment Date falling in or nearest to the relevant month and year*] *(N.B. Note that for Renminbi and Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification, it will be necessary to use the second option here.)*
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR/HIBOR/CNH HIBOR/*Specify*] +/–[●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*Specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*Specify other*]
11.	Change of Interest Basis or Redemption/ Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put Option] *(N.B. For as long as Bearer Notes issued in accordance with TEFRA D are represented by a temporary Global Note, an Investor Put shall not be available unless the certification required under TEFRA D with respect to*

	non-U.S. beneficial ownership has been received by the Issuer or the Agent.)
	[Issuer Call Option]
	[(further particulars specified below)]
13. Date of [Board] approval for issuance of Notes:	[●] and [●], respectively] *(Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
14. Listing	[Hong Kong/*specify other*/None] *(For Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes)*
15. Method of distribution:	[Syndicated/Non-syndicated]

Provisions Relating to Interest (if any) Payable

16. Fixed Rate Note Provisions:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/other (*specify*)] in arrear] *(If payable other than annually, consider amending Condition 5)*
(ii) Interest Payment Date(s):	[[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted] *(This will need to be amended in the case of long or short coupons)*
(iii) Fixed Coupon Amount(s): (Applicable to Notes in definitive form)	[●] per Calculation Amount *(N.B. For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification, the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards in the case of Renminbi denominated Fixed Rate Notes and to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.")*

	(iv)	Broken Amount(s): (Applicable to Notes in definitive form)	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA/ISDA) or Actual/365 (Fixed) or [*specify other*]] *(N.B. Actual/365 (Fixed) is applicable to Hong Kong dollar denominated Fixed Rate Notes and Renminbi denominated Fixed Rate Notes.)*
	[(vi)	Determination Date(s):	[●] in each year [*Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. Only relevant where Day Count Fraction is Actual/ Actual (ICMA).*] *(This will need to be amended in the case of regular interest payment dates which are not of equal duration)]*
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*give details*]
17.	Floating Rate Note Provisions:		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(ii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/[*specify other*]]
	(iii)	Additional Business Centre(s):	[●]
	(iv)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(v)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Issuing and Paying Agent):	[●]
	(vi)	Screen Rate Determination:	
		— Reference Rate	[●] (Either LIBOR, EURIBOR, HIBOR, CNH HIBOR or other, although additional information is required if other — including fallback provisions in the Agency Agreement)

	—	Interest Determination Date(s):	[●] (Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)
	—	Relevant Screen Page	[●] (In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
(vii)	ISDA Determination:		
	—	Floating Rate Option:	[●]
	—	Designated Maturity:	[●]
	—	Reset Date	[●]
(viii)	Margin(s):		[+/–] [●] per cent. per annum
(ix)	Minimum Rate of Interest:		[●] per cent. per annum
(x)	Maximum Rate of Interest:		[●] per cent. per annum
(xi)	Day Count Fraction:		[Actual/Actual or Actual/Actual (ISDA)] [Actual/365(Fixed)] [Actual/365(Sterling)] [Actual/360] [30/360, 360/360 or Bond Basis] [30E/360 or Eurobond Basis] [30E/360 (ISDA)] [Other] (See Condition 5 for alternatives)
(xii)	Linear Interpolation		[Not Applicable/Applicable — the Rate of Interest for the [long/short] [first/last] Interest Accrual Period shall be calculated using Linear Interpolation *(specify for each short or long interest period)*]
(xiii)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:		[●]

18. Zero Coupon Note Provisions: [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

	(i)	Accrual Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[●]
	(iv)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[●] (Consider applicable day count fraction if not U.S. dollar denominated)
19.	Index Linked Interest Note Provisions		*[Applicable/Not Applicable]* *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Index/Formula:	[give or annex details]
	(ii)	Calculation Agent:	[●]
	(iii)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Issuing and Paying Agent):	[●]
	(iv)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(v)	Specified Period(s)/Specified Interest Payment Dates:	[●]
	(vi)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other*]
	(vii)	Additional Business Centre(s):	[●]
	(viii)	Minimum Rate of Interest:	[●] per cent. per annum
	(ix)	Maximum Rate of Interest:	[●] per cent. per annum
	(x)	Day Count Fraction:	[●]
20.	Dual Currency Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*Give or annex details*]

(ii)	Party, if any, responsible for calculating the principal and/or interest due (if not the Issuing and Paying Agent):	[●]
(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*Need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

Provisions Relating to Redemption

21.	Issuer Call Option:	[Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/specify other/see Appendix]
(iii)	If redeemable in part:	[●]
(a)	Minimum Redemption Amount:	[●]
(b)	Maximum Redemption Amount:	[●]
(iv)	Notice period (if other than as set out in the Conditions):	*(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or the Trustee)*
22.	Investor Put Option:	[Applicable/Not Applicable] *(N.B. In the case of Bearer Notes issued in accordance with TEFRA D and represented by a temporary Global Note exchangeable for interests in a permanent Global Note or Definitive Note, an Investor Put shall not be available unless the certification of non-U.S. beneficial ownership required under TEFRA D has been received by the Issuer or its Agent.)*

	(If not applicable, delete the remaining sub-paragraphs of this paragraph)
(i) Optional Redemption Date(s):	[●]
(ii) Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/specify other/see Appendix]
(iii) Notice period (if other than as set out in the Conditions):	[●] *(If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Issuing and Paying Agent or the Trustee)*
23. Final Redemption Amount:	[[●] per Calculation Amount/*specify other*/see Appendix]]
24. Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[[●] per Calculation Amount/*specify other*/see Appendix]]

General Provisions Applicable to the Notes

25. Form of Notes:	[Bearer Notes: *(N.B. Bearer Notes with a term of more than 365 days (taking into account any unilateral right to extend or rollover the term) must be issued in compliance with TEFRA C or TEFRA D. If such Bearer Notes are held through the CMU, they must be issued under TEFRA C if at the time of issuance the CMU and the CMU Lodging and Paying Agent do not have in place certification procedures necessary to comply with TEFRA D.)* [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] *(N.B. If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000", the temporary Global Note shall not be exchangeable on [●] days' notice.")*

	[Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]] *(N.B. Not applicable to Bearer Notes issued in compliance with TEFRA D, which must initially be represented by a Temporary Global Note, exchangeable for a Permanent Global Note or Definitive Notes upon certification of non-U.S. beneficial ownership as required under TEFRA D.)* [Registered Notes: Global Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Certificate]
26. Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details] *(Note that this paragraph relates to the place of payment and not Interest Period end dates to which sub-paragraphs 17(iii) and 19(vii) relate)*
27. Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*.] *(N.B.: a new form of temporary Global Note and/or permanent Global Note may be required for Partly Paid issues)*
29. Details relating to Instalment Notes:	
(i) Instalment Amount(s):	[Not Applicable/*give details*.]
(ii) Instalment Date(s):	[Not Applicable/*give details*.]
30. Redenomination applicable:	Redenomination [not] applicable [*(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*]
31. Other terms or special conditions:	[Not Applicable/*give details*.]

Distribution

32. (i) If syndicated, names and addresses of Managers and commitments:	[Not Applicable/*give names and addresses and commitments*]
(ii) Date of Subscription Agreement	[●]

(iii) Stabilisation Manager(s) (if any) — [Not Applicable/*give name*]

33. If non-syndicated, name of relevant Dealer: [Not Applicable/*give name and address*]

34. Total commission and concession: [●] per cent. of the Aggregate Nominal Amount [Private Bank Rebate/Commission: *specify*] *(Delete if not applicable)*

35. U.S. Selling Restrictions: [Reg. S Category 2; TEFRA D/TEFRA C/TEFRA not applicable]

("TEFRA not applicable" is only available for Bearer Notes with a term of 365 days or less (taking into account any unilateral right to extend or rollover the term) or Registered Notes.)

36. Additional selling restrictions: [Not Applicable/*give details*]

Operational Information

37. Any clearing system(s) other than Euroclear or Clearstream and the relevant identification number(s): [CMU/Not Applicable/give name(s) and number(s)]

38. Delivery: Delivery [against/free of] payment

39. Additional Paying Agent(s) (if any): [●]

ISIN: [●]
Common Code: [●]

Legal Entity Identifier: 5493007B0X41FW1DM450

(insert here any other relevant codes such as a CMU instrument number)

(Temporary ISIN and Common Code are required for additional issuances of Notes that will be consolidated and form a single Series with earlier Tranches prior to the

completion of the Registration Condition (as defined under the Conditions).)

40. Rule 144A Notes Provisions: [Not Applicable]/[*Specify*]

[Stabilising

In connection with this issue of Notes, [insert name of Stabilisation Manager(s)] (the "**Stabilisation Manager(s)**") (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot and effect transactions with a view to supporting the market price of Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.]

[Listing Application

This Pricing Supplement comprises the final terms required for the issue of Notes described herein pursuant to the US$3,000,000,000 Medium Term Note Programme of the Issuer.]

NDRC Approval

The Company has received an Enterprise Foreign Debt Pre-Issuance Registration Certificate dated [date] from NDRC with respect to the pre-issuance registration.

Responsibility

The Issuer and the Company accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of:

CITIC Securities Finance MTN Co., Ltd.

By: ______________________________
Duly authorised

CITIC Securities Company Limited
(中信證券股份有限公司)

By: ______________________________
Duly authorised

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of notes will be applied by the Issuer for on-lending to the members of the Group for general corporate purposes, including business operations, adjustments to corporate debt structure, working capital and project finance purposes, as permitted under applicable laws. If, in respect of any particular issue, there is a particular identified use of proceeds, that will be stated in the applicable Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Company's consolidated capitalisation and indebtedness as of 31 December 2019. The following table should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this Offering Circular.

	As of 31 December 2019	
	RMB millions (Audited)	**USD millions**
Short-term debt		
Short-term financing instrument payables	20,137	2,893
Short-term loans	7,405	1,064
Total short-term debt	27,542	3,956
Long-term debt		
Debt instruments issued	89,421	12,844
Long-term loans	383	55
Total long-term debt	89,804	12,900
Equity		
Issued share capital	12,117	1,740
Reserves	89,404	12,842
Retained profits	60,104	8,633
Non-controlling interests	3,825	549
Total equity	165,450	23,765
Total capitalisation[1]	282,796	40,621

Note:

(1) Equals the sum of total long-term debt plus total equity.

Except as disclosed above, there have been no material changes in the Company's consolidated capitalisation or indebtedness since 31 December 2019.

The information presented in this section is derived from various official or publicly available publications and information or data from Wind Info. Please see "— Source of Information." We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of the Company, the Issuer, the Arrangers, the Dealers or any of their respective directors, employees, agents, representatives, affiliates or advisors or any other parties involved in the Note offering has independently verified, nor make any representation as to, the accuracy of the information from official government or other third party sources. Such information may not be consistent with, and may not have been compiled with the same degree of accuracy or completeness as, other information compiled within or outside the PRC. Accordingly, the official government and other third party sources contained herein may not be accurate and should not be unduly relied upon.

OVERVIEW

Benefiting from steady and rapid economic growth in the past three decades, China has been playing an increasingly important role in the global economy. According to NBSC, China's nominal GDP increased from RMB48.4 trillion in 2011 to RMB99.1 trillion in 2019, representing a CAGR of 9.37%. In terms of GDP in 2019, China remained the second largest country in the world. The following table sets forth the real GDP growth rates for China and the world in the periods indicated:

										IMF Forecast
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
China	9.5%	7.9%	7.8%	7.3%	6.9%	6.7%	6.9%	6.6%	6.1%	1.2%
World	4.3%	3.5%	3.5%	3.6%	3.5%	3.2%	3.8%	3.6%	2.9%	-3.0%

Source: NBSC and IMF.

China's economy has entered a "New Normal" phase of development after 30 years of rapid economic growth. The PRC Government is committed to maintaining stable economic growth while optimising and upgrading its economic structure considering the complicated and volatile macroeconomic conditions. In the financial sector, the PRC Government continues to launch various initiatives to facilitate the transformation and upgrading of the financial system. These initiatives include promoting the internationalisation of the Renminbi, liberalising interest rates and exchange rates, simplifying the approval requirements for capital market transactions, as well as diversifying investment channels. With a view to meeting the growing financing needs of PRC enterprises, the PRC Government is also dedicated to accelerating the building of a multi-level capital market, promoting the development of direct financing, and fostering the integration of industry and finance. We believe that the growing Chinese economy has been and will continue to be the primary driver of the development of the capital markets and investment banking industry in China and Hong Kong.

PRC CAPITAL MARKETS

In recent years, the PRC capital market has developed into a multi-level market, driven by a variety of favourable conditions, such as active trading activities, ongoing product innovation, enhanced market mechanism, improving regulatory environment, as well as an increasing number of market participants.

Equity Markets

The Shanghai Stock Exchange and the Shenzhen Stock Exchange are the two principal equity exchanges in China. The market capitalisation of stocks listed on the Shanghai Stock Exchange and the Shenzhen Stock

Exchange first increased from RMB21.48 trillion in 2011 to RMB59.29 trillion in 2019 and from 2011 to 2019, representing a CAGR of approximately 13.54%. The number of listed companies increased from 2,342 to 3,777. As of 31 December 2019, China's equity markets ranked second in the world as measured by stock market capitalisation, according to World Federation of Exchanges. From 2011 to 2019, the total amount of equity financing of the Shanghai Stock Exchange and the Shenzhen Stock Exchange increased from RMB731.22 billion to RMB1,541.33 billion, representing a CAGR of 9.77%.

Fixed Income Markets

The interbank bond market, the Shanghai Stock Exchange and the Shenzhen Stock Exchange and the over-the-counter ("**OTC**") bond market are the principal fixed income markets in China. A wide variety of securities have become available in the PRC market in recent years, such as short-term commercial paper and corporate asset-backed securities launched in 2005, corporate bonds in 2007, medium-term notes in 2008, private placement bonds for small- and medium-sized enterprises in 2012, special enterprise bonds and panda corporate bonds in 2015, and corporate green bonds and renewable corporate bonds in 2016. The PRC bond market has grown rapidly with the increasing diversity of bond products. As of 31 December 2019, China's fixed income markets was the world's second largest bond market in terms of amount of bonds outstanding.

Funds Market

In recent years, the PRC funds market has experienced significant growth driven by accumulating personal wealth and favourable regulatory environment. According to the Asset Management Association of China (AMAC), from 31 December 2011 to 31 December 2019, the number of mutual fund management companies in the PRC increased from 66 to 143, with the number of mutual fund products increasing from 914 to 6,544 and total Asset under Management (AUM) increasing from RMB2.19 trillion to RMB14.8 trillion. According to the AMAC, as of 31 December 2019, there were 24,471 private fund management companies (including private securities investment fund management companies, private equity investment fund management companies, venture capital fund management companies and other types of fund management companies) registered with the AMAC, and total AUM was RMB13.7 trillion.

Derivatives Market

The PRC has become one of the world's largest commodity futures markets. The PRC financial futures market also grew rapidly in recent years. The major types of exchange-traded derivatives include commodity futures and financial futures. Apart from exchange-traded derivatives, the PRC OTC options market has also experienced rapid growth. According to the Securities Association of China (SAC), the amount in the original notional principal amount of OTC options was RMB464.29 billion in 2019. The growth in OTC derivatives will further increase the diversity of derivatives products and promote the expansion of the PRC derivatives market.

PRC SECURITIES INDUSTRY

The PRC securities industry has grown substantially in terms of the number, size and business scope of PRC securities firms along with the development of the PRC capital markets. According to the Securities Association of China, there were 133 registered securities firms in the PRC as of 31 December 2019. From 31 December 2011 to 31 December 2019, the PRC securities industry's total assets increased from RMB1.57 trillion to RMB7.26 trillion, and the industry's total net assets increased from RMB630.26 billion to RMB2.02 trillion, representing CAGRs of 21.10% and 15.67%, respectively. According to the SAC, from 2011 to 2019, the PRC securities industry's total revenue increased from RMB135.95 billion to RMB360.48 billion, and the industry's total net income increased from RMB39.38 billion to RMB123.16 billion, representing a CAGR of 12.96% and 15.32%, respectively. The PRC securities industry is highly competitive with relatively low market concentration. In 2018, the combined operating revenue of the top ten PRC securities firms (in terms of operating revenue) accounted for 64.85% of the total operating revenue on a consolidated basis in the PRC securities industry. Competition also comes from other financial institutions in various business segments.

Investment Banking

At the end of 2019, there were 133 investment banks in China. According to the SAC and Wind Info, the investment banking industry generated RMB360.48 billion in revenue and RMB123.10 billion in net profits in 2019. As of 31 December 2019, the total assets and equity of the industry were RMB7.26 trillion and RMB2.02 trillion, respectively.

Securities underwriting

Equity and debt underwriting are main business of investment banks in China. After the market downturn in 2008, equity and debt offerings in China recovered rapidly in 2009. According to Wind Info, the amount of capital raised from equity offerings underwritten by investment banks in China increased from RMB1.58 trillion in 2011 to RMB8.85 trillion in 2019, representing a CAGR of 24.03%, and the amount of capital raised from debt offerings underwritten by investment banks in China increased from RMB948.99 billion in 2011 to RMB7.62 trillion in 2019, representing a CAGR of 29.74%. In China, the securities underwriting business is relatively concentrated. According to Wind Info, in 2019, the top ten investment banks commanded a combined market share of 61.61% and 63.94% in equity and debt underwriting, respectively.

Brokerage

In the brokerage business, investment banks are engaged by individual and institutional clients as agents to buy or sell securities on their behalf. Along with the expansion of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the total trading volume of stocks on the two stock exchanges has steadily grown in recent years, increasing from RMB42.01 trillion in 2011 to RMB126.93 trillion in 2019, representing a CAGR of 14.82%. The brokerage business is relatively concentrated in China. The shift in customer focus from retail investors to institutional investors and high-net-worth individuals is an on-going trend in the brokerage business. In 2019, the domestic secondary market was affected by exchange rate fluctuation, liquidity, adjustments of policies and other factors. For the whole year, SSE Composite Index increased by 22.30%, SZSE SME Composite increased by 31.89% and Chinext Index increased by 38.72%. The average daily trading volume of stock amounted to RMB520.52 billion, representing a year-on-year increase of 40.99%.

Trading

The trading business primarily consists of investing in or trading of a variety of securities as a market-maker or as a principal. Historically, China's investment banks have conducted proprietary trades in both the equity and bond markets and trading has been one of their main revenue sources. Since 2011, the CSRC has significantly broadened the scope of permitted investments for the proprietary trading business of PRC securities firms to include securities traded on exchanges, NEEQ, interbank market, and the financial institution OTC market. The launch of stock index futures, treasury futures and stock options has led to increasingly diversified trading strategies and investment instruments available to PRC securities firms. This has in turn helped enhance the trading and liquidity risk management capabilities of PRC securities firms. The A-share market experienced significant volatility in 2015. To stabilise the market, the PRC Government introduced various measures, including requiring 21 PRC securities firms to undertake not to sell any of their respective proprietary equity holdings as of 3 July 2015 if the Shanghai Stock Exchange Composite Index falls below 4,500.

Asset Management

The asset management business of China's investment banks primarily consists of mutual funds for retail customers through collective asset management plans, special accounts for enterprise annuity plans, the NSSF, institutional investors and high-net-worth individuals through targeted asset management plans and specified asset management plans. According to Wind Info, the net income from the asset management business of PRC securities firms increased from RMB2.11 billion in 2011 to RMB27.52 billion in 2019, representing a CAGR of 37.85%. According to the same source, the total AUM of PRC securities firms increased from RMB281.87 billion as of 31 December 2011 to RMB13.36 trillion as of 31 December 2018, representing a CAGR of 61.98%. In competition with fund management companies, China's investment banks also manage assets for the NSSF and enterprise annuity plans. The leading investment banks also actively provide annuity services to enterprises, which can generate higher synergies with their investment banking business. The rapid accumulation of household wealth has provided the foundation for the development of the asset management business in China. In 2019, with the deepening of financial reforms and changes in regulatory policies, the asset management business of securities companies is facing great opportunities as well as challenges with an increasing number of market competitors, varied product structures, and diversified business operations.

Prime Services

Prime services mainly consist of margin financing and securities lending. Margin financing refers to the lending of funds by investment banks to investors for securities purchases, and securities lending refers to the lending of securities by investment banks to investors for short selling transactions. Investment banks derive revenue by charging interest for lending funds or securities. According to the CSRC, the minimum interest rates to be charged are the benchmark lending rates of financial institutions for the same periods set by the PBOC. Prime services are highly regulated in China.

Stock Index Futures

Stock index futures are financial products that were launched in China in April 2012. Stock index futures are standard futures contracts based on a particular stock index, such as the CSI 300 index. Investors can trade stock index futures contracts on futures exchanges and utilise stock index futures for price hedging, calendar spread arbitrage, future cash arbitrage and other purposes. Since the introduction of stock index futures, the ratio of trading turnover of stock index futures to trading turnover of stocks remains high. As a wide range of investors participate in the trading of stock index futures, including investment banks, mutual funds, private funds and insurance companies, we expect that the stock index futures market will maintain a high level of trading turnover, representing a considerable business opportunity for China's investment banks.

Private Equity

Private equity refers to the business in which investment management companies invest in the equity of private enterprises and realise profits by selling the equity, either in equity markets after the public listing of the enterprises, or to other investors in non-public markets. Driven by attractive returns, private equity investments in China have grown significantly in recent years. According to Wind Info, in 2019, a total of 596 private equity investment funds completed fundraising in the PRC private equity investment market, announced a fundraising amount totalling RMB246.61 billion. Private equity investments serve as a channel for investment banks to promote their IPO underwriting business and successful IPO execution provides viable exit options for private equity investments. Leading investment banks with integrated private equity investment and IPO underwriting platforms are in a strong competitive position to capture investment opportunities in China.

In addition, the PRC authorities and investment banks are gradually promoting investments in the form of QDIIs, asset backed securitisation, stock repurchase and other innovative financial products. We believe that in the long term, innovative financial products will provide alternative income streams for China's investment banks.

Overseas Business of PRC Securities Firms

An increasing number of PRC securities firms have established overseas branches to meet their domestic clients' needs to invest overseas, thus benefiting from the growth in overseas capital markets. PRC securities firms have grown rapidly in Hong Kong, which is their primary overseas market. Prior to 2000, the majority of PRC securities firms operating in Hong Kong focused on securities brokerage. Since 2000, driven by the increasing financing activities of PRC-based enterprises, investment banking business, in particular securities underwriting business, has become a major income source for these firms. A number of PRC securities firms operating in Hong Kong have gradually grown into full-service investment banks that engage in a wide range of businesses, including investment banking, brokerage, sales and trading, private wealth management, asset management, and investment research.

Outlook of the PRC Securities Industry

The landscape of the securities industry is undergoing profound changes in China. Firstly, adhering to the philosophy featuring "strict and comprehensive regulation according to law", the regulatory authorities have issued provisions on operation of non-public asset management business and management regulations on subsidiaries for alternative investments of securities companies, providing more stringent requirements for compliance management and risk control capabilities of securities companies. Secondly, competition in the securities industry is becoming more intense. Financial institutions such as commercial banks, insurance companies and trust companies are continually strengthening the penetration of their underwriting, asset management and other securities businesses. The faster relaxation of securities licensing and increasingly diverse backgrounds of new entrants will trigger a catfish effect. Thirdly, the client structure is changing with an increasing proportion of high-net-worth clients and demand for wealth management services. There is an increasingly urgent need for global asset allocation. Fourthly, the increasing categories of businesses and the emergence of new products, such as off-shore businesses, complex non-linear derivatives, fixed income products, currency, and commodities, place higher requirements on middle- and back-office management of securities companies. Fifth, financial technology is triggering tremendous transformation of business models. Goldman Sachs has clearly stated that "it would be a technology company in future", transforming from "business supported by technology" to "business led by technology". Participants in China's domestic securities industry also carry out different types of financial services innovation such as robotic smart investment consultation, big data product innovation, artificial intelligence and other fintech innovations.

There will be better development opportunities for the securities industry. The SOE reforms have evolved from pilot projects into full implementation across a wide range of enterprises. The mixed ownership reforms for the electricity, oil, civil aviation, telecommunications, military industry and other sectors are expected to progress substantially, requiring investment banking services such as M&A, asset restructuring and introduction of strategic investors. In addition, China's central government has been actively promoting the public-private partnership projects, resulting in demand for financing tools such as equity investment funds, revenue bonds or corporate bonds, mezzanine financing and asset-backed securities. China's social security reform has also accelerated long-term capital inflow. Meanwhile, the accelerating implementation of the Belt and Road Initiative has created demand for integrated financial support for infrastructure construction, energy resource development and industrial investment of countries along the Belt and Road. Furthermore, with the launch of Shenzhen-Hong Kong Stock Connect and the Shanghai-Hong Kong Stock Connect, the stock market in China has opened further to all international investors, bringing business opportunities to cross-border investment and financing services of securities companies.

SOURCE OF INFORMATION

In addition to the statistical, market share information and industry data extracted from official government publications and Bloomberg, certain information or data in this offering circular is sourced from Wind Info including information as to our market share and ranking set forth under "*Description of the Group*". Wind Info is an integrated service provider of financial data, information and software. Wind Info serves China's financial enterprises including investment banks, securities firms, fund management firms, insurance companies, banks and investment companies. It maintains a comprehensive financial database on China's financial industry, including financial information and databases on stocks, bonds, foreign exchange, futures, insurance, derivatives, commodities, the macro economy and financial news. All subscribers may retrieve information or data from Wind Info's database by themselves or request Wind Info to provide additional information or data from the database.

DESCRIPTION OF THE ISSUER

FORMATION

The Issuer is a BVI business company with limited liability incorporated in the British Virgin Islands on 10 September 2014 with company number 1840773. Its registered office is located at the offices of Intertrust Corporate Services (BVI) Limited, Ritter House, Wickhams Cay II, Road Town, Tortola VG1110, British Virgin Islands. The Issuer is a wholly-owned subsidiary of CSI, a Hong Kong subsidiary wholly-owned by CITIC Securities.

BUSINESS ACTIVITY

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer undertakes not to, and the Company undertakes to cause the Issuer not to, conduct any business or any activities other than the issue of the Notes or any other bonds or notes which are, or are capable of being listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC (without regard, however, to whether or not such instruments are sold through public offerings or private placements) and the lending of the proceeds thereof to the Company or any of the Company's subsidiaries and affiliates and any other activities reasonably incidental thereto. As of the date of this Offering Circular, the Issuer has not engaged, since its incorporation, in any material activities other than those relating to the establishment of the Programme, the issue of US$500,000,000 2.75% notes due 2022 (the "**2022 Notes**") and US$200,000,000 2.875% notes due 2024 (the "**2024 Notes**") on 25 October 2019, the issue of US$300,000,000 4.25% notes due 2021 (the "**2021 Notes**") on 10 December 2018, the issue of US$300,000,000 2.75% notes due 2020 (the "**2020 Notes**") and US$500,000,000 3.25% notes due 2022 (the "**Further 2022 Notes**") on 20 April 2017, the issue of US$650,000,000 3.50% notes due 2019 (the "**2019 Notes**") on 30 October 2014, which were redeemed in full on 30 October 2019, the issue of US$800,000,000 2.5% notes due 2018 (the "**2018 Notes**") on 6 May 2013, which were redeemed in full on 6 May 2018, and on-lending of the proceeds thereof to the Company or the Company's Subsidiaries and affiliates, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party.

DIRECTORS AND OFFICERS

The directors of the Issuer are LI Jiong, ZHANG Dongjun and ZHOU Yajiang.

SHAREHOLDING

As of the date of this Offering Circular, the Issuer is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US$1.00. As of the date of this Offering Circular, one ordinary share, which is held by CSI, a wholly-owned subsidiary of the Company, had been issued and credited as fully paid, representing 100% of the issued shares of the Issuer. None of the equity securities of the Issuer was listed or dealt in on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought as of the date of this Offering Circular.

FINANCIAL INFORMATION

Under the laws of the British Virgin Islands, the Issuer is not required to publish interim or annual financial statements. As of the date of this Offering Circular, save for the establishment of the Programme and the issue of the 2022 Notes, the 2024 Notes, the 2021 Notes, the 2020 Notes, the Further 2022 Notes, the 2019 Notes and the 2018 Notes (each as further described above).

DESCRIPTION OF THE GROUP

OVERVIEW

We are the leading full-service investment bank in China. According to Wind Info, our investment banking business ranked No. 1 in China in terms of the total underwritten amount of equity securities in 2019, and our brokerage business ranked No. 1 nationwide in terms of total trading turnover of stocks and funds on the Shanghai Stock Exchange and the Shenzhen Stock Exchange in 2019. As of 31 December 2019, our asset management business ranked No. 1 in China in terms of assets under management, according to Wind Info.

We offer a wide range of products and services to a large and diverse client base that includes corporations, financial institutions, governments and individuals. The following table lists our products and services under our principal business lines.

Investment Banking	Brokerage	Trading	Asset Management	Investment
• Equity finance • Debt and structured finance • Financial advisory services	• Securities and futures dealing and brokerage • Distribution of financial products	• Equity, fixed income and derivatives trading and market-making • Margin financing and securities lending • Alternative investment	• Collective asset management • Directive asset management • Fund management • Other investment account management	• Private equity investment

Our principal operations are in China and Hong Kong, and we believe that we are well positioned to benefit from the strong growth potential of China's economy and the opportunities presented by the development of China's capital markets. The completion of our acquisition of the entire equity interest in CLSA on 31 July 2013 significantly reinforced our research capabilities and extended our global coverage. In addition to China and Hong Kong, CLSA also operates in the United States, the United Kingdom, the Netherlands, Australia, Mauritius, and Asian markets including India, Indonesia, Japan, Korea, Malaysia, Sri Lanka, the Philippines, Singapore, Thailand and Taiwan. The following sets forth the recent achievements of our core businesses:

- *Investment banking.* We ranked first in each of the years from 2017 through 2019 among all securities firms in China in terms of the total underwritten amount of equity securities, according to Wind Info. Among all securities firms in China in terms of the number of issues and the total underwritten amount of debt securities, we ranked first, according to Wind Info.

- *Equity trading and brokerage.* We maintained a leading position in the domestic institutional brokerage business, ranking first in the industry.

- *Fixed income trading and brokerage.* We ranked first in 2017, 2018 and 2019 in terms of the total sales of interest rate products in China, according to Wind Info.

- *Brokerage network.* We have a broad nationwide brokerage network, with 273 securities branches and four futures branches covering 21 provinces and municipalities in China and four branches in Hong Kong as of 31 December 2019. We ranked second in 2017 and 2018 and first in 2019 in terms of total trading volume on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. In addition to China and Hong Kong, we also provide brokerage services in other overseas locations in Asia Pacific, North America and Europe.

- *Asset management.* We ranked first among investment banks in China in terms of total assets under management of mutual funds as of 31 December 2017, 2018 and 2019, according to Securities Association of China and the Asset Management Association of China.

- *Private equity.* We were one of the first two investment banks licensed to engage in the private equity business in China in 2007. Our private equity arm, Goldstone, was ranked one of the "Top 30 Best Private Equity Investment Institutions in China for 2016" by *ChinaVenture*, a "Top 5 Best Private Equity Investment Institutions in China" and "Top 10 Best Direct Investment Securities Houses in China" in 2017 and "No. 17 2018 Top 50 Best Private Equity Investment Institutions in China (No. 1 in securities industry)" in 2018 by *Zero2IPO Group* and was the "Golden Bull Broker's Equity Investment Annual Winner" issued by *China Securities Journal*.

- *Research*. CLSA was rated "Most Independent Research Brokerage for Asia (excluding Australia and Japan)" by *Asiamoney* in each of the years from 2013 to 2018 "No. 1 Best Team for Quantitative/ Technical Analysis" for Asia (excluding Australia and Japan) by *Asiamoney* in 2019.

Established on 25 October 1995, our Company was one of the first companies approved by CSRC to be an integrated securities company. The founders of our Company were CITIC Group Corporation (under its former name of China International Trust Investment Company), our then largest shareholder, and three other investors. On 29 December 1999, the Company was converted into a joint stock limited company in the PRC, under its current name of CITIC Securities Company Limited, with CITIC Group Corporation and 47 other investors as its shareholders. We were the first China-based investment bank listed on the Shanghai Stock Exchange, having completed our IPO in January 2003.

Through organic growth and acquisitions, we have established a track record of growth to stay competitive:

- In 2004, we acquired a controlling interest in CITIC Shandong (formerly CITIC Wantong Securities Co., Ltd. and Qingdao Wantong Securities Co., Ltd.) to expand our securities services businesses. On 16 September 2013, CITIC Shandong became our wholly-owned subsidiary;

- In 2005, we acquired CSC Financial Co., Ltd. (formerly known as China Securities Co., Ltd.) ("**CSC**") to expand our securities services businesses. We divested a majority equity interest in CSC in 2010, and we held a 5.0069% equity interest in CSC as of 31 December 2019;

- In 2006, we acquired the equity business of CITIC Capital Holdings Limited and incorporated that business into CITIC Securities (HK) Company Limited, which was later renamed CITIC Securities International Company Limited. This marked the beginning of our global expansion;

- In 2006, we acquired CITIC-Kington Securities Co., Ltd. (which in 2014 was split into two entities, CITIC Securities (Zhejiang) and Kington Securities Limited Liability Company, with CITIC Securities (Zhejiang) merged by absorption with the Company and the equity interest in Kington Securities Limited Liability Company divested) to expand our securities services businesses;

- In 2007, we acquired China AMC to expand into the asset management business. We divested a majority equity interest in China AMC in 2011 in response to regulatory requirements. On 24 September 2013, with a relaxation of regulatory requirements, we regained a controlling interest in China AMC by acquiring a further 10% equity interest in China AMC. As of 31 December 2019, we held a 62.2% equity interest in China AMC;

- In 2007, we established GoldStone to expand into the private equity business and we were one of the first two investment banks licensed to engage in the private equity business in China at the time;

- In 2008, we co-founded CITIC PE Fund as part of our principal investment business;

- In 2011, the Company conducted the initial public offering of 1,071 million H shares, raising RMB11,271 million. The Company was listed and traded on the Main Board of the Hong Kong Stock Exchange (stock code: 6030) on 6 October 2011;

- In 2012, we established CITIC Securities Investment to expand into the financial product investment business;

- In 2013, we completed the acquisition of CLSA to further extend our international operations. In July 2012, we acquired a 19.9% equity interest in CLSA, and on 31 July 2013, we acquired the remaining 80.1% equity interest in CLSA;

- Our shares have been included in both northbound and southbound trading lists of the Shanghai-Hong Kong Stock Connect since its launch on 17 November 2014;

- In 2015, we issued 1.1 billion H shares by private placement to 10 investors, including Kuwait Investment Authority, at the price of HK$24.60 per H-share;

- In 2015, we acquired a 59.04% equity interest in KVB Kunlun Financial Group Limited (which changed its name to CLSA Premium Limited) to speed up the development of our foreign exchange business and build up a foreign exchange platform;

- In 2016, CITIC Corporation Limited, through its own stock account, increased its shareholding in the Company by an aggregate of 110,936,871 A Shares. Upon the completion of the increase in shareholding, the total number of Shares of the Company directly held by CITIC Corporation Limited increased from 1,888,758,875 shares to 1,999,695,746 shares, and the direct shareholding increased from 15.59% to 16.50%; and

- In 2020, we acquired a 100% equity interest in Guangzhou Securities Company Limited (which changed its name to CITIC Securities South China Company Limited) so as to enhance our service capabilities in South China and to better serve the national strategy of building the "Guangdong-Hong Kong-Macau Greater Bay Area".

After its listing on SSE, the Company has since been included in the SSE 180 Index, SSE 50 Index, CSI 300 Index, SSE Corporate Governance Index, FTSE/Xinhua A50 China Index, Dow Jones China 88 Index, and SSE Social Responsibility index. After its listing on the Hong Kong Stock Exchange, the Company has since been included in constituent stocks of indices including the Hang Seng China H-Financials Index, Hang Seng China AH Index Series, Hang Seng Global Composite Index, Hang Seng Composite Index, Hang Seng Composite Industry Index — Financials and Hang Seng Composite MidCap Index, Hang Seng China Enterprises Index, Hang Seng Mainland 100 Index, Hang Seng CSI Shanghai- Hong Kong AH Smart Index, SSE SH Equities Index, FTSE China 25 Index and MSCI China Index, which greatly enhanced the prestige of the Company. Since the launch of Shanghai-Hong Kong Stock Connect on 17 November 2014, the Shares of the Company have been included in both its northbound trading list and southbound trading lists respectively. Upon the launch of Shenzhen-Hong Kong Stock Connect on 5 December 2016, H Share of the Company has become an eligible stock of Shenzhen-Hong Kong Stock Connect.

The Company has received the Approval of the State Administration of Foreign Exchange regarding the Operation Qualification of Settlement and Sale of Foreign Exchange Business of CITIC Securities Company Limited (Hui Fu [2019] No. 32) (the "**Approval**") (《國家外匯管理局關於中信証券股份有限公司結售匯業務經營資格的批覆》

(匯覆[2019]32號)), pursuant to which, the State Administration of Foreign Exchange has agreed that: (1) the Company may carry out the business of sale and settlement of spot foreign exchange on its own and as an agency in accordance with the Measures for the Administration of Banks' Settlement and Sale of Foreign Exchange Business (《銀行辦理結售匯業務管理辦法》) (PBOC Order [2014] No. 2) (中國人民銀行令[2014]第2號) and other regulations; and (2) the Company may carry out Renminbi spot foreign exchange transactions and derivative trading in the interbank foreign exchange market in accordance with the Notice on the Relevant Administrative Policy for Adjusting the Entry of Financial Institutions into the Interbank Foreign Exchange Market Issued by the State Administration of Foreign Exchange (Hui Fa [2014] No. 48) (《國家外匯管理局關於調整金融機構進入銀行間外匯市場有關管理政策的通知》) (匯發[2014] 48號) and other regulations.

Building on our success in China, we commenced our international operations in 2006 when we acquired the equity business of CITIC Capital Holdings Limited and incorporated it into CITIC Securities (HK) Company Limited, the predecessor of CSI, our wholly-owned Hong Kong-based subsidiary. With CSI's acquisition of the entire equity interest in CLSA, which was completed on 31 July 2013, and the alignment of our international business under the CLSA brand, we have expanded our overseas business network to the United States, the United Kingdom, Australia, Europe, and certain Asian markets in which CLSA operates. We are gradually extending our presence in emerging markets in Africa, South America and the Middle East. We have extended our services, including investment banking, institutional sales and trading, brokerage, asset management and private equity investment, to a diverse clientele in Hong Kong and other jurisdictions. We believe that we are well positioned to capitalise on the growing cross-border business opportunities arising from the globalisation of China's economy and companies, such as equity offerings by China-related companies in Hong Kong and issuances of RMB-denominated products, as well as the demand for brokerage services arising from the growing financial needs of China's high-net-worth individuals and institutional investors, such as QDIIs and sovereign funds.

Our largest shareholder, CITIC Corporation Limited, is owned by CITIC Limited (formerly known as CITIC Pacific Limited). As of 31 December 2019, CITIC Limited was 58.13% owned by CITIC Group Corporation. CITIC Group Corporation is one of the largest state-owned conglomerates, with a more than 35-year track record in China. It operates in a wide range of industry sectors including finance, real estate and infrastructure, construction, energy and resources, manufacturing, IT, trading and consumer. We believe that the CITIC brand name connotes innovation, integrity, dedication and excellence and enhances our competitive edge in winning new clients and mandates.

For the years ended 31 December 2017, 2018 and 2019, our total revenue and other income was RMB57.0 billion, RMB51.1 billion and RMB57.1 billion respectively, and our respective profit attributable to owners of the parent for the corresponding periods was RMB11.4 billion, RMB9.4 billion and RMB12.2 billion) respectively. As of 31 December 2017, 2018 and 2019, we had total assets of RMB625.6 billion, RMB653.1 billion and RMB791.7 billion, respectively, and total equity attributable to owners of the parent of RMB149.8 billion, RMB153.1 billion and RMB161.6 billion, respectively.

COMPETITIVE STRENGTHS

We believe that the following strengths have contributed to our success and differentiated us from our competitors.

Comprehensive support and business collaboration from the CITIC Group

CITIC Group Corporation is our largest shareholder and is directly administered by MOF. We are an important member of the CITIC Group and have access to channel and client resource sharing within the CITIC Group. As of 31 December 2019, major members of the CITIC Group include:

- *China CITIC Bank.* For the year ended 31 December 2019, revenue was RMB187.9 billion, representing a year-on-year increase of 13%. In 2019, the retail banking business continued to grow rapidly with revenue reaching RMB71.3 billion, and the overall contribution was stable at 37.9%. The corporate banking business continued to undergo structural adjustment while its revenue increased 7% to RMB93.8 billion. Revenue contribution from financial markets services increased by 6 percentage points to 17%.

- *CITIC-Prudential Life.* In 2019, CITIC-Prudential recorded operating revenue of RMB24.9 billion, representing a year-on-year increase of 42%, where premium income increased by 39%, higher than the industry average. Net profit increased by 63% to reach RMB1.8 billion, generating a return on equity of 25%, up 4.2 percentage points from 2018. Total assets also grew 39% to reach RMB104.1 billion.

- *CITIC Trust.* Total trust assets under management (AUM) amounted to RMB1,574.2 billion. During this period, the trust business remained stable and yielded RMB7.2 billion in revenue while distributing RMB72.7 billion in trust profit attributable to beneficiaries. The trust assets were allocated to infrastructure, real estate, healthcare and elderly care, culture and technology. Among its trust assets, 46% are actively managed and are mainly invested in securities, equity and financing assets, and 54% are under non-active management.

We have CITIC Group's support in various aspects. For example, during the stock market crash in 2015, CITIC Group increased its shareholding in our Company, thereby demonstrating to the market its commitment to our business growth. In addition, our senior management team was appointed by CITIC Group, and has extensive experience working in the CITIC Group.

As a key member of the CITIC Group, we have access to CITIC Group's resources across the globe. CITIC Group was ranked No. 137 on the *Fortune* 2019 Global 500 and is one of the largest constituent stocks of the Hang Seng Index, with a long-term corporate credit rating of BBB+ and A3 by Standard & Poor's and Moody's respectively. With a variety of domestic and overseas financing channels, CITIC Group engages in finance, resources and energy, manufacturing, construction, real estate and other sectors where client resources are shared between financial and industrial segments. As a key member of the CITIC Group, we often act as the lead underwriter for equity and debt funding for other members of the CITIC Group, and the CITIC Group can provide assistance to us with respect to client coverage, business expansion and communications with regulators. Our synergies with CITIC Group's subsidiaries engaging in the provision of financial services such as CITIC Trust, CITIC Capital Holdings Limited, China CITIC Bank Corporation Limited and CITIC-Prudential Life Insurance Co., Ltd. help us increase our operating efficiency and profitability.

Being a key member of the CITIC Group has also benefited us in our public-private-partnerships with central government ministries and local governments as well as enterprises with which the CITIC Group has maintained long-term relationships. CITIC Group is one of China's largest conglomerates covering financial services, resources and energy, manufacturing, engineering contracting and real estate.

In recent years, the CITIC Group has facilitated the national "Belt and Road" strategy, engaged in local infrastructure construction and industrialization and provided a package of integrated solutions to "Belt and Road" project countries (the "**Belt and Road Initiative**"). With diversified financial service and product offerings, we believe that we have the strongest strategic presence in the "Belt and Road" regions among Chinese securities firms.

The CITIC Group has through internal collaboration facilitated the stable growth of several industrial subsidiaries, such as Yuan Longping High-Tech Agriculture Co., Ltd. and CITIC Heavy Industries Co., Ltd., thereby creating a global marketing and service network of Chinese enterprises. As a key member of the CITIC Group, we have performed the role of supporting the real economy with financial services, including financing arrangement, trading, investment, and risk management.

Due to our leading market position and large business scale, we have been frequently invited by PRC regulators to participate in the formulation of rules and regulations governing the PRC financial industry. Moreover, we have frequently been among the first securities firms to receive regulatory approval to engage in new businesses, including, among others, private equity investment, QDII investment, stock index futures trading, margin financing and securities lending, stock repo trading, and total return swap and refinancing.

Well-balanced business mix with diversified income sources

We have established an integrated global platform to provide comprehensive financial services, and have continued to reduce our reliance on traditional channel-based brokerage services for an increasingly diversified business mix and income sources. In 2019, our key business segments, namely investment banking, brokerage, trading, asset management and others, contributed approximately 8.1%, 22.9%, 38.6%, 13.0% and 17.4%, respectively, of our total revenue and other income. As one of the first investment banks to gain the requisite full-service licences in China, we provide a spectrum of financial products and services, including investment banking, sales and trading, brokerage and asset management, to meet various clients' needs.

We seek to distinguish ourselves from domestic competitors with a highly-integrated platform generating cooperation and synergies across business lines and throughout our global operations. We provide securities products and services to Chinese and international clients in Hong Kong and other key overseas markets through our subsidiaries, CSI and CLSA, which have established track records in those markets. We value teamwork in every aspect of our business and continually adapt our organisational structure and incentive system to promote collaboration among our business lines. Our coverage professionals assist clients in identifying their multiple needs and tap on our resources across business lines to better achieve clients' objectives. We proactively seek cross-selling opportunities to the extent permitted under relevant laws.

Domestically-leading investment banking franchise with global strategic presence and largest area coverage with respect to the Belt and Road Initiative

Based in China and Hong Kong, we have actively expanded our Asia Pacific and global coverage to become a leading international investment bank with an Asia focus. We have expanded our international footprint via both organic growth and acquisitions, accessing overseas markets via our subsidiaries in Hong Kong and the United States. We started to build our global presence in 2006 by acquiring the securities business from CITIC Capital and forming CSI in 2006 and 2007. We acquired CLSA in 2013 as a wholly-owned subsidiary, becoming the first Chinese investment bank to successfully acquire a foreign competitor. Since then, we have successfully consolidated overseas investment banking platforms and completed the integration of front-desk institutional sales and corporate finance business, further integrated mid-desk and back-desk operations to lay a solid foundation for future overseas business development. In 2016, our overseas subsidiaries, CSI and CLSA, completed a phased integration, creating an international platform covering all major stock markets with a focus on institutional business. CLSA is headquartered in Hong Kong with operations in 19 cities in Asia, Australia, Europe and the U.S., engaging in business covering global equities, corporate finance and capital markets and asset management, and with its research services covering more than 1,000 listed companies in areas within the Belt and Road Initiative. It maintains a leading position amongst China-based securities companies in terms of the number of local branches, sales network and liquidation and settlement infrastructure in areas covered by the Belt and Road Initiative. Its unique industry position and strength provide enterprises that participate in Belt and Road Initiative projects high-quality and effective services and advice in areas such as cross-border mergers and acquisition in Asia, establishment of joint ventures and an in-depth understanding of local markets.

Strong balance sheet and solid capital base

We have a strong balance sheet with a balanced financial asset portfolio. At 31 December 2017, 2018, 2019, we had total assets of RMB625.6 billion, RMB653.1 billion and RMB791.7 billion, respectively, and net assets of RMB153.1 billion, RMB156.8 billion and RMB165.4 billion, respectively, both ranking No. 1 from 2016 to 2019 among Chinese securities firms. Our stable growth in total assets ensures strong financial support for our Company's business commitments and the service of our debt obligations. As at 31 December 2019, our net capital amounted to RMB94.9 billion, higher than the RMB75.7 billion average of the top five Chinese securities firms and the industry average of RMB16.2 billion.

We were the first securities firm in China to list on a domestic stock exchange, raising RMB1.8 billion in our A share IPO in 2003, supplemented by a RMB4.65 billion A share private placement in 2006 and a RMB25 billion A share follow-on offering in 2007 which further strengthened our capital base. We were also the first securities firm in China to list on the Hong Kong Stock Exchange, raising US$1.8 billion in our H-share IPO in 2011, supplemented by a HK$27.06 billion H-share private placement in 2015. In addition, we were the first securities firm in China to issue USD bonds, raising US$800 million in 2013 USD bond offering in 2013.

Prudent risk management and effective internal control system

We believe that our prudent risk management and effective internal control system will assist us to maintain our robust development and profitability, and help us counter the ups and downs of the market to move through various phases of the securities industry cycle. With the assistance of our robust risk management and internal control system, we delivered a solid performance and assisted with industry restructuring during the crisis in the securities industry from 2005 to 2007. As the first Chinese investment bank listed on an offshore stock exchange, we are subject to extensive regulation by both Chinese and Hong Kong regulators. The acquisition of CLSA in 2013 expanded our network to overseas markets such as the United States, the United Kingdom, Australia, Europe, and certain Asian markets, which has exposed us to compliance risks in these markets. We have established comprehensive risk management processes to monitor, evaluate and manage the market, liquidity, credit and operational risks that we are exposed to in our business activities. Our integrated risk management processes comprise established risk management policies and procedures, an integrated risk management system and a three-level organisational structure with well-defined authority and responsibility and clear reporting lines. We maintain a net capital level far above the regulatory minimum requirements and trim down risk exposure through effective risk management. In addition, we have effectively responded to market volatility and various phases of the industry cycle and exhibit robust profitability during the ups and downs of the stock market in recent years. For further information on our risk management and internal control processes, see "*Risk Management and Internal Control*".

Our financial reporting is in accordance with both PRC GAAP and International Financial Reporting Standards, and we maintain a comprehensive financial information disclosure system. We believe that comprehensive risk management and internal control processes have contributed significantly to the stability and sustainability of our business through volatile markets and business cycles and will remain fundamental to the growth of our business.

A steady team of visionary and experienced senior management

Our management team's extensive experience in the industry is the key to our outstanding performance and achievement in the highly competitive China securities sector, and is also fundamental to ensuring our future development. Our experienced management team, led by our executive committee, has significant experience in the PRC and global financial industry. Our executive committee, led by Mr. ZHANG Youjun, our chairman, consists of eight members with an average of over 19 years of experience in the financial industry. Our senior management has an average experience of 20 years in our industry. With a global vision, our management has adopted a solid and practical approach to manage our operations with professional management experience, and has successfully leveraged our well-established domestic franchise to expand into the global capital markets. We believe that our management team will remain instrumental to our future growth.

We strive to maintain and enhance our team of highly talented professionals. Focusing on the career development of our employees is one of our key principles. We pride ourselves on having built a people-oriented culture and seek to reinforce our employees' commitment to our culture through recruitment, talent development and an effective review system, with a compensation philosophy that rewards teamwork and excellence. We have been successful in attracting talented professionals, including staff from diverse educational backgrounds and with substantial experience in the global financial services industry. We also encourage our people to perform and advance rapidly without hierarchical limitations. We believe that our unique corporate culture and cooperative work environment have played and continue to play an important role in employee recruitment and retention and the success of our business.

STRATEGIES

Our vision is to become a domestically leading and internationally first-class Chinese investment bank trusted by clients around the world. To achieve this goal, we intend to implement the following strategies in our various business lines:

- ***Investment banking business***. We will continue to take a client-centric and full product coverage approach to provide clients with comprehensive investment banking services, strengthen and further leadership of traditional businesses and actively drive innovative business and develop international business, and transform into a trading- and industry service-oriented investment bank;

- ***Brokerage business***. We will integrate and expand our domestic and overseas brokerage business to serve international customers including financial institutions, enhance service quality and business coverage;

- ***Trading business***. We plan to continue to build and improve our product matrix and broaden our client base, and promote active risk management and prudent fund allocation;

- ***Asset management business***. We plan to continue the development path of "serving institutional clients and increasing retail clients", and take a client-centric approach to drive product and marketing innovation, leverage the going-global trend and maintain our comprehensive competitiveness in the industry;

- ***Custodian business***. We plan to keep a close watch on trends in the asset management industry to fully leverage our Company's service advantage, and enhance tailored service capability in line with international fund service standards and maintain sustained growth of business scale;

- ***Investment***. Guided by national policies, we plan to serve the real economy, implement national strategies, actively explore innovative investment areas and business models, improve investment research capacity and strengthen post-investment management and risk control; and

- ***Research***. We plan to further drive synergies and collaboration with CLSA to enhance overseas research coverage, and enhance support of and cooperation with other business lines.

We believe that there will be better development opportunities for the Chinese securities industry. We plan to seize available opportunities derived from the acceleration in implementation of state-owned enterprise reform, social security reform and the Belt and Road Initiative. Capitalising on economic development in China and the growing capital markets, we will further enlarge our market share, enhance our capabilities in integrated services, strive for the realisation of our vision, and further contribute to realising the great Chinese dream of rejuvenating the Chinese nation.

RECENT DEVELOPMENTS

March 2020 financial information

We have published the Group's first quarterly report for the first quarter ended 31 March 2020 (the "**March 2020 Financial Information**"), financial information in which was prepared according to PRC GAAP. The report is available on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk and the website of the Company at http://www.cs.ecitic.com/newsite/.

The March 2020 Financial Information is not included in and does not form a part of this Offering Circular. The March 2020 Financial Information has not been audited or reviewed by the Group's independent accountants, or any other independent accountants and may be subject to adjustments if audited and reviewed. Consequently, none of the Arrangers, Dealers, the Trustee or the Agents (or any of their respective affiliates, directors, officers, employees, representatives, advisors, agents and each person who controls any of them) makes any representation, warranty or undertaking, express or implied, regarding the accuracy or completeness of such financial information, and potential investors should not place undue reliance on such information. The Group's March 2020 Financial Information should not be taken as an indication of the expected financial condition, results of operations and results of the Group for the six months ending 30 June 2020.

We summarise below some of the changes to our income statement and statement of cash flows for the three months ended 31 March 2020 compared to the three months ended 31 March 2019.

- Net interest income decreased because of an increase in interest expenses.

- Other income increased because of an increase in gains from government subsidies relating to the daily operations of the Company.

- Gains and losses arising from changes in the fair value increased because of changes in the fair value of financial instruments caused by securities market fluctuation.

- Foreign exchange gains and losses decreased because of changes in exchange rate.

- Other operating income increased because of an increase in sales income of bulk commodities trading of subsidiaries.

We summarise below some of the significant changes to our financial position as at 31 March 2020 compared to 31 December 2019.

- Cash and bank balances increased because of an increase in the scale of cash held on behalf of customers.

- Derivative financial assets increased because of changes in the scale and fair value of derivative financial instruments.

- Accounts receivables increased because of an increase in the brokerage accounts due from clients.

- Refundable deposits increased because of an increase in the scale of trading deposits and performance bonds.

- Assets held for sale decreased because our subsidiaries have disposed of assets held for sale.

- Short-term loans increased because of an increase in the scale of short-term loans.

- Short-term financing instrument payables increased because of an increase in the scale of short-term financial instrument payables.

- Amounts due to banks and other financial institutions decreased because of a decrease in the scale of amounts due to banks and other financial institutions.

- Derivative financial liabilities increased because of changes in the scale and fair value of derivative financial instruments.

- Customer brokerage deposits increased because of an increase in deposits from brokerage customers.

- Funds payable to securities issuers increased because of an increase in the unsettled funds payable to securities issuers.

- Tax payable increased because of an increase in the balance of enterprise income tax payables.

- Accounts payable increased because of an increase in the agent and client deposits payable.

- Contractual liabilities increased because of an increase in amounts payable for bulk commodity trading.

- Accrued liabilities increased because of the addition of new consolidated subsidiaries.

- Other liabilities increased because of the addition of new consolidated subsidiaries.

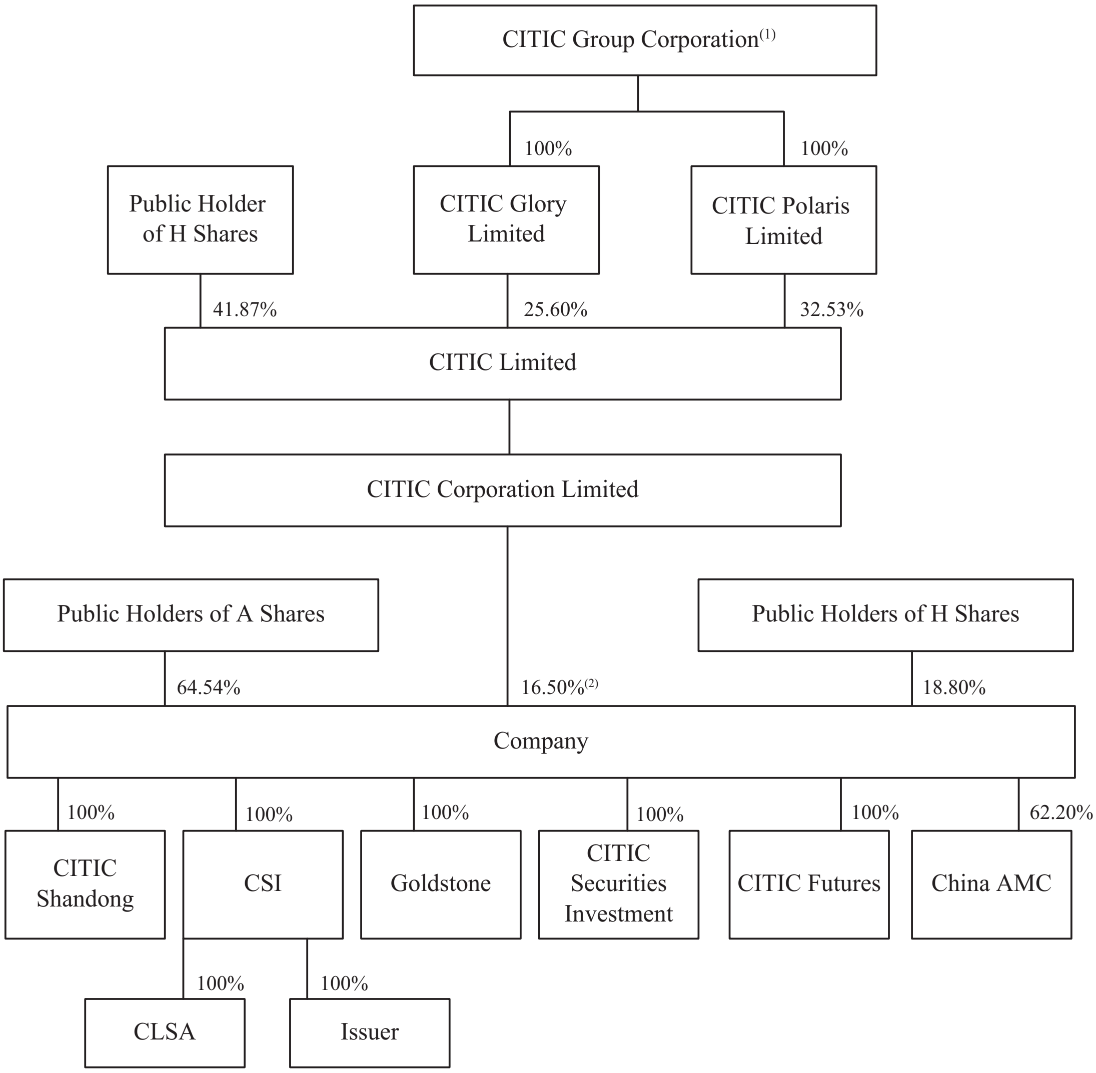
- Other comprehensive income decreased because of changes in the fair value of other equity instrument investments.

Impact of COVID-19 pandemic

Since the outbreak of the COVID-19 pandemic in January 2020, the Company has focused on ensuring the safety and welfare of its employees and on implementing the requirements of the "Notice on Further Strengthening Financial Support for Prevention and Control of New Coronavirus Infectious Pneumonia" (the "**Notice**"), that was jointly issued by the PBOC, MOF, the China Banking and Insurance Regulatory Commission, CSRC and SAFE on 31 January 2020. The Notice directs financial institutions such as ourselves to prioritise the extension of credit to customers who are involved in responding to the COVID-19 pandemic and to customers located in areas severely impacted by the pandemic. To the extent that our business involves such customers and such areas, we have exercised reasonable and prudent flexibility in the provision of new credit and the temporary waiver of certain existing obligations of our customers. As a provider of a broad range of financial services, our business is inherently more able to withstand the economic impact of a public health emergency than companies in many other industries. As of the date of this Offering Circular, the COVID-19 pandemic has not had, and is not expected to have, any material impact on the Company's overall business, financial condition or results of operations.

SIMPLIFIED CORPORATE STRUCTURE

The following chart sets forth the shareholding and group structure of the Company as at 31 December 2019.



(1) CITIC Group Corporation, through its wholly-owned subsidiaries, indirectly owned a 58.13% equity interest in CITIC Limited as of 31 December 2019.

(2) As at 11 March 2020, CITIC Corporation Limited holds 15.47% equity interests in the Company.

As of 31 December 2019, our Company had five principal wholly-owned subsidiaries, namely CITIC Shandong, CSI, GoldStone, CITIC Securities Investment and CITIC Futures as well as three principal non wholly-owned subsidiaries, namely China AMC, CITIC PE Fund and Jiantou Zhongxin. As of 31 December 2019, our Company had 207 securities outlets and 33 branch offices. We also established CITIC Securities Shanghai Pilot Free Trade Zone Branch as a branch in the Shanghai Pilot Free Trade Zone on 12 August 2014, which is licensed for securities business.

CITIC Shandong

CITIC Shandong's principal businesses include life insurance and property insurance (other than aviation accident insurance and alternative products) approved by the China Insurance Regulatory Commission, foreign-currency negotiable securities brokerage, securities brokerage, securities investment advisory, margin trading, distribution of securities investment funds, provision of intermediate referral service to futures companies, and distribution of financial products. It provides securities brokerage services and securities investment advisory services and distributes financial products in Shandong and Henan provinces only. As of 31 December 2019, CITIC Shandong had 70 securities branches in operation.

CSI

CSI is our principal platform for implementing our international strategy. The Company has provided substantial support both operationally and financially to CSI since its inception. Headquartered in Hong Kong, CSI provides comprehensive financial services to institutional and corporate customers, retail and high-net worth individuals, including investment banking, securities brokerage, futures brokerage, asset management, proprietary trading and direct investment. As of 31 December 2019, CSI had four branches in operation in Hong Kong. CSI completed the acquisition of CLSA in July 2013, and CLSA is now CSI's wholly-owned subsidiary.

CLSA

CLSA has become a major international operations platform for us since we acquired it in 2013. In addition to Hong Kong (where it is headquartered) and China, CLSA operates in overseas markets including the United States, the United Kingdom, Australia, the Netherlands, Mauritius, and Asian markets including India, Indonesia, Japan, Korea, Malaysia, Sri Lanka, the Philippines, Singapore, Thailand and Taiwan. CLSA's principal businesses include providing equity brokerage, research, corporate finance, and asset management services to global corporate and institutional clients. As of 31 December 2019, CLSA has operations in 19 cities in Asia, Australia, Europe, the United Kingdom and the United States.

GoldStone

GoldStone is our private investment arm, and its principal businesses include industrial investment, investment advisory and management.

CITIC Securities Investment

CITIC Securities Investment's principal businesses include financial product investment, securities investment, and investment advisory services.

CITIC Futures

CITIC Futures' principal businesses include providing commodity futures brokerage, financial futures brokerage, futures investment advisory, asset management services and fund distribution. CITIC Futures is a member of China Financial Futures Exchange, Shanghai Futures Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange and China Futures Association.

China AMC

China AMC's principal businesses include fund raising, fund distribution, asset management and other businesses permitted by the CSRC.

PRINCIPAL LINES OF BUSINESS

The following table sets forth our business lines and the major products and services under each business line.

Investment Banking	Brokerage	Trading	Asset Management	Investment
• Equity finance • Debt and structured finance • Financial advisory services	• Securities and futures dealing and brokerage • Distribution of financial products	• Equity, fixed income and derivatives trading and market-making • Margin financing and securities lending • Alternative investment	• Collective asset management • Directive asset management • Fund management • Other investment account management	• Private equity investment

The table below presents the revenue and other income from each of our principal lines of business and their respective contributions to our consolidated revenue and other income for the years indicated. We report our financial results in five reporting segments according to the nature of their operations.

	Year ended 31 December					
	2017		2018		2019	
	RMB millions	% of total	RMB millions	% of total	RMB millions	% of total
Investment banking	4,324	7.6	3,012	5.9	4,625	8.1
Brokerage	14,146	24.8	13,217	25.9	13,060	22.9
Trading	17,198	30.2	18,993	37.2	22,049	38.6
Asset management	8,015	14.1	6,536	12.8	7,432	13.0
Others	13,277	23.3	9,303	18.2	9,914	17.4
Total	56,960	100.0	51,061	100.0	57,080	100.0

The table below presents the profit before income taxes from each of our principal lines of business and their respective contributions to our consolidated profit before income taxes for the years indicated.

	Year ended 31 December					
	2017		2018		2019	
	RMB millions	% of total	RMB millions	% of total	RMB millions	% of total
Investment banking	1,816	11.2	1,207	9.7	2,065	12.1
Brokerage	4,720	29.2	3,059	24.5	2,073	12.2
Trading	3,697	22.9	3,793	30.4	6,442	37.9
Asset management	3,549	22.0	2,865	23.0	3,647	21.5
Others	2,392	14.7	1,542	12.4	2,768	16.3
Total	16,174	100.0	12,466	100.0	16,995	100.0

Our Business Model

Our business model classifies our products and services into three categories based on the nature of their revenue and how we use our capital to generate that revenue, namely, fee-based, flow-based and capital-efficient businesses. Our fee-based businesses focus on traditional client-driven activities where we have a leading market position and generate fees and commissions as a stable revenue source. Our flow-based businesses leverage our capital position to facilitate clients' transactions or to provide liquidity to various types of markets. In our capital-efficient businesses, we strive to capture investment opportunities that optimise our risk and return profile.

The table below sets forth our business activities by category.

	Investment Banking	Brokerage	Trading	Asset Management	Investment
Fee-based	• Equity underwriting • Debt underwriting • Financial advisory services	• Securities and futures dealing and brokerage • Distribution of financial products		• Collective asset management • Directive asset management • Fund management	
Flow-based			• Equity, fixed income and derivatives trading and market-making • Margin financing and securities lending		
Capital-efficient . . .			• Multi-strategy trading • Alternative investment		• Private equity investment

Investment Banking

Our investment banking business consists of the following activities:

- Equity finance;
- Debt and structured finance; and
- Financial advisory services.

We were among the market leaders in both the equity and debt finance businesses among investment banks in China, in terms of the number of issues and total underwritten amount of equity and debt securities in 2017, 2018 and 2019 according to Wind Info. We received the following significant awards for our investment banking services in recent years.

Awards	Granting Entity	Year(s)
Best Investment Bank in China	*Asiamoney*	2017
Best Green Financial Broker		2018
Best Broker in China		2019
Best Domestic Equity Financing Broker		2019
Best ABS Underwriter of the Year		2019
Best Investment Bank in China	*Euromoney*	2012, 2017 and 2018
Best Investment Bank in China	*FinanceAsia*	2012, 2014 and 2017
Best Equity House in China		2009 to 2013 and 2017
Best ECM House in China		2018
Best Bond/DCM House in China		2008, 2010, 2012, 2013, 2014 and 2018
Best Chinese Equity Financing House		2017
Best Broker in China		2018
Best Bank of the "Belt & Road"		2018
Best Investment Bank in Hong Kong		2018
Best Broker in Hong Kong amongst Chinese Financial Institutions		2018 and 2019
Best Security Underwriter		2018

Awards	Granting Entity	Year(s)
Best Equity Security Issuer		2018
Best Award for Multinational Merger and Acquisition Trading		2018
Best Award for Corporate Bonds		2018
Best Investment Bank in Asia		2019
Best Equity Capital Market Service Broker		2019
Best Bond Capital Market Service Broker		2019
Best IPO Service Broker		2019
Best M&A Service Broker		2019
Best Green Financial Broker in Asia		2019
Best Underwriter		2019
Best Bond Dealer		2019
Asian Bank of the Year 2017	*IFR Asia*	2017
Best (Local) Investment Bank	*New Fortune*	2008, 2010, 2011, 2012, 2013, 2015, 2016, 2017, 2018 and 2019
Best Investment Bank in Debt Underwriting		2018 and 2019
Best Investment Bank in Merger and Acquisition		2018
Best Investment Bank in Equity Underwriting		2017 and 2019
Best IPO Investment Bank		2018 and 2019
Best Refinancing Investment Bank		2018 and 2019
Best Local Investment Bank for Real Estate and Financial Industries		2016 and 2018
Best Investment Bank in Energy Sector		2018 and 2019
Best Investment Bank in Modern Logistics Sector		2018
Best Investment Bank in Serving Overseas Markets		2018
Best Investment Bank in Aerospace and Military Industry		2018
Best Investment Bank in APAC	*Global Finance*	2016 and 2017
Best Equity Financing House in APAC		2016 and 2017
Best Equity Bank in Asia Pacific		2017
Best Asset Management House	*Securities Times*	2017
All-round Investment Bank in China		2017
Best DCM House in China		2017
Best M&A House in China		2017
2018 Five-star Green Bond Underwriter in China		2018
2018 Jun Ding Award for Full-Service Investment Bank in China		2018
2018 Jun Ding Award for Top 10 Financial Advisors in China		2018
2018 Jun Ding Award for Asset Management Broker in China		2018
2018 Jun Ding Award for Equity Investment Team in China		2018
2019 Jun Ding Award for Full-Service Investment Bank in China		2019
2019 Bond Team in China		2019
2019 Asset Securitization Investment Bank in China,		2019
2019 Financial Advisor in China		2019
Excellent Underwriter of Local Government Bonds	*Shanghai Stock Exchange*	2018 and 2019
2017 Investor Education and Protection Series Campaign Contest: I am the Shareholder Organization (Silver) 2017 Outstanding Member in International Market Exploration		2018
Excellent Participant in Product Innovation		2018

Awards	Granting Entity	Year(s)
Excellent Dealer		2019
Excellent Innovation Institution for Fixed Income Business	*Shenzhen Stock Exchange*	2018 and 2019
Outstanding Underwriter Award in Interest Rate Bonds		2018 and 2019
2017 Top Shanghai Connect Trading Award — Chinese Broker	*Hong Kong Exchanges and Clearing Limited*	2018
China Asset Securitization	*China Asset Securitization Research Institute*	2019
Best Contribution Underwriter Award of Local Municipal Bonds (non-bank institutions)	*China Central Depository & Clearing Futures Daily*	2019
Best Financial Futures Services		2017
Best Futures Company in China		2019
Best Asset Management Leading Award		2019

We provide capital-raising and financial advisory services to a diverse group of corporate and other institutional clients in China and globally. We maintain contact with thousands of companies in China and overseas, many of which are leaders in their respective industries. We also aggressively pursue new customer groups, ranging from domestic SMEs to multinational corporations that are seeking business opportunities in China. We believe that we have achieved a first-mover advantage in providing investment banking services to the SME clients in China.

We commenced operations in Hong Kong in 2006 through our subsidiary CSI. We completed the acquisition of CLSA in July 2013, and we are utilising the synergies generated from that acquisition to ramp up the cross-border cooperation of our domestic and overseas investment banking businesses.

The following table sets forth our market position in equity and debt underwriting in China for the periods indicated.

	Year ended 31 December					
	2017		2018		2019	
	Equity	Debt[(c)]	Equity	Debt[(c)]	Equity	Debt[(c)]
Rank[(a)]	1	1	1	1	1	1
Amount underwritten[(b)] (RMB billions)	221.0	511.6	178.3	765.9	279.8	1,001.5
Market share	12.29%	4.29%	14.75%	5.11%	18.16%	5.29%
Number of issues	87	726	54	1,391	81	1,981

Source: Wind Info and China Bond

Notes:

(a) Measured by amount underwritten by investment banks in China.

(b) Represents amount underwritten of the transaction lead-managed by us. Amount underwritten is shared equally among lead managers for jointly managed transactions.

(c) Includes enterprise bonds, corporate bonds, financial bonds, medium-term notes, commercial paper and various asset-backed securities in China.

Organisation

We aim to continually adapt our organisational structure to meet the changing market dynamics and our clients' needs. Our current structure, which is organised by industry coverage, product execution and regions, is designed to combine our client-focused investment banking services with specialised execution expertise.

Our investment banking services team focuses on developing and maintaining client relationships. Our investment banking services professionals are currently organised into different industry groups, which comprise the Financial Industry Team, the Energy and Chemical Industry Team, the Equipment Manufacturing Industry Team, the Infrastructure and Real Estate Industry Team, the Telecom, Internet, Media and Entertainment Team, the Pharmaceutical Industry Team, the Consumer Industry Team, the Regional IBS Team, the Investment Project Recommendation Team, the Private Equity Industry Team, the International Business Team, the Quality Control Team, the Human Resource Pool, the Equity Capital Market Department, the Debt Capital Market Department, the Merger & Acquisitions Department, the Operations Department and other departments/teams. Each investment banking services member strives to maintain regular contact with corporate clients of a designated industry or sector, inform clients of our latest products and services and identify clients' various needs for financial services, including capital-raising, financial advisory, trading and asset management. Our investment banking services professionals' extensive industry knowledge and experience enable them to analyse our clients' objectives efficiently and rope in appropriate resources from our multiple business lines.

Our equity finance, debt and structured finance and mergers and acquisitions groups are responsible for bringing product expertise to clients and executing clients' transactions. We believe that a key factor in the success of our investment banking business is the close working relationship and efficient communication among the investment bankers, research analysts and sales force as coordinated by our equity capital markets and debt capital markets teams. We believe that our commitment to teamwork allows us to offer a comprehensive portfolio of products and services in an integrated fashion and successfully capture business opportunities ahead of our competitors.

Equity Finance

We sponsor and underwrite IPOs and follow-on offerings of equity and equity-linked products. From 1 January 2017 to 31 December 2019, we lead-managed 222 equity offerings in China, raising an aggregate of approximately RMB673.3 billion of capital. We achieved a market share of approximately 18.16% in 2019, ranking first in China's equity finance market, according to Wind Info. In 2019, our Company was named "Best Underwriter" *by FinanceAsia* and "Best Domestic Equity Financing Broker" by *Asiamoney*.

The following table sets forth a breakdown of transactions in China in which we acted as either sole lead manager or joint lead manager by transaction type of the amount underwritten and the number of cash equity and equity-linked offerings for the periods indicated. The amounts underwritten shown in the table below represent the amount underwritten for transactions lead-managed by us on the A share market, and where we jointly lead managed a transaction, the amount underwritten has been shared equally among other joint lead managers.

	Year ended 31 December					
	2017		2018		2019	
	Amount underwritten (RMB millions)	Number of issues	Amount underwritten (RMB millions)	Number of issues	Amount underwritten (RMB millions)	Number of issues
IPOs	21,098	31	12,776	11	45,133	28
Follow-on offerings	194,057	54	165,524	43	234,670	53
Total	**215,155**	**85**	**178,300**	**54**	**279,803**	**81**

Our investment banking department has through its track record demonstrated that it possesses competitive advantages in industries such as commercial and fashion consumption, advanced manufacturing, IT, medical treatment and pharmaceuticals, food and beverages, as well as energy conservation and environmental protection. Leveraging our industry-specific expertise and strong execution capabilities, we have been particularly successful in winning mandates for large and complex restructurings and equity offerings from domestic companies in various industries, especially financial institutions, energy, transportation and real estate industries. In addition, we are well-recognised for our ability to innovate in the equity underwriting business. We are routinely involved in high-profile equity transactions that are the first of their kind. We believe that our ability to identify market and regulatory trends, structure and execute transactions in an innovative way and provide new equity capital market products has significantly contributed to our leading market position in the equity underwriting business. Moreover, we have a particularly strong track record in underwriting A+H and RMB-denominated equity offerings, and have lead-managed a number of A+H and RMB-denominated equity offerings in recent years.

With respect to international business, CSI in 2017 completed the integration with its subsidiaries and adopted CLSA as the only offshore business brand of the Group. In 2019, CLSA completed 17 IPOs in Hong Kong, four in the U.S. and one in the Philippines. In Hong Kong, it ranked second among securities firms in terms of the total volume of IPOs sponsored.

Debt and Structured Finance

Our debt and structured finance activities include the structuring and underwriting of fixed income and structured finance products.

As one of the first investment banks to obtain full-service licences for underwriting debt offerings in China, we underwrite a full range of fixed income products, including corporate bonds, enterprise bonds, financial bonds, medium-term notes, commercial paper and asset-backed securities. In China, these products are generally issued by different types of entities and regulated by different regulatory authorities, as indicated in the following table:

Debt offering	Issuer	Regulator
Corporate bonds	Primarily listed companies	CSRC
Enterprise bonds	Primarily unlisted companies	National Development and Reform Commission of the PRC
Financial bonds	Financial institutions (including commercial banks, insurance companies and others)	China Banking Regulatory Commission and PBOC
Medium-term notes and commercial paper	Non-financial enterprises	National Association of Financial Market Institutional Investors
Asset-backed securities	Primarily financial institutions	China Banking Regulatory Commission and PBOC

We believe that our deep understanding of the PRC regulatory environment and our substantial experience in bond offerings have contributed to the success of our debt underwriting business. We believe that we have differentiated ourselves from our competitors, such as commercial banks, with our strong pricing, execution and market assessment abilities and broad investor coverage, and from other investment banks with our strong capital position and full-service licences. According to China Bond, we ranked first among all investment banks in China in terms of both the number of issues and the underwritten amount in 2015, 2017 and 2018, and ranked second in terms of underwritten amount in 2016, 2019 and the first quarter of 2020. In recent years, we were named “Best Award for Corporate Bonds” in 2018 and “Best Bond Dealer” in 2019 by *FinanceAsia*, and “Best Investment Bank in Debt Underwriting” in 2018 and 2019 by *New Fortune* and “Bond Underwriting Pioneer Investment Bank” by *International Financial News* in 2017.

The following table sets forth a breakdown of debt offerings in China in which we acted as either the sole lead manager or a joint lead manager by product type, the amount underwritten and the number of issues for the periods indicated. For transactions that we lead-managed, the amount underwritten shown in the table below represents the amount underwritten, and for transactions that we jointly lead-managed, the amount underwritten has been shared equally among other joint lead managers.

	Year ended 31 December					
	2017		2018		2019	
	Amount underwritten (RMB millions)	Number of issues	Amount underwritten (RMB millions)	Number of issues	Amount underwritten (RMB millions)	Number of issues
Enterprise bonds	30,247	21	38,034	28	28,936	33
Corporate bonds	33,405	49	141,076	189	200,805	301
Financial bonds	200,014	87	218,760	83	271,998	141
Medium-term notes	44,341	61	30,519	39	44,907	54
Short-term commercial papers	9,850	12	13,632	23	12,732	21
Private placement notes	—	—	8,410	21	14,287	27
Asset-backed securities	151,579	280	242,339	431	246,624	578
Convertible bonds/ exchangeable bonds	34,413	10	7,423	5	97,853	26
Local government bonds	7,778	206	64,223	576	83,480	800
Total	**511,628**	**726**	**764,416**	**1,395**	**1,001,530**	**1,981**

Underwriting commission rates vary with the types of fixed income products underwritten. We focus on underwriting fixed income products that could lead to higher returns or greater brand recognition, such as corporate bonds, medium-term notes and commercial paper.

We believe that we have been a market pioneer in offering innovative and deregulated fixed income products and services in China. For example, we are one of the first two investment banks licensed to lead-underwrite medium-term notes and commercial paper in China. When the medium-term notes market was first opened in China in 2008, we lead-managed three of the first eight medium-term note offerings, with an aggregate amount underwritten of RMB13.4 billion. In 2012, our Company became one of the first securities companies in China to obtain the permit to underwrite private placements of SME bonds.

We have developed a diversified portfolio of structured finance products, including loan securitisation, and corporate asset securitisations. We have built a solid track record and achieved top rankings in China's developing structured finance market. For example, in 2008, we underwrote the first auto loan securitisation transaction in China for GMAC-SAIC Automotive Finance Co. Ltd. and the then largest domestic corporate asset securitisation transaction by transaction value for Industrial and Commercial Bank of China, according to Wind Info. We believe that we have differentiated ourselves in China's structured finance market by offering innovative financial products and services, drawing on our early-mover advantages in product design and development.

We are also proactively exploring overseas bond markets through our platform in Hong Kong. We are one of the first investment banks in China to participate in Hong Kong's Dim Sum bond market. We have assisted a number of China-based companies in raising capital through offerings of RMB-denominated bonds in Hong Kong since that market opened. In 2007, when Hong Kong's first Dim Sum bond was introduced, we lead-managed the RMB-denominated bond offering for Export-Import Bank of China. In 2009, we lead-managed the first floating rate RMB-denominated bond offering in Hong Kong for HSBC Bank (China) Company Limited. In 2011, we lead-managed the RMB-denominated bond offerings for the subsidiaries of two large state-owned enterprises, Sinochem Hong Kong (Group) Company Limited and COFCO (Hong Kong) Limited, with a combined amount underwritten of RMB6.5 billion. In 2012, we underwrote ten RMB-denominated bond offerings, including the RMB2.0 billion offshore RMB bond issued by Bitronic Limited, a wholly-owned subsidiary of China Cinda Asset Management Co., Ltd. ("**China Cinda AMC**"), which was the first Dim Sum bond offering by a state-owned asset management company, and Shandong Hi-Speed Group's RMB1.0 billion offshore RMB bond, the first offshore RMB secured bond. We have also led numerous milestone USD bond offerings, including Bank of China's USD 6.5 billion offshore preference shares offering in 2014, which was the first offshore additional tier 1 capital offering by a Chinese bank, China Cinda AMC's USD3.2 billion offshore preference shares offering in 2016, which was the first offshore preference shares offering by a Chinese non-banking financial institution, CITIC Limited's USD 1.25 billion dual-tranche bond offerings in 2015 and 2016, and the issuance of sovereign bonds in principal amount of USD1.5 billion by The Democratic Socialist Republic of Sri Lanka in 2017. More recently, we led the USD2.5 billion and USD1 billion multi-tranche bond issuance offering by China Cinda AMC in 2018 and 2019 and the biggest multi-tranche USD bond issuance offered by Shandong Hi-Speed Group Co., Ltd. with a total issue size of USD1.5 billion in 2019.

In respect of our international business, the consolidation of the investment banking businesses of CSI and CLSA Limited in 2016 under the single brand of "CLSA" has formed China's unique, off-shore financial platform with unmatched capabilities and coverage across 19 cities in the Asia Pacific, Europe and the Americas. CLSA is pivotal to our international expansion serving Chinese and global clients across diverse geographies, as well as the "Belt and Road" Initiative projects. Domestic institutional, retail and corporate clients benefit from CLSA's world class service and direct access to international capital markets. The integrated business offers corporate finance, capital markets, fixed income, asset management, private equity, equity research and institutional and retail brokerage. The integration of CSI and CLSA has provided an opportunity for growth by bringing together complementary products, services, skills and talents. In 2019, CLSA maintained or advanced its leading market positions in all its principal business areas including brokerage, investment banking, fixed income, currencies and commodities and asset management.

We have also enhanced environmental awareness to support green development. For example, as the principal lead underwriter, we facilitated the issuance of green bonds by State Grid Corporation of China in 2016. Such bonds were the first corporate green bonds issued by central state-owned enterprises, and set the standard for issuance of corporate green bonds by a central state-owned enterprise, which was in compliance with the national strategy of green development. As the principal lead underwriter, in 2016, we facilitated China Three Gorges Corporation in the issuance of corporate green bonds with the then largest issue size in the PRC. The proceeds from such issuance of green bonds have been used in three large hydroelectric power plant projects in Xiluodu, Xiangjiaba and Wudongde with the function of flood control, irrigation and power generation, which are of great importance to the economy, the society and environmental protection and have benefited the national economy and people's livelihood. According to the "Securities Ranking (證券公司業務資料統計排名情況)" issued by the Securities Association of China, in 2017, 2018 and 2019, the total issuance size of green bonds (including asset securitization products) through our Company reached an amount of RMB2.75 billion, RMB6.05 billion and RMB9.00 billion respectively, and we ranked the second among green bond lead underwriters and green asset securitization product managers in all three years.

Financial Advisory

We provide financial advisory services for various types of transactions, including mergers and acquisitions, joint ventures, corporate restructurings, leveraged buyouts and strategic alliances. Our financial advisory clients include public and private companies, government entities and private equity investors in China and overseas. For example, in 2012, we advised on the merger by absorption of Ping An Bank Co., Ltd. by Shenzhen Development Bank Co., Ltd., which was the first all-cash merger by absorption of a non-listed company by a listed company. We also advised on the backdoor listing of Guangzhou Development Group Incorporated through its A-share listed subsidiary, Guangzhou Development Industry (Holdings) in 2012, which was the first backdoor listing by a state-owned conglomerate through concurrent equity and debt finance in the China. In 2014, we advised on the purchase of CITIC Corporation Limited by CITIC Group Corporation's H-share listed subsidiary, CITIC Pacific Limited (which has now been renamed CITIC Limited). In 2019, we helped COFCO Property complete the acquisition of the controlling interest in Joy City Property with a consideration of RMB14.756 billion, giving COFCO Group access to both A-share and H-share financing platform for its real estate sector. We have also assisted BY-HEALTH in completing the cross-border acquisition of the entire equity interest in Life-Space Group, an Australian probiotics brand, which further expanded the overseas strategic layout of BY-HEALTH.

In 2019, we advised on significant asset restructurings in the A share market with an aggregated transaction volume of RMB163.3 billion, ranking first in the industry. In 2018, this figure was RMB72.3 billion, ranking second in the industry.

Based on our leading position on the domestic Chinese market, we continue to deepen our all-rounded cooperation with CLSA Limited and other overseas strategic partners, further developing and expanding our overseas business networks to cover key regions such as Europe, North America, Asia and Australia, and building up a worldwide network for merger and acquisition business.

We believe that our financial advisory services are important to our overall business, particularly with respect to generating cross-selling opportunities for other businesses, such as debt and equity finance. We intend to capitalise on the increasing number of business opportunities arising from the restructuring and globalisation of Chinese companies. We are seeking to strengthen our capabilities to execute cross-border mergers and acquisitions by exploring arrangements that will assist domestic clients in pursuing global expansion and overseas clients in entering into the Chinese market.

New Third Board Business

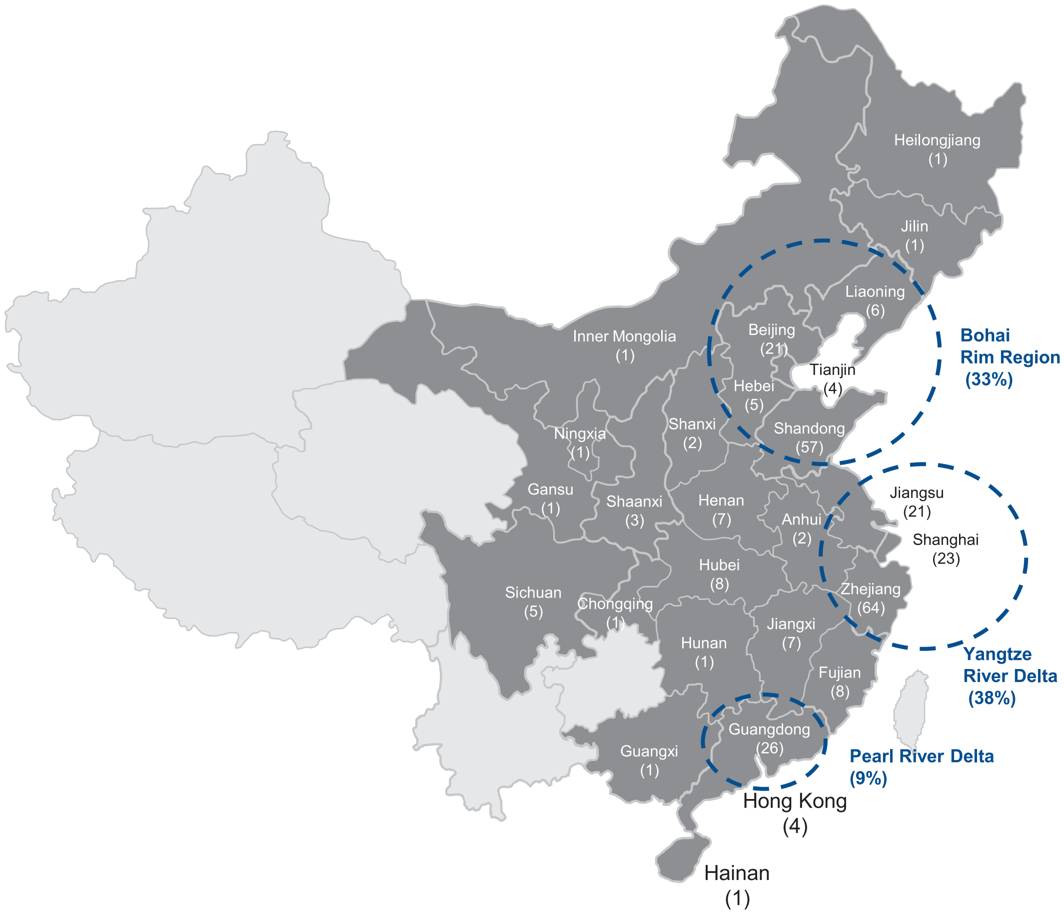
The National Equities Exchange and Quotations (the "**NEEQ**" or the "**New Third Board**") is positioned to provide services for innovative, start-up and growth enterprises of small and medium size, which is an important component of the multi-level capital markets in the PRC. As at 31 December 2019, we conducted continuous supervision over a total of 20 companies listed on the NEEQ. In 2019, we provided market-making services to 93 companies listed on NEEQ.

Brokerage

We provide brokerage services to retail and institutional customers for their trading of equities, bonds, interests in mutual funds, warrants, futures and other tradable securities. We generate commissions from executing and clearing the buy and sell orders of our clients. We also generate commission income from selling interests in third-party mutual funds. We engage in the retail brokerage business through the Company, CITIC Shandong, CITIC Futures and CSI. Our subsidiary, CLSA, focuses on providing brokerage services to institutional clients.

We are committed to developing various new products and services for our brokerage business to improve the commission rates, and have established a product committee to supervise the design, sales and related systems of our new products. Please see "*Risk Management and Internal Control — Governance Structure — Executive Committee (Operation Management) — Product Committee*" for additional information. As of 31 December 2019, we managed approximately 8.7 million retail brokerage accounts and approximately 37,000 institutional brokerage clients. We were consistently named a "Best Local Brokerage in China" each year from 2007 to 2013 and "Best Broker in China" in 2019 by *Asiamoney*, "2018 Jun Ding Award for Asset Management Broker in China" by *Securities Times* in 2018, "Best Broker in Chinese Domestic Bond Market" by *Caixin Media*, and the "Best Broker in China" in 2008, 2009, 2011, 2012 and 2018, "Best Equity Capital Market Service Broker", "Best Bond Capital Market Service Broker", "Best IPO Service Broker" and "Best Green Financial Broker in Asia" in 2019 by *FinanceAsia*.

As of 31 December 2019, we had 273 securities branches and four futures branches covering 21 provinces and municipalities in China and four branches in Hong Kong. The following map sets forth the provinces and municipalities in China covered by our branch network as of 31 December 2019.



Beginning in June 2014, we have proactively transformed our brokerage branches in China into comprehensive sales outlets and service centres for all businesses of the Company, to better meet clients' demands. We complement our nationwide network of branches with alternative trading platforms, such as the Internet, touch-tone telephone and mobile phone trading channels, to make trading convenient for our clients and to minimise the costs of processing routine client transactions.

In March 2013, China Securities Depositary & Clearing Co., Ltd. ("**CSDCC**") issued rules to allow securities account-related businesses to be conducted by witness, on the Internet or through other off-site methods acceptable to CSDCC. CSDCC is responsible for the registration and clearing of securities traded on both the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Trades may be made remotely through telephone, the Internet or other alternative platforms, which have increasingly become the trading method of choice for Chinese retail investors. As IT and the regulatory supervision of the opening of accounts develop, we believe that the conditions are ready for securities companies in China to carry out off-site account openings, and we intend to utilise the opportunity to better serve our brokerage clients.

In light of the declining commission rates caused by intense competition in China's retail brokerage industry, we aim to provide our brokerage customers with value-added products and services, such as fast trading channel, investment advisory, and margin financing and securities lending services. In January 2011, we became eligible under PRC regulations to provide investment advisory services to our brokerage clients, which we believe presents an opportunity to increase our commission rates and expand our brokerage revenue.

In addition, we are focusing more on high-net-worth individuals by expanding our retail brokerage business to provide private wealth management services, which we believe have strong growth potential and could generate cross-selling opportunities for our other businesses. We have also developed a diversified portfolio of products and established a marketing team to offer integrated financial services to high-net-worth clients. In 2019, we maintained our overall leadership in the domestic institutional brokerage business, with 203 QFII/RQFII clients, ranking top in the market.

In addition to our strong retail brokerage business in China, we provide brokerage services through our platforms in Hong Kong and overseas regions such as the United States, the United Kingdom, Australia, the Netherlands, Mauritius, and certain Asian markets to high-net-worth individuals and retail and institutional clients, covering stocks listed on the Hong Kong Stock Exchange and other foreign exchanges. Our international brokerage arm, CLSA, was awarded "No. 2 Overall Combined Regional Research and Sales (Asia, ex Australia, China A & B Shares, Japan)", "No. 2 Overall Combined Regional Sales (Asia, ex Australia & Japan)" and "No. 1 Best Regional Salesperson" by *Asiamoney* in 2019 and "Best Broker in Hong Kong amongst Chinese Financial Institutions" by *FinanceAsia* in 2018 and 2019. We have realised synergies from the acquisition of CLSA, including by sending sales staff to offshore offices of CLSA to promote China-related securities products, and through cooperation between institutional brokerage teams of our existing business and CLSA. With trading rights on the Hong Kong Exchanges and Clearing Limited, our brokerage business in Hong Kong specialises in securities dealing and brokerage, supplemented by other related services including online trading, custodian and nominee services and margin financing. We also provide futures brokerage services for a full range of futures-related products, including Hang Seng Index Futures and Hang Seng China Enterprises Index Futures, through CITIC Securities Futures (HK) Limited, a wholly-owned subsidiary of CSI.

In addition to our retail brokerage business, we also execute trades in the secondary market for a broad range of institutional clients in China and overseas, such as insurance companies, commercial banks and fund management companies. In addition, we assist our international clients, which are approved as QFIIs by CSRC, to invest in China's capital markets. In practice, each QFII usually chooses one investment bank to execute their trading orders on each stock exchange. In addition, through CSI in Hong Kong, we have provided our domestic institutional clients with access to the international capital markets, and also developed a broad range of international institutional clients in the Hong Kong and overseas markets. Many of our international institutional clients are renowned investors in the global investment community, including sovereign wealth funds, long-short funds, hedge funds and Hong Kong local ultra-high-net-worth individuals. We believe that our broad client coverage and strong equity sales capabilities allow us to compete effectively in the Hong Kong market and overseas markets that we operate in.

Trading

Our sales, trading and brokerage business consists of the following activities:

- Equity sales and trading;
- Fixed income sales and trading;
- Margin financing and securities lending; and
- Alternative investments.

In trading business, we conduct sales, trading, market-making and financing activities in connection with a wide variety of products, including equities, and equity-linked products, bonds, swaps, futures and other derivatives.

The following table sets forth the major trading products provided in our sales, trading and brokerage business and their related business lines:

Products	Business Lines
• Equity and equity-linked products on stock exchanges	• Equity sales and trading • Margin financing and securities lending
• Fixed income products on stock exchanges • Fixed income products on interbank bond market	• Fixed income sales and trading

Equity Sales and Trading

Through equity sales and trading activities, we assist our investment banking team in selling the equity securities that we underwrite in the primary market. In addition, we derive investment income from the trading of equity, equity-linked products and equity derivatives in which we act as principal or market-maker.

With the gradual adoption of the book-building mechanism for securities pricing in China since 2004, institutional investors have been playing a crucial role in successful equity offerings. In addition, we believe that our issuer clients increasingly appreciate the distribution and pricing capabilities of an investment bank when selecting underwriters for their offerings. As a result, equity sales are becoming an increasingly important function for investment banks. We believe that we are among the first investment banks to establish an equity sales team in China with a focus on institutional investors. We are well-recognised in China for our equity sales capability, drawing on our early-mover advantage in setting up an equity sales team, strong underwriting and research capabilities and expansive distribution network.

For the equity flow-based business, we provide corporate clients with equity management services such as stock repo, stock-pledged repo and market cap management, and provide institutional clients with OTC derivatives products such as structured products, total return swaps, OTC options quotation and equity-linked beneficiary certificates. We have developed our market-making business through expanding the scale of our market-making business in exchange-traded funds ("**ETF**") and the SSE 50 ETF options market to form a business model with an extensive client base, a wide range of products, and relatively stable yields in general. We became one of the first securities firms to be licensed for the SSE 50 ETF options market-making business.

In 2011, we became one of the first companies to obtain the qualification for stock repo trading. In 2012, we established CITIC Securities Investment, a wholly-owned subsidiary as an important platform to develop our flow-based business, including providing equity management services such as equity-backed financing and market cap management, and offering fixed income products, such as investment and market-making products to customers. In 2013, we established a leading market position in China in stock repo business in terms of stock repo balance. In June 2013, after the SSE and the SZSE launched stock-pledged repo services, we were one of the first securities firms in China to participate in this business. In 2015, we obtained the qualification of the stock options market making business, and were approved to commence SSE 50 ETF options market making business; the Company was admitted as a stock options trading participant on the SSE and obtained the trading permission to commence the stock options brokerage and proprietary trading business. As of 31 December 2019, we ranked fifth in the China market in the SSE 50 ETF market-making business.

We have built a strong reputation for developing innovative equity derivative instruments, having pioneered most of the derivative products offered in China's capital markets. We were one of the first Chinese securities firms to trade 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 portfolios. As one of the first participants on the stock index futures market, we have been granted a large quota by China Financial Futures Exchange to trade in futures based on the CSI 300 index. In 2013, we obtained the qualification to engage in proprietary trading of treasury bond futures in China. In 2019, we obtained the business qualification of principal market-maker of listed funds and the approval to conduct the market making business of treasury bond futures and stock index options.

We have adopted multiple market-neutral trading strategies with respect to our proprietary equity trading activities in China. These strategies, including arbitrage trading strategies using stock index futures, multi-factor quantitative strategies and high frequency trading strategies, have allowed us to achieve stable returns with limited exposure to market risks. We separate our own equity trading activities from those we conduct on behalf of our clients in compliance with applicable rules and regulations. We have implemented strict risk management guidelines for our proprietary trading business to mitigate the risks we are exposed to. Please see "*Risk Management and Internal Control*" for a detailed description of our risk management system.

Fixed Income Sales and Trading

Our fixed income sales and trading activities include sales, trading, market-making and structuring of a variety of fixed income and derivatives products. In 2016, we were accepted as a non-bank member on the Shanghai Bill Exchange Co., Ltd., and obtained the trading permission to commence the rediscount, pledged repurchase, outright repurchase and other transactions of bills. In 2019, we obtained the qualification to engage in exchange settlement and sale business and ranked first in the industry in terms of interest rate product sales. We also became a member of the interbank foreign exchange market and the interbank foreign current market where we can engage in spot, forward, swap, currency swap, foreign currency interest rate swap and options trading.

We adopt a three-part approach to delivering high quality services to our clients. First, we market-make a broad range of fixed income products and derivatives, which we believe is crucial to maintaining client relationships and supporting our underwriting business with after-market liquidity. Second, we provide diverse market-driven research and strategic analysis services to selective clients. Third, we create innovative solutions to meet clients' needs by drawing upon our structuring and trading expertise as well as our capital resources.

Selling fixed income products has long been an important part of our fixed income franchise. We support our investment banking team by selling the products they underwrite. Please see "*— Investment Banking — Debt and Structured Finance*" for details. We also sell fixed income products independently issued by governmental entities or underwritten by other investment banks as agent.

We act as a member of underwriting syndicates for issuances of fixed income products by various types of Chinese governmental issuers in the open market, including MOF, PBOC and certain PRC policy banks. For example, we are a tier one member designated by MOF in the underwriting syndicate for treasuries issuances and a primary dealer designated by PBOC in the open market for central bank bills. We participate as a member of the underwriting syndicate in the distribution of financial bonds issued by Agricultural Development Bank of China, the Export-Import Bank of China and China Development Bank.

We trade and market-make a broad range of fixed income and derivatives products, including cash bonds, bonds, interest rate swaps, trust products and asset-backed securities products. In China, a large majority of fixed income products are traded on the interbank bond market with the remainder traded on the exchange markets and the OTC market. We are an active participant on China's interbank bond market, engaging in the trading of cash bonds, bonds and bond forwards. We ranked first among all investment banks as measured by the trading turnover on the China interbank bond market as shown on China Bond in 2017, 2018 and 2019. We also trade fixed income products on the exchange markets, such as treasuries, enterprise bonds and convertible bonds.

We enter into fixed income derivatives to hedge the interest rate exposure that arises from our trading and market-making activities. We were one of the first three investment banks in China licensed to offer interest rate swaps.

Within our overseas fixed-income business, we recently expanded our market-making activities to cover RMB-denominated bonds and foreign currency-denominated bonds issued by China-related enterprises in Hong Kong and other Asian markets, building on our leading position in the fixed income sales and trading business in China. In this way, we assist our domestic clients to access overseas capital, while allowing foreign clients to invest in Chinese companies. We are expanding to offer a full range of fixed income products to meet the needs of our clients. In addition, we fully leveraged the UK branches and networks of CLSA Limited and expanded our sales platforms into the UK markets covering European clients for the first time in 2015 as well as the South East Asian market via the Singapore office in 2017. Our RMB bond market-making business ranked among the top in the Hong Kong market in 2017, 2018 and 2019. We ranked top among Chinese securities companies in US dollar bond trading in 2017, 2018 and 2019.

Margin Financing and Securities Lending

We began offering margin financing and securities lending services in March 2010 as one of the first six investment banks in China licensed to do so. Our margin financing services include providing margin loans to our clients to finance their purchases of publicly traded stocks, which are collateralised by securities or cash. We also offer securities lending services that involve lending the securities held in our own accounts to our clients. Pursuant to CSRC requirements, the minimum interest rates to be charged for margin financing and securities lending services are the benchmark lending rates applicable to financial institutions for the same periods set by PBOC. In August 2012, we were among the first eleven securities companies authorised to conduct a centralised securities lending and borrowing business with China Securities Finance Corporation Limited, under which we may act as an intermediary and lend securities held by other financial institutions, including banks, fund management companies and insurance companies.

Our margin financing and securities lending business has benefited from our strong capital resources and broad brokerage network.

The table below sets forth our margin financing and securities lending balance at the dates indicated below.

	Year ended 31 December		
	2017	**2018**	**2019**
Margin financing and securities lending accounts balance (RMB millions)	73,983	57,198	70,674

Source: Company

The development of our prime services business is an example of how we actively participate in and capitalise on the financial reforms and pilot-innovations in China's capital markets. We assisted CSRC in its development of the regulatory regime governing margin financing and securities lending, which we believe enabled us to benefit from the evolving regulatory regime and market practices for this market segment in China. We have steadily increased our prime services clients since we began offering margin financing and securities lending services in 2010 and believe that such business presents attractive growth opportunities for us.

Alternative Investment

In the first half of 2012, we established an alternative investment business line. On 1 April 2012, we established a wholly-owned subsidiary, CITIC Securities Investment, to develop low-risk businesses including flow-based businesses and innovative buy-side businesses such as alternative investment. The alternative investment department aims to develop more trading strategies into products to form a more stable base for sustainable profits, and commence providing investment management and advisory services to third-party customers so as to gradually shift from proprietary trading to asset management.

In 2014, we received approvals to engage in agent services business for gold and other precious metal spot contracts and proprietary business for spot gold contracts, and we commenced the precious metal trading business on the Shanghai Gold Exchange. During this period, we also commenced freight index trading business on the Shanghai Clearing House and carbon emissions trading business in Beijing and other areas, and explored CCER (China Certified Emission Reduction) business opportunities. In order to strengthen our portfolios and to better serve the real economy, and as appraised and approved by the appraisal team of the Securities Association of China, we amended the implementation plan for our return swap business by including spot commodity contracts as a linked target. This has enabled us to provide customers the means to manage commodity price fluctuations, thereby strengthening our financial services in the commodity market. In 2014, we successfully launched the first domestic private REIT product approved for trading on Shenzhen Stock Exchange's commodity trading platform in China, which we run through our subsidiary, CITIC Qihang. For details, see "— *Investment — Private Equity — GoldStone*."

Asset Management

We manage mutual funds, investment vehicles and special accounts for our clients seeking exposure to the capital markets as well as private and alternative investment opportunities in China and globally. We conduct our asset management business mainly through the Company and its subsidiaries, China AMC and CSI. Since the promulgation of New Regulations on Asset Management in the PRC in 2018, various regulatory rules and ancillary rules have been gradually implemented, creating a more predictable market environment for asset management.

The Company

Our Company provides fund management and advisory services to preserve and grow clients' financial assets. Our Company manages collective asset management plans, a type of mutual fund managed by investment banks in China for retail customers. We also manage targeted asset management and specified asset management plans, two types of special vehicles managed by investment banks in China for annuity plans, the NSSF, other institutional investors and high-net-worth individuals. We aim to expand our institutional client base with the targeted asset management plans, and to explore innovative investment channels such as structured products and trusts with the specified asset management plans. We also plan to leverage our existing securities branches to promote sales for collective asset management plans, targeted asset management plans and specified asset management plans.

As of 31 December 2019, the total assets under management by our Company (not including our subsidiaries) amounted to RMB1,394.8 billion, comprising collective asset management plans of RMB129.2 billion, separately managed accounts (including corporate annuity and NSSF) of RMB1,265.2 billion, and specified asset management plans of RMB0.37 billion. As of 31 December 2019, our total assets under management and market share ranked first among all securities firms in China. The following table sets forth the total assets under management, market share and ranking among investment banks with respect to the accounts managed by the asset management team of our Company (not including our subsidiaries) for the years indicated.

	Year ended 31 December		
	2017	**2018**	**2019**
Rank[(a)]	1	1	1
Assets under management (RMB billions)	1,667.3	1,343.1	1,394.8

Source: Securities Association of China and the Asset Management Association of China

Note:

(a) Measured by assets under management.

The following table sets forth a breakdown of our assets under management and management fees by the type of accounts managed by the asset management team of our Company (not including our subsidiaries) for the periods indicated.

	Asset under management			Management fees		
	As of 31 December			Year ended 31 December		
	2017	2018	2019	2017	2018	2019
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Collective asset management plans	161,3332	133,879	129,174	547.57	511.51	497.34
Separately managed accounts	1,504,140	1,207,931	1,265,213	1,376,19	1,205.58	1,093.72
Specified asset management plans	1,862	1,311	371	23.71	18.54	27.58
Total	1,667,335	1,343,120	1,394,758	1,947.47	1,735.63	1,618.64

In addition, we were licensed in October 2007 to conduct overseas securities investments as a QDII. In 2014, we successfully set up our first QDII collective asset management plan. We believe that we are well positioned to capture opportunities as the QDII asset management market develops. In 2010, we were appointed as a domestic investment manager of the NSSF. We also provide customised investment advisory services to high-net-worth individuals and institutional clients. These services include identification of investment objectives, portfolio design, ongoing asset allocation and risk management. In 2014, we became one of the first securities companies approved by the Securities Association of China to engage in internet securities pilot business. In 2018, we obtained the qualifications for investment in overseas financial products or instruments that other QDIIs are allowed to invest in using their proprietary capital.

China AMC

We also conduct our asset management business through China AMC, which we acquired in September 2007. We divested controlling interest in China AMC in 2011 due to regulatory restrictions and reacquired control of it on 24 September 2013 after the relevant regulatory restrictions were lifted.

As of 31 December 2017, 2018 and 2019, China AMC had total assets under management of RMB869.6 billion, RMB879.7 billion and RMB1,032.1 billion, respectively. As of the same date, China AMC's assets under management for its institutional business (excluding investment consultancy business) reached RMB493.5 billion, maintaining a leading position in the industry.

Investment

In our investment business, we primarily engage in private equity investments. We invest in and commit capital to investment vehicles which we believe present business facilitation or capital appreciation opportunities.

Private Equity

We engage in private equity activities as a principal in China primarily through our wholly-owned subsidiary, GoldStone. We also make private equity investments through funds managed by CLSA in overseas markets with a focus on the Asia-Pacific market.

GoldStone

We began to make direct private equity investments as a principal through GoldStone in 2007 as one of the first two investment banks in China approved to do so. GoldStone has established a hybrid investment strategy of conducting both direct investment and fund investment. GoldStone focuses on providing financing to companies with proven business models and attractive valuations. GoldStone selectively targets a diversified portfolio of companies to invest in, typically by taking a minority equity position with the goal of exiting from the investment after the company's public offering. As at 31 December 2019, there were 15 private equity investment funds under GoldStone's management.

In 2017, Goldstone formed management companies and established China Travel Industry Fund, Anhui Transportation Goldstone M&A Fund and various special industrial funds with China National Travel Service Group Corporation and Anhui Transportation Holding Group Company Limited, respectively.

In 2018, GoldStone Investment completed an external investment of more than RMB2 billion, involving such fields as big consumption, artificial intelligence, advanced manufacturing and new energy. In the first half of 2019, GoldStone Investment completed an external investment of approximately RMB1.4 billion, involving such fields as medical appliances, advanced manufacturing, new energy and new materials.

In 2019, GoldStone Investment completed an external investment of more than RMB4 billion, involving such fields as advanced manufacturing, medical and healthcare, big data and clean energy.

CITIC Suning Yunchuang Private Investment Fund, of which GoldStone Fund Management acts as the fund manager, was established in November 2014 with a total size of RMB4,342 million for investments in the relevant interests of the 11 outlet properties formerly held by Suning Commerce. Following CITIC Qihang Securities Investment Private Fund, this fund is the first domestic exchange-traded REITs fund investing in commercial property, helping the domestic commercial enterprises to initiate their revitalisation of stock assets and more effectively carry out their innovative models on asset operation. We successfully launched in 2014 the first domestic private REIT product approved for trading on Shenzhen Stock Exchange's commodity trading platform in China, and in 2016 the first domestic logistics warehousing and cultural media REIT product.

Our private equity business benefits from the large client base of our strong investment banking business, in particular the SME sector. Meanwhile, our private equity business also supports our investment banking businesses by funding the growth of investee companies that may require investment banking services in the future. Our strong capital position as well as our brand name make us an attractive partner for companies seeking private equity investment and allow us the flexibility to provide varying levels of capital infusion to meet the needs of a diverse group of investees.

CITIC GoldStone Fund Management Company Limited ("**CITIC GoldStone Fund**"), a wholly-owned subsidiary of GoldStone Investment, collected and managed customers' funds for real estate equity investment and provided financial consultancy, investment management and relevant consultancy services for equity investment. Since its establishment in 2013, CITIC GoldStone Fund has been committed to fund management, policy consultancy and research of real estate investment trusts (REITs) in China. From the establishment of the first quasi-REIT in China in 2014 to the end of 2019, CITIC GoldStone Fund set up funds similar to REITs with total assets under management of approximately RMB26.2 billion, with a leading ranking among private equity fund managers that have managed the most quasi-REITs in China. As at 31 December 2019, the total assets under the management of CITIC GoldStone Fund and its subsidiaries amounted to RMB11.5 billion.

Custody

We provide custody services to institutional clients in the asset management business, including mutual funds and private funds. In addition, our wholly-owned subsidiary, CITIC Zhongzheng Investment Service Co., Ltd., started to provide outsourcing services of unit registration, valuation and accounting in 2016. As of 31 December 2019, we offered 4,974 asset custody service products and 5,079 fund service products.

Research

Our research team provides research on the macro-economy, equity and debt markets, and industries and companies in China and Hong Kong and, following our acquisition of CLSA, overseas markets. Our research team supports each of our main business lines and is important in sustaining our competitive positions in the investment banking, sales, trading and brokerage, asset management and other businesses.

We provide research reports and customised advisory services to companies, institutional and high-net-worth individual investors, and retail customers based in or interested in China, Hong Kong and a broad range of overseas markets where we operate, including the United States, the United Kingdom, the Netherlands, Australia, Mauritius, India, Indonesia, Japan, Korea, Malaysia, Sri Lanka, the Philippines, Singapore, Thailand and Taiwan.

We are renowned for our research capability. CLSA Limited was named "Most Independent Research Brokerage for Asia (excluding Australia & Japan)" by *Asiamoney* from 2013 to 2018, and "No. 1 Most Independent Research", "No. 1 Best Regional Team for Strategy", "No. 1 Best Team for Quantitative/Technical Analysis" and "No. 2 Overall Combined Regional Research & Sales (Asia, ex Australia, China A & B Shares and Japan)" and "No. 2 Overall Combined Research & Sales in China (A & B Shares) by *Asiamoney* in 2019. Our NEEQ research team is highly influential, holding large-scale conferences two to three times a year, and was ranked the top NEEQ research team by *New Fortune* in 2018. We were also awarded second place for the best research team in Asia in the selection of Asian currencies in 2019. Since our acquisition of CLSA in July 2013, our existing business and CLSA have deepened cooperation in research efforts, including jointly organising research forums, releasing joint research reports and exchanging research staff.

TREASURY MANAGEMENT

We believe that the management of our liquidity and capital resources is critical to our success. Accordingly, we have established a centralised management structure to oversee our liquidity and funding policies.

Our treasury department manages the capital structure, funding and liquidity, and is responsible for the day-to-day implementation of asset allocation decisions made by our assets and liabilities management committee. Please see "*Risk Management and Internal Control*" for a detailed description of our risk management governance structure.

We access liquidity through a variety of external financing instruments and sources. We raise short-term funds in the money market and engage in fund raising activities in the capital markets through our treasury department. Given the limited availability of external short-term financing sources to investment banks in China, we believe that our treasury department has played a significant role in achieving financing efficiency and maintaining our overall liquidity.

We invest in highly liquid assets with low risk to ensure the availability of immediate liquidity and the safety of our capital, while benefiting from the returns on these assets. We manage our cash assets primarily through interbank deposits, interbank borrowings, repurchase and reverse repurchase agreements and short-term bonds. We also invest in low-risk fixed income products and engage in arbitrage activities with guaranteed minimum returns. We plan to adopt market-neutral portfolios for our future proprietary investments.

CAPITAL ADEQUACY AND RISK CONTROL INDEX REQUIREMENTS

According to the Administrative Measures of Risk Control Indices of Securities Companies ("**Risk Control Administrative Measures**"), which was published by CSRC on 5 July 2006 and last amended on 16 June 2016, and the Provisions on the Calculation of Risk Control Indices of Securities Companies ("**Risk Control Index Provisions**"), which was published by CSRC on 16 June 2016 and became effective on 1 October 2016 and replaced the Measures for the Risk Control Indices of Securities Companies ("**Risk Control Index Measures**") previously in effect, we are required to establish a dynamic net capital monitoring mechanism, in line with the changing business environment, to comply with the regulatory requirements for net capital, including a net capital-to-net assets ratio of no less than 20%, to help manage capital adequacy. In addition, we are required to maintain certain minimum amounts of net capital to engage in different businesses, such as margin financing, securities lending, asset management, underwriting, and market-making activities. These minimum requirements are calculated based on our financial information. Please see "*Summary of Relevant PRC and Hong Kong Laws and Regulations — PRC Regulatory Overview — Risk Control Indices*" for further information. As of 31 December 2017, 2018 and 2019, we were in compliance with all of our capital adequacy and risk control index requirements. As of 31 December 2019, our Company had net capital of RMB94,904 million (US$13,632 million).

The Company's net capital and key regulatory risk control indices for each of the periods presented are as follows.

	As of 31 December			Warning ratio[(2)]	Required ratio
	2017[(1)]	2018[(1)]	2019[(1)]		
Net capital (RMB millions) [(3)]	86,708	91,996	94,904	n/a	n/a
Net assets (RMB millions)	123,217	125,476	133,558	n/a	n/a
Total risk capital reserves (RMB million)	52,136	50,019	56,864	n/a	n/a
Net capital / total risk capital reserves (%) [(4)]	166.31	183.92	166.90	≥120%	≥100%
Capital leverage ratio [(5)]	16.67	16.22	13.73	≥9.6%	≥8%
Liquidity coverage ratio (%) [(6)]	290.32	247.92	151.15	≥120%	≥100%
Net stable funding ratio (%) [(7)]	122.03	156.16	123.95	≥120%	≥100%
Net capital / net assets (%) [(8)]	70.37	73.32	71.06	≥24%	≥20%
Net capital / total adjusted liabilities (%)	29.49	28.91	23.35	≥9.6%	≥8%
Net assets / total adjusted liabilities (%)	41.91	39.44	32.86	≥12%	≥10%
Value of equity securities and derivatives held (stock index futures inclusive) / net capital (%)	33.23	28.91	48.40	≤80%	≤100%
Value of fixed income securities held / net capital (%)	124.35	230.75	289.59	≤400%	≤500%

Notes:

(1) Relevant data as of 31 December 2017, 2018 and 2019 are extracted from our 2017, 2018 and 2019 Annual Reports respectively and are calculated in accordance with the Risk Control Index Provisions.

(2) Warning ratios are set by the CSRC as follows, according to the Risk Control Administrative Measures: If the risk control index is required to stay above a certain level, then the warning ratio is 120% of the stipulated risk control requirement, and if the risk control index is required to stay below a certain level, then the warning ratio is 80% of the stipulated risk control requirement

(3) 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 authorised by the CSRC.

(4) Please see "*Summary of Relevant PRC and Hong Kong Laws and Regulations — PRC Regulatory Overview — Risk Capital Reserves and Net Capital*" for an explanation of how total risk capital reserves are calculated.

(5) Calculated as the ratio of our net capital against our total on- and off-balance sheet assets.

(6) Calculated as the ratio of our quality liquid assets against our net cash outflow in the 30 days immediately after such date.

(7) Calculated as the ratio of the stable funding available to us against the total stable funding we require.

(8) For purposes of calculating the risk control index, total adjusted liabilities means total liabilities of the Company less customer brokerage deposits.

FINANCIAL INSTRUMENTS RISK MANAGEMENT

Credit Risk

Credit risk is the risk in respect of loss arising from a borrower's or counterparty's inability to meet its obligations. Our credit risk mostly arises from four aspects: firstly, brokerage business in respect of securities dealing and futures trading on behalf of clients, if our Group does not require the clients to pay sufficient margin deposits in advance according to the laws, our Group may have to undertake the settlement responsibility on behalf of clients if the clients do not have sufficient funds to pay for the transaction, or face financing gaps due to other factors on the settlement date, and accordingly resulting in losses; secondly, credit risk arising from the securities financing businesses including margin financing and securities lending, stock repo, stock-pledged repo, which refers to our Group's exposure to losses caused by clients' failure to perform the contracts; thirdly, default risk from credit product investment, which refers to the risk of our Group's asset losses and change in yield by reason of default or refusal to pay principal and interest on due dates by the financing parties or the issuers of the credit products our Group invested in; and fourthly, counterparty default risk in OTC derivative transactions such as interest rate swap, equity swap, OTC option and forwards, i.e. the risk of counterparties failing to perform their payment obligations in accordance with contracts when the contracts reach the maturity dates.

We assess the credit ratings of counterparties or issuers through our internal credit rating system, measure our credit risk by means of stress tests and sensitivity analysis, and manage such credit risk based on these results through our credit approval mechanism. Meanwhile, we use our information management system to monitor our credit risk on a real-time basis, keep track of the credit risk of our business products and transaction counterparties, provide analysis and pre-warning reports, and adjust our credit limits in a timely manner.

Securities brokerage business transactions in China are all required to be settled in full by security deposit, as a result of which the settlement risk associated with brokerage business has been largely controlled. Credit risk arising from the securities financing business primarily includes clients' provision of false information, failure to make full repayment on time, contractual breach of portfolio limits and compositions, violation of regulatory requirements for trading activities, and provision of collateral encumbered with legal disputes. Credit risk arising from this type of businesses is mainly managed through client education, credit reference checks, credit approval, daily mark to market, risk reminders to clients, forced liquidation of clients' positions, judicial recourse and other means.

For credit products investment, in respect of private equity investment, we have established the entrance levels and investment caps for our products and will manage our credit risk through risk assessment, risk reminders and judicial recourse, and in respect of public offering investments, through the counterparty credit approval policy, we have developed certain investment restrictions based on the credit ratings.

The counterparties in OTC derivative transactions are mainly financial institutions and other professional institutions and the main risks are their failure to make payments on time, their failure to cover the security deposits in a timely manner when the losses are made on investments and discrepancy between amounts calculated by the parties. We set certain proportions for the security deposits of counterparties and restrictions on the transaction size, control the credit risk exposure of counterparties through daily mark to market, margin calls and forced liquidation of clients' positions, as well as claim the losses through judicial procedures if losses occur after the automatic liquidation of clients' positions.

	As of 31 December		
	2017	2018	2019
	RMB millions		
Available-for-sale financial assets	43,758	—	—
Financial assets at fair value through other comprehensive income (Debt instruments)		36,328	23,684
Refundable deposits	972	1,113	1,460
Margin accounts	73,983	57,198	70,674
Financial assets held for trading	115,121	—	—
Financial assets designated as at fair value through profit or loss	359	—	—
Financial assets at fair value through profit or loss (Mandatory)	—	198,555	267,155
Derivative financial assets	5,901	11,388	7,351
Reverse repurchase agreements	114,592	67,370	58,830
Cash held on behalf of customers	92,386	92,421	118,401
Bank balances	34,303	52,226	64,442
Others	26,462	31,407	30,589
Total maximum credit risk exposure	507,837	548,006	642,586

As at 31 December 2019, our Group maintained a minimum margin ratio of 307% for our Group's margin financing and securities lending clients with outstanding liabilities, an average margin ratio of 673% for our Group's stock repo clients with outstanding liabilities, an average margin ratio of 281% for our Group's stock-pledged repo clients with outstanding liabilities.

Liquidity Risk

Liquidity risk refers to the risk that the Company is not able to obtain sufficient capital with reasonable cost and in a time manner to pay its overdue debts, perform other payment obligations and meet capital requirements for normal business operations. The Company has consistently adhered to a unified liquidity management and operation policy and set up a liquidity risk management sub-working group responsible for continuously strengthening its liquidity management system. The responsibilities for centralised management of fund allocation lie within the Treasury Department. In respect of the domestic stock exchanges and interbank market, we have a relatively high credit rating, and have secured stable channels for short-term financing, such as borrowing and repurchases, which enable us to maintain our overall liquidity at a relatively secured level.

In addition, the Risk Management Department independently monitors and assesses our fund and debt positions over a future time span on a daily basis. It measures the solvency of the Company via analysis of matching between assets and liabilities within specified point in time and time period and indicators such as liquidity coverage ratio. The Risk Management Department releases a liquidity risk report on a daily basis, and reports the status of assets and liabilities, liquidity risk quota management and other situations. We also set threshold values for liquidity risk indicators, and once exceeded, the Risk Management Department will warn the Risk Management Committee, the management and relevant departments of such risks under relevant systems, and appropriate actions will be taken by the relevant competent departments to adjust the liquidity risks to a level within the permitted range. We have also established a liquidity reserve pool system with sufficient high-liquidity assets to meet its emergency liquidity needs.

As of 31 December 2019, our non-derivative financial liabilities, based on the contractual undiscounted payments, are as follows.

	As of 31 December 2019
	RMB thousands
Overdue / repayable on demand	160,274
Less than three months	247,693
Three months to one year	77,958
One to five years	99,471
More than five years	5,436
Undated	7,617
Total	598,448

As of 31 December 2019, the liquidity coverage ratio of our Company was 151.15%, higher than the 100% minimum required under the Risk Control Index Provisions. As of the same date, our net stable funding ratio was 123.95%, higher than the 100% minimum required under the Risk Control Index Provisions.

Market Risk

Market risk represents potential losses due to movement in market prices of financial positions held. Financial positions held are derived from the proprietary investment, market-making business and other investment activities. Movements in the financial positions held primarily originated from instructions received from the customers and the relevant strategies of proprietary investment.

VaR

Since 2012, we have adopted Value at Risk ("**VaR**") as the risk evaluation tool for measuring the market risk of our entire securities investment portfolio, which comprises various financial instruments. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence. The calculation is based on the historical data of the Group's VaR (confidence level of 95% and a holding period of one trading day).

Our Group's VaR analysis by risk categories is summarised as follows.

	As of 31 December		
	2017	2018	2019
		RMB millions	
Stock price-sensitive financial instruments	166	113	351
Interest rate-sensitive financial instruments	21	68	43
Exchange rate-sensitive financial instruments	113	58	77
Total portfolio VaR	191	135	341

Interest Rate Risk

Our interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments arising from adverse movements in interest rates. We use interest rate sensitivity analysis as the principal tool to monitor interest rate risk. Assuming a parallel shift in the market interest rates and without taking into consideration of the management's activities to reduce interest rate risk, the impact of such a shift on revenue and shareholders' equity based on an interest rate sensitivity analysis of our Group and the Company is as follows.

	As of 31 December		
	2017	2018	2019
		RMB millions	
Sensitivity of revenue			
Changes in basis points			
+25 basis points	(211)	(385)	(767)
–25 basis points	210	400	787
Sensitivity of equity			
Changes in basis points			
+25 basis points	(19)	(44)	(38)
–25 basis points	20	44	38

MAJOR CLIENTS

We serve institutional clients across a spectrum of business sectors and a diverse group of individual clients. Our clients range from multinational corporations and SMEs to high-net-worth individuals and retail customers. Our clients are primarily located in China. We expect to serve more overseas clients as we seek to further expand our overseas coverage in the future. The revenue attributable to our five largest clients accounted for less than 30% of our total revenue in 2019.

COMPETITION

Competition in the financial services industry in China has been and is likely to remain intense. Our competition is based on a number of factors, including price, products and services, innovation, transaction execution capability, reputation, experience and knowledge of our staff, employee compensation and geographic scope.

Our main competitors include other investment banks, securities companies and fund management companies in China. We also face competition from commercial banks, insurance companies, private equity funds and trust companies, as well as internet companies that have entered into the payment and microfinance businesses. Some of the financial institutions that we compete with are larger in terms of asset size and client base and have greater financial resources or more specialised capabilities than us. Foreign financial institutions, some of which have greater experience and resources than us, have been expanding their operations in China and will continue to compete with us in providing financial products and services either by themselves or in partnership with other Chinese financial institutions. We also face increasing competition in overseas financial markets due to the expansion of our international operations.

We have experienced intense price competition in some of our businesses in recent years. For example, the brokerage industry in China is very competitive, which has resulted in considerable pressure on brokerage commissions. The increased popularity of alternative trading platforms, including online discount brokers offering deeply discounted fees, has also contributed to the decline in commission rates. In addition, equity and debt underwriting discounts, as well as asset management fee rates and prime services commission rates, have also been under pressure. 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 price reduction. With the relaxing of controls over branch opening, commission rates and the giving of securities licences, as well as the emergence of internet finance, we believe that future competition in the securities sector will be even more intense, and innovation will be key for business development in the securities industry.

We also face competition in attracting and retaining qualified employees. The competition among large investment banking firms for qualified sponsor representatives and other high-quality professionals is substantial. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

EMPLOYEES

We believe that a major strength and principal reason for our success is the quality and dedication of our people and the shared sense of being part of a team. We strive to create and maintain a work environment that fosters professionalism, excellence and cooperation among our employees and high standards of business ethics. Instilling our culture in all employees is a continual process, in which training plays an important part.

As of 31 December 2019, the Group had a total of 15,908 employees. Our full-time employees participate in various employee benefit plans such as compulsory pension, enterprise annuities, housing funds, work related injury insurance plans and medical insurance plans, unemployment insurance and maternity insurance. The employment contracts generally specify the employees' responsibilities, remuneration and grounds for termination.

Compensation for our full-time employees typically consists of a base salary and a discretionary bonus. The discretionary bonus is usually awarded for the relevant year based on our results of operations and the employee's performance.

We focus on our employees' career development. We conduct performance evaluations for our employees on an annual basis to provide feedback on their performance. We invest in training programmes tailored for employees in different business lines.

We have a labour union in accordance with PRC laws and regulations. We have not had any strikes or other labour disturbances that have materially interfered with our operations, and we believe that we have maintained a good working relationship with our employees.

Since the outbreak of COVID-19, we have focused on ensuring the hygiene and safety of our working environment and complying with all applicable labour and social welfare laws and regulations. We have also implemented flexible work arrangements for employees to accommodate the special circumstances that have arisen from the COVID-19 pandemic. To date, the COVID-19 pandemic has not had and is not expected to have a material adverse effect on our employees.

TECHNOLOGY

We are committed to the on-going development, maintenance and use of technology. 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 post-trade clearing and settlement capabilities, effectively manage our risks and improve overall efficiency, productivity and control.

Electronic commerce and technology have changed and will continue to change the ways that securities and other financial products are traded, distributed and settled. This creates both opportunities and challenges for our businesses. We remain committed to being at the forefront of technological innovation in the PRC financial services market. Our IT centre has developed several innovative technology systems in China, such as an investment banking knowledge database, a bond sales and trading platform, a client-based security and digital certificate system, a brokerage business information service platform for high-net-worth clients, a high performance electronic market-making system, a centralised real-time risk management platform, and a quantitative algorithmic trading strategy platform. We have also developed different trading platforms to address specific needs of different business lines, such as a margin financing and securities lending operating system for our prime services clients, an index futures arbitrage system for our high-end brokerage clients, a trading platform for our proprietary trading activities, a centralised trading system for our brokerage clients, an investment and trading system for our asset management clients, and a pricing platform for our fixed income clients. In addition, we have established three research and development centres in Beijing, Shenzhen and Hangzhou and a wholly-owned IT-focused subsidiary to build up our research and development capabilities.

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 programme are crisis management, business recovery, systems and data recovery, recovery facilities maintenance, and process improvement. We have developed and implemented a framework of information security principles, policies and technology to protect our information assets and those of our clients. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources.

LEGAL PROCEEDINGS

We are a party to legal proceedings from time to time arising from the ordinary course of our business. We had 30 material pending legal proceedings which were newly raised or had progress from 1 January 2019 to 31 March 2020, as disclosed in the Company's 2019 annual report and 2020 first quarterly results, copies of which are found on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk. Please see "*Risk Management and Internal Control — Legal and Regulatory — Legal Proceedings*" for a detailed description of those legal proceedings.

RISK MANAGEMENT AND INTERNAL CONTROL

We believe that effective risk management and internal control is critical to our success. We have established comprehensive risk management and internal control processes through which we monitor, evaluate and manage financial, operational, compliance and legal risks that we are exposed to in our business activities. We implement vertical risk management of our subsidiaries through models such as business guidance, operational support and decision-making management.

GOVERNANCE STRUCTURE

We seek to monitor and control our risk exposure through various reporting systems covering financial, operational, compliance and legal aspects of our business. We have established a three-level risk management and internal control governance structure: the risk management committee under our board of directors, four related professional committees under the operation management and the relevant divisions and business lines responsible for internal control and business. Our comprehensive three-level risk management system enables a network of collective decision making among the respective committees, and close cooperation between internal control functions and business departments, business lines, and manages risks through review, decision, execution and supervision.

Board of Directors

The risk management committee of the board of directors supervises our overall risk management with the aim of controlling risks within an acceptable level and ensures smooth implementation of effective risk management schemes over risks related to our operational activities; prepares overall risk management policies for the board's review; formulates strategic structure and resources to be allocated for risk management purposes and keeps them in line with the internal risk management policies; sets limits for major risk indicators; performs supervision and review on the risk management policies and makes recommendation to the board of directors.

Executive Committee (Operation Management)

At the operation management level, we have four committees tasked with reviewing risks specific to particular areas of our operations: the assets and liabilities management committee, the capital commitment committee, the risk management committee and the product committee.

- ***Assets and Liabilities Management Committee***

  Within the authority delegated by the board of directors and the operation management, our assets and liabilities management committee decides and reviews major matters and related systems involving application of our proprietary capital. For the purpose of ensuring our capital security, our assets and liabilities management committee optimises asset allocation and improves the efficiency of capital application via a scientific, standardised and prudent approach with strict control and management of risk exposures.

- ***Capital Commitment Committee***

  Our capital commitment committee performs final risk assessment and reviews the capital commitment of the underwriting business within the authority delegated by the board of directors and our operation management. All corporate finance business involving application of capital are subject to the approval of the capital commitment committee to ensure an acceptable level of risk exposure of our corporate finance activities and security of capital.

- ***Risk Management Committee***

  This risk management committee reports to the risk management committee of the board of directors and our executive committee, and is responsible for monitoring and managing our daily risks within its designated authority, and for deciding and approving material matters related to risk management and the relevant system and setting limits for risks. The risk management committee has established a risk management sub-working group, which is the main body responsible for the daily monitoring and management of the financial risks over the proprietary investment business and facilitating the execution of decisions made by the risk management committee. The risk management sub-working group comprises a credit risk management sub-working group, a liquidity risk management sub-working group, an operational risk management sub-working group and a reputation risk management sub-working group. The credit risk management sub-working group is responsible for supporting and coordinating the execution of decisions regarding daily credit risk monitoring and management. The liquidity risk management sub-working group is responsible for monitoring and managing our liquidity risks, promoting the development of our liquidity risk assessment methodology and management system, coordinating the implementation of specific assessment and management measures, and providing relevant decision-making support. The operational risk management sub-working group is responsible for drafting our operational risk management rules, monitoring the execution of operational processes, collecting information on operational risk events and coordinating and improving our operational risk management mechanism. The reputation risk management sub-working group is the daily management body for reputation risks and is responsible for establishing relevant rules and management mechanisms, preventing and identifying reputation risks, responding to and tackling reputation events in a proactive and effective manner and mitigating any negative effect to the largest extent.

- ***Product Committee***

  Within the authority delegated by the board of directors and our operation management, our product committee is responsible for the planning, coordination, decision-making and review of our major new product matters, such as design, sales and related systems, with a view to driving the development of new businesses and products. This committee manages the risks related to new products through pre-sale quality control and preparation of relevant post-sale risk handling measures and risk event handling plans. The committee has set up risk evaluation working groups to review the qualifications of principals which entrust us to sell privately-issued financial products, manage the risk analysis and assessment of various privately-issued financial products, and provide supervision and guidance during the period of existence, including the product sales panel under the committee which is responsible for reviewing the marketability of such products. The committee's sales assessment group is responsible for reviewing the marketability of such products, and the OTC product review group under the committee is responsible for conducting particular review work in respect of the suitability of our products to be issued and transferred on the OTC market.

Division/Business Lines

At the division and business line level, we have segregated the roles and responsibilities of the front office, middle office and back office to ensure the establishment of a system of "checks and balances."

Our front-office business departments are the first line of defence in risk management. These departments have established business management systems and risk management systems to perform supervision, assessment and reporting of the business risks of their respective businesses with a view to controlling business risks within the approved limits.

At the business line level, our risk management department works closely with our legal department, compliance department, audit department, clearing and settlement department, planning and finance department, human resources department and each business unit to implement risk management strategies, policies and procedures.

- Our risk management department:
  - identifies, measures, analyses, monitors, reports and manages the risks that we face;
  - analyses and assesses our overall risks and each of our business lines and recommends optimised allocation of risk resources;
  - assists the risk management committee in the preparation of risk management indicators such as risk limits, as well as supervision and reporting on the execution of risk limits;
  - establishes and improves the timely reporting and feedback mechanism among the front office, the risk management department and the operation management, and regularly reports our general risk portfolios to the operating management and makes recommendations on risk management;
  - establishes a comprehensive stress-test mechanism as a basis for major decision making, daily operational adjustment and fulfilment of regulatory requirements; and
  - performs pre-risk assessments and control over new products and businesses.
- Our audit department has the overall responsibility for internal auditing, organising comprehensive audit of all our departments/business lines and main subsidiaries, monitoring the implementation of internal control systems, preventing various moral and policy risks, and assisting with the investigation of emergency events.
- Our compliance department:
  - organises the establishment and implementation of our basic compliance policy;
  - provides compliance advice and consultancy to our management, departments/ business lines and branches;
  - monitors lawful compliance of management and operating activities;
  - supervises and instructs the business departments/business lines and branches to assess, develop, modify and improve internal management policies, procedures and business processes based on changes in laws, regulations and guidelines;
  - performs compliance pre-reviews on new internal management policies, important decisions, new products, new businesses and key business activities that we have launched; and
  - fulfils the regular and non-regular reporting obligations to regulatory authorities.
- Our legal department is responsible for oversight and control of our legal risks and relevant businesses.

- Our Office of the Board of the Company manages reputation risk in conjunction with the Office of the CEO, Risk Management Department, Compliance Department, Human Resources Department and other relevant departments.

- Our information technology centre is responsible for managing the IT risks of the Company.

Other internal control departments exercise their respective risk management functions within the scope of their responsibilities.

We have set up several risk measurement models that perform risk identification, analysis, monitoring, reporting and management for all of our business lines. We also review risks relating to our business regularly in order to identify areas for improvement and enhance our risk management practices. The regular review of our corporate risk profile includes the analysis of current risk exposure, trends of VaR, sensitivity analysis and stress tests. The scope of risks covered in the review includes, but is not limited to:

- credit risk, reflecting potential loss arising from inability of a borrower, counterparty or issuer to meet its obligations or whose credit qualifications deteriorate;

- liquidity risk, reflecting potential loss arising from shortage of funds when fulfilling payment obligations and meeting capital requirements for normal business operations;

- legal and compliance risk, reflecting failure of business management and standards to align in a timely manner with changes in laws and regulations and ordinances imposed by the regulatory authorities;

- strategic risk, reflecting inability to determine strategic plans in response to profound changes in domestic and overseas capital markets;

- internal operations and management risk, reflecting risk arising from transformation of our business model and emergence of new businesses and new technologies;

- market risk, reflecting potential loss due to movement in market prices of the financial positions held; and

- operational risk, reflecting potential loss arising from the failure of internal workflow management, breakdown of information systems or misconduct of staff, as well as external factors.

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. 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 the legal and compliance departments, which, in turn, will notify the appropriate regulatory authorities. We also have in place a client screening procedure to profile clients with a higher than average likelihood of engaging in money laundering and terrorist financing activities. When conducting such screening, factors we take into account include the client's background, nature of its business, its origin or place of establishment, associated entities and its ownership structure.

CHINESE WALLS

As a financial institution providing a wide range of financial services, we consistently face situations where two or more legitimate interests are conflicting in nature. We recognise the importance of managing such conflicts to protect the interests of our clients and our employees. We have implemented Chinese walls to limit conflicts of interest by controlling the flow of material non-public information. A Chinese wall in this context refers to various physical and electronic measures taken to ensure that material non-public information regarding listed companies which is obtained by one department is not released to another department. It is intended to separate those making investment decisions from those in possession of material non-public information. We have developed and implemented policies and procedures to safeguard such information and prevent improper trading. Due to potential conflicts of interest, we have established Chinese walls between our investment banking and research departments, our sales and research departments, as well as our trading and brokerage departments to prevent the flow of material non-public information. To enforce Chinese walls on an administrative level, we have established physical segregation and password-protected access among departments and functional units, including our investment banking, equity sales and trading, asset management, brokerage, research, legal and compliance departments. In 2012, we amended the Guidance on Information Chinese Wall in accordance with the Measures for the Administration of Securities Issuance and Underwriting and the Practice Criteria on Issuing Securities Study Report as amended and promulgated by the CSRC and Securities Association of China.

As we continually seek to enhance our risk management and internal control functions, we have implemented the following:

- ***Firmwide Risk Pooling***

  We plan to measure and monitor our overall risk exposure to ensure that our risks fall within a tolerable range.

- ***Risk Limits Systems Based on Capital Allocation***

  We plan to establish a series of risk limit systems to dynamically control and adjust our risk exposure through risk limits, promote timely communication with the front-office business departments and improve the effectiveness of our risk management.

- ***Economic Capital Framework***

  We plan to establish an economic capital allocation framework in line with international standards and the capital requirements of the CSRC to help us measure the risk adjusted returns of our business units and optimise our resource allocation.

LEGAL AND REGULATORY

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.

Legal Proceedings

We are a party to legal proceedings from time to time arising from the ordinary course of our business. We had 30 material pending legal proceedings which were newly raised or had progress from 1 January 2019 to 31 March 2020, as disclosed in the Company's 2019 annual report and 2020 first quarterly results, copies of which are found on the website of the Hong Kong Stock Exchange at www.hkexnews.com.hk. These legal proceedings are summarised as follows:

(1) Dispute between the Company and Cheng Shaobo and Zhu Lixin on stock-pledged repo transaction

Due to the breach of contract by Cheng Shaobo when conducting the stock-pledged repo transactions with the Company, the Company applied to the Higher People's Court of Shandong Province (the "**Shandong Higher Court**") for compulsory enforcement in March 2018, requesting Cheng Shaobo and Zhu Lixin to pay the outstanding principal of RMB124,870,000 and the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The Shandong Higher Court accepted the case on 12 March 2018. On 12 and 28 March 2018, the Shandong Higher Court froze the relevant bank accounts under the name of Cheng Shaobo as well as the shares of Shandong Longlive Bio-Technology Co., Ltd. ("**Longlive Bio**") held by Cheng Shaobo. The Shandong Higher Court assigned this case to the People's Court of Yucheng (the "**Yucheng Court**") for enforcement. On 1 April 2019, the Yucheng Court issued the first auction announcement on the formal auction of the 24,542,832 shares of Longlive Bio held by Cheng Shaobo with the initial bidding price of RMB57,430,226. On 6 May 2019, the share auction failed. On 2 March 2020, the Yucheng Court issued an auction announcement to conduct the second round of auction of the 24,542,832 shares of Longlive Bio held by Cheng Shaobo. On 24 March 2020, the share auction failed again.

(2) Dispute between the Company and Jinxin Industrial on stock-pledged repo transaction

Due to the breach of contract by Shanghai Jinxin Industrial Co., Ltd. (上海金新實業有限公司) ("**Jinxin Industrial**"), the Company applied for the certificate of enforcement from the notary office and applied to the Higher People's Court of Shanghai Municipality (the "**Shanghai Higher Court**") for specific performance, requesting Jinxin Industrial to pay the outstanding principal of RMB394.645 million and the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The Shanghai Higher Court accepted the case on 31 July 2018. Given that there were three guarantors which provided the joint and several liability guarantee for the above liabilities of Jinxin Industrial, the Company applied for arbitration to Beijing Arbitration Commission (as the "**BAC**") (against one guarantor) and filed a lawsuit with the Higher People's Court of Beijing Municipality (the "**Beijing Higher Court**") (against two guarantors), respectively, requesting the guarantors to assume the joint and several liabilities. The BAC and the Beijing Higher Court accepted the case on 2 August 2018 and 6 August 2018, respectively. The BAC issued the verdict in favour of the Company on 4 January 2019, and the Company has applied to the Nanjing Intermediate People's Court (the "**Nanjing Intermediate Court**") for compulsory enforcement on 16 July 2019. The Beijing Higher Court heard the case on 16 November 2018 and 30 January 2019. The Beijing Higher Court issued the first instance verdict in favour of the Company's claims on 26 June 2019. Yuan Yafei filed an appeal. The Supreme People's Court heard the case on 4 December 2019. On 8 April 2020, the Company received the ruling issued by the Supreme People's Court which dismissed Yuan Yafei's appeal, and thus the first instance verdict has taken effect.

(3) Disputes between the Company and Kaiyuan Securities, Xiamen Rural Commercial Asset Management and Xiamen Rural Commercial Financial Holdings on bond-pledged repo transaction

Because Kaiyuan Securities Co., Ltd. (開源證券股份有限公司) ("**Kaiyuan Securities**") failed to repay the principal and interest under the bond-pledged repo transaction as scheduled, totalling RMB30,012,328.77 (tentatively calculated as of 31 October 2018), the Company filed a lawsuit with the People's Court of Chaoyang District of Beijing Municipality (the "**Chaoyang Court**") against Kaiyuan Securities, Xiamen Rural Commercial

(Shanghai) Asset Management Co., Ltd. (廈農商(上海)資產管理有限公司) ("**Xiamen Rural Commercial Asset Management**"), and Xiamen Rural Commercial Financial Holdings Group Co., Ltd. (廈門農商金融控股集團有限公司) ("**Xiamen Rural Commercial Financial Holdings**") on 7 November 2018. The Chaoyang Court formally accepted this case on 2 January 2019. The Chaoyang Court heard the case on 11 November 2019. Before the hearing, the Company had withdrawn its claims against Xiamen Rural Commercial Asset Management and Xiamen Rural Commercial Financial Holdings. On 30 March 2020, the Chaoyang Court issued the first instance verdict basically in favour of the Company's claims.

(4) Contract dispute between the Company and Julihui

Due to the breach of contract on stock-pledged repo transaction by Xiamen Julihui Investment Partnership (Limited Partnership) (廈門聚利匯投資合夥企業 (有限合夥)) ("**Julihui**"), the Company filed a lawsuit with the Third Intermediate People's Court of Beijing Municipality (the "**Beijing Third Intermediate Court**") on 21 January 2019, requesting Julihui to repay a total amount of RMB100,845,833.33 for unpaid principal, interest and liquidated damages. This case was formally accepted on 22 January 2019, and was heard on 8 October 2019. The Beijing Third Intermediate Court issued the first instance verdict in favour of the Company's claims on 26 December 2019. On 11 February 2020, the Company received a copy of appeal petition from Julihui.

(5) Dispute between the Company and CMI on target issuance agreement

Due to the breach of Target Issuance Agreement by China Minsheng Investment Co., Ltd. ("**CMI**"), the Company submitted an application for arbitration to the China International Economic and Trade Arbitration Commission ("**CIETAC**") on behalf of the asset management plan under its management, requesting CMI to repay the bond principal of RMB495,497,382.20 and the corresponding interest, liquidated damages and other fees. The case was accepted on 27 August 2019. On 4 December 2019, CMI filed a lawsuit with the Fourth Intermediate People's Court of Beijing Municipality (the "**Beijing Fourth Intermediate Court**") for invalidation of the arbitration clause. On 24 December 2019, the Beijing Fourth Intermediate Court issued a final ruling, rejecting the application of CMI. On 4 March 2020, CIETAC notified the Company that the case is scheduled to be heard on 28 April 2020.

(6) Dispute between the Company and Chen Zhu on the guarantee contract

Gao Yugen and Zha Chuanhe failed to fulfill the repurchase obligation and Chen Zhu failed to assume the guarantee liabilities when conducting the stock-pledged repo transaction with the Company, both of which constituted a breach of contract. Therefore, the Company filed a lawsuit with the Beijing Third Intermediate Court, requesting Chen Zhu to assume the guarantee liabilities and repay the debts of RMB200 million owed to the Company by Gao Yugen and Zha Chuanhe on their behalf. The case was formally accepted on 25 September 2019. The Beijing Third Intermediate Court heard the case on 17 December 2019 and 30 December 2019, respectively. On 24 March 2020, the court issued the first instance verdict in favour of the Company's claims.

(7) Dispute between the Company and Macrolink Holding, Macrolink Mining, Fu Jun on stock-pledged repo transaction

On 27 December 2016, the Company entered into a business agreement on stock-pledged repo transaction and a transaction agreement and other supplemental agreements with Macrolink Holding Co., Ltd. ("**Macrolink Holding**"). Macrolink Holding pledged shares of Macrolink Culturaltainment Development Co., Ltd. (stock code: 000620) and Bank of Beijing Co. Ltd. (stock code: 601169) to the Company for financing and conducting the stock-pledged repo transaction. On 6 November 2018, Macrolink Mining Co., Ltd., as the guarantor, entered into a guarantee contract (the "**November 6 Guarantee**") with the Company to provide the joint and several liability guarantee for the related debt. On 26 December 2018, Fu Jun, the legal representative of Macrolink Holding, as the guarantor, entered into the November 6 Guarantee with the Company to provide joint and several liability guarantee for the related debt. Subsequently, Macrolink Holding breached the November 6 Guarantee under the above transaction. On 23 March 2020, the Company applied to the Beijing Third Intermediate Court for compulsory enforcement, requesting it to repay the outstanding principal of RMB787 million owed to the Company, as well as the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. On 1 April 2020, the court accepted the case, and as at the Latest Practicable Date, the case is in the process of compulsory enforcement.

(8) Dispute between the Company and Macrolink Holding on corporate bond transaction

On 10 April 2017, Macrolink Holding issued the 2017 medium-term notes (tranche 1) (product code: 101767003) in the interbank bond market. The Company subscribed for such medium-term notes with a nominal value of RMB200 million. Because Macrolink Holding failed to fulfill the redemption obligation of the medium-term notes as agreed, the Company filed a lawsuit with the Beijing Third Intermediate Court in accordance with the law, requesting Macrolink Holding to repay the outstanding bond principal of RMB200 million and the interest up to the date of full settlement. On 2 April 2020, the court formally accepted the case. As at the Latest Practicable Date, the date for the hearing of this case is pending.

(9) Dispute between GoldStone Haorui and Di Shumei and Tong Ruifeng on capital increase agreement

Due to the breach of the capital increase agreement by Di Shumei and Tong Ruifeng, Qingdao GoldStone Haorui Investment Company Limited ("**GoldStone Haorui**"), a subsidiary of Goldstone Investment Co., Ltd. (a subsidiary of the Company), submitted an application for arbitration to the BAC on 20 March 2019, requesting Di Shumei and Tong Ruifeng to pay a total amount of RMB41,471,112.05 for performance compensation, interest and necessary expenses. On 26 March 2019, the BAC accepted the case and heard the case on 18 July 2019. On 9 December 2019, the BAC made an arbitral award in favour of GoldStone Haorui. Subsequently, GoldStone Haorui applied to the Linyi Intermediate People's Court for compulsory enforcement. The court accepted the case on 25 February 2020. As at the Latest Practicable Date, this case is under compulsory enforcement procedure.

(10) Dispute between GoldStone Haorui and Zhuhai Henggu and Wei Yincang on capital increase agreement and dispute between GoldStone Haorui and Yin Long Investment Group on guarantee agreement

Due to the breach of capital increase agreement by Zhuhai Henggu Investment Co., Ltd. (珠海恒古投資有限公司) ("**Zhuhai Henggu**") and Wei Yincang, GoldStone Haorui filed an application for arbitration with the Shenzhen Arbitration Commission (the "**SAC**") on 24 April 2019, requesting repurchase obligors, namely Zhuhai Henggu and Wei Yincang, to pay the consideration for equity repurchase. The SAC accepted the case on 5 June 2019 and heard the case on 8 September 2019. On 15 December 2019, the SAC made an arbitral award in favour of the GoldStone Haorui's arbitral requests. In addition, given Yin Long Investment Group (HK) Limited (銀隆投資集團(香港)有限公司) ("**Yin Long Investment Group**") has provided mortgage guarantee for the above investment, GoldStone Haorui filed an application for arbitration with the BAC on 24 April 2019, requesting Yin Long Investment Group to assume its guarantee liability. The BAC accepted the case on 30 April 2019 and heard the case on 16 October 2019. On 20 March 2020, the BAC made an arbitral award in favour of GoldStone Haorui's arbitral requests.

(11) Dispute between CITIC Securities South China and Li Yao and Cheng Lingzhi on stock-pledged repo transaction

In October 2017, Li Yao entered into a business agreement on stock-pledged repo transaction and a transaction agreement with CITIC Securities South China, and subsequently conducted a stock-pledged repo transaction with CITIC Securities South China with an initial transaction amount of RMB200 million and the tradable shares of Shaanxi J&R Fire Protection Co Ltd (now known as Shaanxi J&R Optimum Energy Co Ltd) (stock code: 300116) as the pledged target. Because Li Yao subsequently breached the contract under the above transaction, on 27 April 2018, CITIC Securities South China filed a lawsuit with the Shenzhen Intermediate Court and applied for property preservation. The object of the lawsuit was the outstanding principal of RMB200 million and the corresponding interest, liquidated damages and expenses incurred for realizing the creditor's rights, etc. The case was heard on 19 September 2018. On 6 May 2019, CITIC Securities South China received the first instance verdict, which was basically in favour of its claims. On 16 May 2019, CITIC Securities South China received a copy of the appeal petition from Li Yao and Cheng Lingzhi. On 17 October 2019, the Higher People's Court of Guangdong Province (the "**Guangdong Higher Court**") ruled that the case was dismissed as Li Yao and Cheng Lingzhi did not pay the appeal fee on time. Upon the judgment came into effect, CITIC Securities South China applied to the court for compulsory enforcement. The case was formally accepted on 7 April 2020, and as at the Latest Practicable Date, is under compulsory enforcement procedure.

(12) Dispute between CITIC Securities South China and Ruifeng Group on stock-pledged repo transaction

In 2017, Guangzhou Ruifeng Group Co., Ltd. (廣州瑞豐集團股份有限公司) ("**Ruifeng Group**") conducted the stock-pledged business with CITIC Securities South China with the shares of Modern Avenue Group Co Ltd. (stock code: 002656) as the underlying securities. Due to the breach of the contract by Ruifeng Group under the transaction, on 5 August 2019, CITIC Securities South China applied to the Intermediate People's Court of Guangzhou Municipality (the "**Guangzhou Intermediate Court**") for compulsory enforcement of the notarial document and the case was accepted. The object of the enforcement was the principal of RMB329.99 million and the corresponding interest, liquidated damages and expenses incurred for realizing the creditor's rights and other fees. On 13 January 2020, CITIC Securities South China received the verdict issued by the Guangzhou Intermediate Court which rejected its application for compulsory enforcement. CITIC Securities South China then filed reconsideration with the Guangdong Higher Court. On 30 March 2020, CITIC Securities South China received the notice of acceptance of the application for reconsideration in relation to enforcement issued by the Guangdong Higher Court. Lin Yongfei and CITIC Securities South China entered into a maximum guarantee contract in 2018, pursuant to which, Lin Yongfei agreed to provide unlimited joint and several liability guarantee for the above-mentioned stock-pledged debt of Ruifeng Group. As Lin Yongfei, as the guarantor, failed to fulfill his guarantee obligations in a timely manner, CITIC Securities South China submitted an application to the Guangzhou Arbitration Commission against Lin Yongfei, Weng Yayun, the spouse of LIN Yongfei, and other related persons on 25 February 2020, requesting them to assume joint and several liabilities for the debt of Ruifeng Group. The Guangzhou Arbitration Committee accepted the case on 20 March 2020.

(13) Dispute between CITIC Securities South China and CEFC Shanghai Group on bond transaction

Two collective asset management plans managed by CITIC Securities South China subscribed for the "16 Shenxin 01" bond issued by CEFC Shanghai International Group Limited (上海華信國際集團有限公司) ("**CEFC Shanghai Group**"), with an amount of RMB100 million and RMB200 million, respectively. On 10 September 2018, CEFC Shanghai Group published an announcement regarding the material default on the "16 Shenxin 01" bond. On 18 April 2019, CITIC Securities South China filed a lawsuit against CEFC Shanghai Group on behalf of the two asset management plans with the Shanghai Financial Court and the case was accepted. The object of the lawsuit was the principal of RMB300 million as well as the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The case was heard on 23 July 2019. Given the bankruptcy application for CEFC Shanghai Group was subsequently accepted by the Third Intermediate People's Court of Shanghai Municipality (the "**Shanghai Third Intermediate Court**"), CITIC Securities South China filed bankruptcy claims for creditor's rights with the bankruptcy administrator. On 20 March 2020, the bankruptcy administrator held the first meeting of creditors. On 31 March 2020, the Shanghai Third Intermediate Court issued a verdict to declare the bankruptcy of CEFC Shanghai Group.

(14) Dispute between CITIC Securities South China and Xiwang Group on bond transaction

On 3 December 2015, Xiwang Group Company Limited ("**Xiwang Group**") issued the "2015 Public Issuance of Corporate Bonds (Tranche 1) of Xiwang Group Company Limited" ("**15 Xiwang 01**", bond code: 136066). Subsequently, CITIC Securities South China subscribed for 15 Xiwang 01 with a nominal value of RMB130 million, and the collective asset management plans managed by CITIC Securities South China subscribed for 15 Xiwang 01 with a nominal value of RMB70 million. Due to the default of the issuer, Xiwang Group, CITIC Securities South China submitted an arbitration application to the Shanghai International Economic and Trade Arbitration Commission (the "**Shanghai International Arbitration Center**") on 8 November 2019, and the case was accepted on 22 November 2019. The hearing for the case is scheduled to be held on 6 May 2020. On 21 February 2020, the Zouping People's Court of Shandong Province (the "**Zouping Court**") ruled to accept the Xiwang Group settlement case. On 19 March 2020, CITIC Securities South China filed claims for settlement of creditor's rights with the administrator. The Zouping Court held the first meeting of creditors of Xiwang Group on 31 March 2020.

(15) Dispute between CITIC Securities South China and CITIC Guoan on bond transaction

CITIC Guoan Group Co., Ltd. ("**CITIC Guoan**") issued three tranches of medium-term notes in 2015 and 2016, namely "15 CITIC Guoan MTN001", "15 CITIC Guoan MTN003" and "16 CITIC Guoan MTN001", respectively. CITIC Securities South China subscribed for "15 CITIC Guoan MTN001" with an amount of RMB80 million, subscribed for "15 CITIC Guoan MTN003" with an amount of RMB150 million and subscribed for "16 CITIC Guoan MTN001" with an amount of RMB150 million with its own funds, totalling RMB380 million. Each of the two collective asset management plans managed by CITIC Securities South China subscribed for the bonds with an amount of RMB50 million. Due to the subsequent breach of contract by CITIC Guoan, CITIC Securities South China filed a lawsuit against CITIC Guoan with the Beijing Third Intermediate Court in May 2019. The object of the lawsuit was the principal of RMB480 million as well as the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The case was formally accepted on 14 May 2019, and heard on 24 September 2019. As at the Latest Practicable Date, the court has not yet issued its first instance verdict.

(16) Dispute between CITIC Securities South China and Kaiyuan Securities on bond reversed repo transaction

In July and August 2018, CITIC Securities South China, as a dealer for reverse repurchase, and Kaiyuan Securities, as a dealer for repurchase, carried out three bond-pledged repo transactions. CITIC Securities South China provided margin loans to Kaiyuan Securities, and Kaiyuan Securities pledged H Pangda 01 Bond (bond code: 135250) and H Pangda 03 Bond (bond code: 145135) to CITIC Securities South China. In October 2018, Kaiyuan Securities did not repay the funds as agreed after the repurchase became due. Due to the breach of contract by Kaiyuan Securities, CITIC Securities South China applied for arbitration to the Shanghai International Arbitration Center on 10 October 2019, requesting Kaiyuan Securities to pay the repurchase principal of RMB131.30 million as well as the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The case was accepted on 30 October 2019. Due to the influence of epidemic, the originally scheduled hearing was cancelled for several times. As at the Latest Practicable Date, the date for the hearing of this case is still pending.

(17) Dispute between CITIC Securities South China and Anhui Shengyun Environmental Protection and Western Securities on bond transaction

In August 2016, the collective asset management plans managed by CITIC Securities South China subscribed for the "2016 Non-public Issuance of Corporate Bonds (Tranche 1) of Anhui Shengyun Environmental Protection (Group) Co., Ltd." ("**16 Shengyun 01**") issued by Anhui Shengyun Environmental

Protection (Group) Co., Ltd. ("**Anhui Shengyun Environmental Protection**") with an amount of RMB100 million. Anhui Shengyun Environmental Protection subsequently failed to pay the principal and interest in a timely manner, thus defaulted on 16 Shengyun 01. 16 Shengyun 01's lead underwriter and trustee, Western Securities Co., Ltd. ("**Western Securities**"), failed to exercise due diligence in terms of management and the prospectus contains misrepresentation and material omissions, thus Western Securities shall assume joint and several liabilities for the losses of CITIC Securities South China. On 27 September 2019, CITIC Securities South China filed a lawsuit against Anhui Shengyun Environmental Protection and Western Securities with Anqing Intermediate People's Court (the "**Anqing Intermediate Court**"). The object of the lawsuit was the principal of RMB100 million and the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The case was accepted in October 2019. On 12 November 2019, Western Securities filed a jurisdiction objection. On 16 December 2019, the Anqing Intermediate Court issued a verdict to transfer the case to the Hefei Intermediate People's Court of Anhui Province. Subsequently, CITIC Securities South China filed an appeal, and Western Securities filed a defence of appeal to the jurisdiction objection on 3 January 2020.

(18) Dispute between CITIC Securities South China and Huang Wenjia on stock-pledged repo transaction

In December 2017, Huang Wenjia conducted the stock-pledged repo business with CITIC Securities South China with the shares of Shouhang Resources Saving Co Ltd (now known as Shouhang High-Tech Energy Co., Ltd.) (stock code: 002665) as the underlying securities. Due to the subsequent breach of contract by Huang Wenjia under the above transaction, CITIC Securities South China filed a lawsuit against Huang Wenjia with the Shenzhen Intermediate Court on 27 August 2019. The object of the lawsuit was the principal of RMB106.67 million as well as the corresponding interest, liquidated damages and other fees. On 29 October 2019, the case was formally accepted. On 3 April 2020, a notice was issued by the Shenzhen Intermediate Court, and the date for the exchange of evidence of this case was scheduled on 6 May 2020.

(19) Dispute between the Company and Zhongrong Group

As Zhongyin Cashmere International Group Co., Ltd. ("**Zhongrong Group**") breached its undertakings, the Company filed a lawsuit with the Shenzhen Intermediate Court on 26 June 2019, requesting the court to confirm the Company's ownership of the shares and relevant interests in the partnership held under the name of Zhongrong Group and to order Zhongrong Group to transfer such shares and interests to the Company, or if it fails to do so, to compensate the Company's loss of RMB110,962,689.95 in total. The Shenzhen Intermediate Court accepted the case on 26 June 2019. On 20 December 2019, the Shenzhen Intermediate Court made a ruling that the case should be transferred to the Intermediate People's Court of Yinchuan of Ningxia Hui Autonomous Region.

(20) Dispute between the Company and Shuaijia Investment on stock-pledged repo transaction

Due to the breach of contract on stock-pledged repo transaction by Hunan Shuaijia Investment Company Limited (湖南帥佳投資股份有限公司) ("**Shuaijia Investment**"), the Company applied to the Higher People's Court of Hunan Province (the "**Hunan Higher Court**") for compulsory enforcement in early January 2018, requesting Shuaijia Investment to pay the outstanding principal of RMB647.68 million and the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The Hunan Higher Court accepted the case on 8 January 2018. On 30 and 31 January 2018, the Hunan Higher Court froze relevant bank accounts under the name of Shuaijia Investment as well as the shares of Hunan Er-Kang Pharmaceutical Company Limited held by Shuaijia Investment. On 10 June 2019, the Company and Shuaijia Investment reached a debt settlement agreement and an intention agreement on share transfer. On 24 July 2019, the Company received the first settlement proceeds. On 6 January 2020, the Company and Shuaijia Investment reached the second debt settlement agreement. The Company has made corresponding provision for impairment of this transaction.

(21) Dispute between the Company and Daole Investment on stock-pledged repo transaction

Due to the breach of contract by Shanghai Daole Investment Co., Ltd. (上海道樂投資有限公司) ("**Daole Investment**"), the Company applied for the certificate of enforcement from the notary office and applied to the Second Intermediate People's Court of Shanghai (the "**Shanghai Second Intermediate Court**") for specific performance, requesting Daole Investment to pay the outstanding principal of RMB92 million and the corresponding interests, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The Shanghai Second Intermediate Court accepted the case on 10 August 2018. Given that there were three guarantors which provided the joint and several liability guarantee for the above liabilities of Daole Investment, the Company filed a lawsuit with the Beijing Third Intermediate Court, requesting the aforementioned guarantors to assume the joint and several liabilities. The Beijing Third Intermediate Court accepted the case on 30 July 2018, heard the case on 16 November 2018 and 10 December 2018, and issued the first instance verdict in favour of the claims of the Company on 29 December 2018, which already took effect. The Company applied to Nanjing Intermediate Court for compulsory enforcement on 8 August 2019. The Company has made corresponding provision for impairment of this transaction.

(22) Dispute between the Company and Pingxiang Yingshun on stock-pledged repo transaction

Due to the breach of contract on stock-pledged repo transaction by Pingxiang Yingshun Enterprise Management Co., Ltd. (萍鄉英順企業管理有限公司) ("**Pingxiang Yingshun**"), the Company applied to the notary office for issuance of a certificate of enforcement and applied to the Intermediate People's Court of Foshan of Guangdong Province (the "**Foshan Intermediate Court**") for specific performance, requesting Pingxiang Yingshun to pay the outstanding principal of RMB129.405 million and the corresponding interest, liquidated damages, expenses incurred for realizing the creditor's rights and other fees. The Foshan Intermediate Court accepted the case on 7 August 2018. Because the share auction failed twice, the Foshan Intermediate Court issued the enforcement judgment on 14 November 2019, ruling that 23,511,019 pledged shares (stock name: Europol Intelligent Network Co Ltd., stock code: 002711) shall be used to settle Pingxiang Yingshun's debt. The shares involved in this case were transferred to the Company on 28 November 2019. Given that Chen Lihao provided the joint and several liability guarantee for the above liabilities of Pingxiang Yingshun, the Company filed a lawsuit with the Beijing Third Intermediate Court, requesting Chen Lihao to assume the joint and several guarantee liability. The Beijing Third Intermediate Court accepted the case on 30 July 2018 and heard the case on 12 August 2019, 5 September 2019 and 23 December 2019, respectively. The Beijing Third Intermediate Court issued the first instance verdict in favour of the claims of the Company on 24 December 2019.

(23) Dispute between the Company and Tianjin Pipe Plant and Tianjin Pipe Group on two financial loan agreements in connection with the Company's total assets under management

Due to the breach of contract by Tianjin Seamless Pipe Plant (天津無縫鋼管廠) ("**Tianjin Pipe Plant**") as the borrower and Tianjin Pipe (Group) Corporation (天津鋼管集團股份有限公司) ("**Tianjin Pipe Group**") as the guarantor, the Company filed a lawsuit with the Beijing Fourth Intermediate Court against the Tianjin Pipe Plant and the Tianjin Pipe Group on 20 July 2018, requesting the Tianjin Pipe Plant to repay the principal, interest, penalty interest and other fees totalling RMB207,926,616.36 and the Tianjin Pipe Group to assume joint and several liabilities. The Company also applied for property preservation to the Beijing Fourth Intermediate Court. The court accepted the case and the application for property preservation on 4 July 2018. The Beijing Fourth Intermediate Court made the first instance verdict in favour of the claims of the Company on 18 December 2018. The defendants in the case had appealed on 3 January 2019. The Beijing Higher Court made the final judgment, dismissing the defendants' appeal on 17 May 2019. The Company submitted an appeal letter regarding the disposal proposal of Tianjin Seamless Pipe Plant's debt guaranteed by Tianjin Pipe (Group) Corporation to the State-owned Assets Supervision and Administration Commission of Tianjin People's Government in September 2019, and then applied to the Beijing Fourth Intermediate Court for releasing the preservation measures taken against the preserved property under the names of the respondents, Tianjin Pipe Plant and Tianjin Pipe Group.

The Company also entered into a restructuring agreement with parties including Tianjin Pipe Group, Shanghai Electric Group Co., Ltd. and Tianjin Pipe Corporation.

(24) Arbitration of dispute on stock return swap transaction between the Company and Gangtai Group

Due to the breach of contract on stock return swap transaction by Gangtai Group Co., Ltd. (剛泰集團有限公司) ("**Gangtai Group**"), the Company applied for the arbitration to CIETAC on 31 August 2018, requesting Gangtai Group to pay the transaction settlement amount of RMB14,624,409.12, liquidated damages of RMB133,161.06 and relevant fees, and also applied for property preservation simultaneously. CIETAC accepted the case on 24 October 2018 and heard the case on 11 January 2019. On 12 April 2019, the Company received the arbitral award in favour of the Company from the arbitral tribunal. On 29 May 2019, the Company applied to the Shanghai Financial Court for enforcement. On 5 July 2019, enforcement of this case was transferred to the People's Court of Pudong New District of Shanghai. This case is currently under enforcement procedure. The Company has made corresponding provision for impairment of this transaction.

(25) Dispute between the Company and Shanghai Yunfeng Group on bond transaction

Due to the breach of contract on bond transaction by Shanghai Yunfeng Group Co., Ltd. ("**Shanghai Yunfeng Group**"), the Company applied for arbitration to CIETAC, requesting Shanghai Yunfeng Group to pay the outstanding principal, interest and liquidated damages totalling RMB7,697,354.38 (tentatively calculated as of 15 June 2018). On 2 November 2018, CIETAC accepted this case. The CIETAC heard the case on 6 August 2019. On 13 November 2019, the CIETAC made an arbitral award in favour of the Company. The Company has made corresponding provision for impairment of this transaction.

(26) Dispute between the Company and Kangde Group on guarantee contract

Because Shenzhen Qianhai Fengshi Yunlan Capital Management Co., Ltd. (深圳前海豐實雲蘭資本管理有限公司) ("**Fengshi Yunlan**") defaulted when conducting the stock-pledged repo transaction with the Company and Kangde Investment Group Co., Ltd. (康得投資集團有限公司) ("**Kangde Group**") also failed to fulfill its guarantee obligations in a timely manner to repay the relevant debts to the Company on behalf of Fengshi Yunlan, the Company filed a lawsuit with the Beijing Higher Court on 22 January 2019, requesting Kangde Group to assume the joint and several liability as the guarantor and repay the amount of RMB1,418,245,278.08 owed to the Company. The Beijing Higher Court heard the case on 9 December 2019 and no ruling has been made so far.

(27) Dispute between the Company and He Qiaonv and Tang Kai on stock-pledged repo transaction

Due to the breach of contract on stock-pledged repo transaction by He Qiaonv and Tang Kai, the Company filed an application for the issuance of a certificate of enforcement with Fangyuan Notary Public Office on 26 October 2018. On 22 November 2018, Fangyuan Notary Public Office issued the certificate of enforcement in accordance with laws. On 15 May 2019, the Company submitted an application for compulsory enforcement to the Beijing Third Intermediate Court, and the case was accepted on the same date. On 27 August 2019, the Company reached a settlement agreement with He Qiaonv and Tang. On 26 September 2019, the Company received the first settlement payment from He Qiaonv. The Company has made corresponding provision for impairment of this transaction.

(28) Dispute on compensation for equity transfer between GoldStone Investment and Qiu Xiaojie

Due to a dispute on compensation for equity transfer, GoldStone Investment applied for arbitration to the Beijing Arbitration Commission (the "**BAC**"), requesting Qiu Xiaojie and Hubei Jiezhixing Clothing and

Accessories Company Limited to pay the relevant compensation for equity transfer of RMB197,256,266 and preservation fees on a joint and several basis. The BAC accepted the case on 23 May 2018. The case was heard on 10 December 2018. On 12 March 2019, both parties reached a settlement chaired by the BAC and signed the Mediation Order that Qiu Xiaojie will pay the investment cost balance of RMB20 million and expected investment income of RMB41 million to GoldStone Investment, along with the arbitration fee, preservation fees and lawyer fees of this case. As at 31 December 2019, Qiu Xiaojie had paid the investment cost balance of RMB20 million to GoldStone Investment. GoldStone Investment has made corresponding provision for impairment of this transaction.

(29) Dispute among GoldStone Haorui and Sanxia GoldStone Fund, and Zhang Yonggang and Li Jianqiong on capital increase agreement

Due to the breach of contract by Zhang Yonggang and Li Jianqiong, each of GoldStone Haorui and Sanxia GoldStone (Wuhan) Equity Investment Fund Partnership (Limited Partnership) (三峽金石(武漢)股權投資基金合夥企業(有限合夥)) ("**Sanxia GoldStone Fund**") submitted an application for arbitration with CIETAC, requesting Zhang Yonggang and Li Jianqiong to purchase the 3.89% equity interest in Sichuan Gangyi Technology Group Co., Ltd. (四川剛毅科技集團有限公司) ("**Gangyi Group**") held by GoldStone Haorui (at an aggregate consideration of RMB37,684,932 as of 4 March 2019) and the 3.90% equity interest in Gangyi Group held by Sanxia GoldStone Fund (at an aggregate consideration of RMB37,684,932 as of 4 March 2019), respectively, and to pay the lawyer's fees and arbitration fee, etc. CIETAC accepted the two cases on 12 April 2019 respectively and heard the cases on 10 October 2019. On 1 December 2019, CIETAC made arbitral awards for the two cases in favour of the Company respectively. Later, the Company applied to Intermediate People's Court of Chengdu for compulsory enforcement, which were accepted on 8 January 2020 and 9 January 2020, respectively. GoldStone Haorui has made corresponding provision for impairment of this transaction.

(30) Dispute between Jindingxin Microfinance and Qingxinda

On 11 January 2016, Jindingxin Microfinance, a subsidiary of CITIC Securities (Shandong), filed a lawsuit against the borrower, Qingdao Qingxinda Trading Company Limited ("**Qingxinda**"), as well as the joint liability guarantors (Shandong Boxing Changhong Steel Plat. Co., Ltd., Wang Yongqing, Wang Wei, Wang Qiang and Wang Zhong) in relation to the default on a loan agreement for recovery of approximately RMB14,160,200 from Qingxinda. The People's Court of Shinan District of Qingdao (the "**Shinan Court**") accepted the case on the same day. Shinan Court heard the case on 21 February 2017 and made a judgement in favour of Jindingxin Microfinance on 2 June 2017. Jindingxin Microfinance applied to Shinan Court for compulsory enforcement on 11 October 2017 and submitted an auction application letter to Shinan Court on 21 November 2017. Shinan Court initiated the first auction at sf.taobao.com on 5 August 2019 with an initial bidding price of RMB20,922,440, and the second auction on 4 November 2019 with an initial bidding price of RMB16,737,952, however, both auctions failed. Jindingxin Microfinance has decreased the "Five-Level Classification" of Qingxinda to "subordinated" and has made full provision for impairment.

Regulatory Review and Proceedings

We are subject to various regulatory requirements and guidelines set forth by the PRC and Hong Kong regulatory authorities, which include, without limitation, the CSRC, the Securities Association of China, Shanghai Stock Exchange, SFC and the Hong Kong Stock Exchange, and their respective local bureaus and offices (if applicable).

While the Company, its directors and senior management were not subject to regulatory investigations by competent authorities in 2019, we and our employees have in the past been found to be non-compliant with regulatory requirements. Material incidents of non-compliance of our Group that occurred in 2019 included the following:

- Some employees of the Shanghai World Financial Centre Securities Outlet sold financial products that were not issued by or sold on behalf of the issuer by the Company without proper authorization from October 2015 to March 2017, which violated relevant external regulatory provisions. On 2 April 2019, the Shanghai Regulatory Bureau of the CSRC issued the Decision on Taking Regulatory Measure of Issuing a Warning Letter to the Shanghai World Financial Centre Securities Outlet of CITIC Securities Company Limited (《關於對中信証券股份有限公司上海環球金融中心證券營業部採取出具警示函監管措施的決定》) (Decision on Administrative Regulatory Measures taken by the Shanghai Regulatory Bureau of the CSRC [2019] No. 29) (中國證監會上海監管局行政監管措施決定書[2019]29 號) to the Shanghai World Financial Centre Securities Outlet of the Company. The Company immediately conducted self-inspection and took measures to eliminate potential risks. Meanwhile, the Company strengthened the management of agency sales business of financial products, compliance trainings to employees, compliance monitoring and investor education. As at the Latest Practicable Date, the matter has been rectified.

- On 16 July 2019, the CSRC announced and issued the Decision on Taking Regulatory Measure of Issuing a Warning Letter to CITIC Securities Company Limited (《關於對中信証券股份有限公司採取出具警示函監管措施的決定》) to the Company, and issued the Decision on Taking Regulatory Measure of Issuing a Warning Letter to Zhu Yexin and Sun Shou'an (《關於對朱燁辛、孫守安採取出具警示函監管措施的決定》) to Zhu Yexin and Sun Shou'an, being sponsor representatives of the Company. It was decided in the aforementioned regulatory letters that in the process of sponsoring the application by Shanghai Friendess Electronic Technology Co., Ltd. for the initial public offering and listing on the Shanghai Stock Exchange Science and Technology Innovation Board Market, the Company and its sponsor representatives, Zhu Yexin and Sun Shou'an, deleted part of the contents from the registration draft of the prospectus without approval. In addition, the dates signed on the registration drafts of the prospectus and the Letter of Implementation of Feedback submitted were not consistent with the actual execution dates. After receiving the aforementioned regulatory letters, the Company attached great importance thereto, and promptly rectified the problem existing in the internal control system of the Company according to the requirements of the CSRC, further strengthened the internal control, and urged the project teams to diligently conduct business, prudently make judgements and decisions, improve the quality of practice and risk awareness and avoid the recurrence of such incidents.

- On 13 November 2019, the Guangdong Regulatory Bureau of the CSRC issued a Decision on Ordering Guangzhou Panyu Wanda Plaza Securities Outlet of CITIC Securities Company Limited to Take Rectification Measures (《關於對中信証券股份有限公司廣州番禺萬達廣場證券營業部採取責令改正措施的決定》), according to which, administrative regulatory measures of ordering Guangzhou Panyu Wanda Plaza Securities Outlet of CITIC Securities Company Limited to take rectification measures was adopted. It was decided in the aforementioned regulatory letter that during the period from 29 July 2019 to 24 October 2019, Wang Suihong performed the duties of the head of the outlet, but the outlet failed to report it in a timely manner as required. After receiving the aforementioned regulatory letter, the Company attached great importance to, and promptly held relevant employees accountable according to the requirements of the CSRC, implemented effective rectification measures and reported such rectifications measures in writing to avoid the recurrence of such incidents.

MANAGEMENT

OVERVIEW

The board of directors of the Company currently consists of five directors, three of whom are independent non-executive directors. The directors are elected at a meeting of the shareholders for a term of three years, renewable upon re-election and reappointment.

The supervisory committee currently consists of four members. Except for the employee representative supervisor elected by employees, the supervisors are elected at shareholders' general meetings for a term of three years, renewable upon re-election and re-appointment.

DIRECTORS

The following table sets forth information regarding our directors.

Name	Age	Position
Mr. ZHANG Youjun	54	Chairman, executive director, member of the executive committee
Mr. YANG Minghui	55	President, executive director, member of the executive committee
Mr. LIU Ke	61	Independent non-executive director
Mr. HE Jia	65	Independent non-executive director
Mr. ZHOU Zhonghui	72	Independent non-executive director

Mr. ZHANG Youjun, 54, serves as secretary to the Communist Party Committee of the Company, an executive Director, Chairman and member of the Executive Committee and Secretary to the Board (temporarily performing such duty) of the Company. Mr. ZHANG joined the Company at the time of the establishment of the Company in 1995, and was appointed as an executive Director of the Company on 19 January 2016. During the same term, he was elected as the Chairman of the Company. Mr. ZHANG also serves as assistant to the general manager of each of CITIC Group, CITIC Limited and CITIC Corporation Limited, and the chairman of each of Goldstone Investment, CSI and CLSA (i.e. CLSA B.V. and its subsidiaries). Mr. ZHANG had worked as a general manager of the trading department of the Company, an assistant manager and deputy general manager of the Company since 1995, and was appointed as a Director of the Company from September 1999 to June 2012 and the general manager of the Company from May 2002 to October 2005. Mr. ZHANG previously worked as the general manager of Changsheng Fund Management Co., Ltd. from 1998 to 2001 and successively served as the general manager and the chairman of CSC Financial Co., Ltd. from 2005 to 2011 and a director of the board office of CITIC Group from December 2011 to December 2015. Mr. ZHANG obtained a Bachelor's degree in economics (majoring in money and banking) in 1987 from Renmin University of China and a Master's degree in economics (majoring in money and banking) in 1990 from Central University of Finance and Economics.

Mr. YANG Minghui, 55, serves as deputy secretary to the Communist Party Committee of the Company, an executive Director, the President and member of the Executive Committee of the Company. Mr. YANG joined the Company at the time of the establishment of the Company in 1995 and was appointed as a Director of the Company on 19 January 2016. Mr. YANG also serves as chairman of China AMC and chairman of China Asset Management (Hong Kong) Limited. Mr. YANG has been a Director, assistant manager and deputy general manager of the Company since 1995; a director and executive vice-president of CITIC Holdings and a director of CITIC Trust from May 2002 to August 2005; the chairman of CITIC-Prudential Fund Management Co., Ltd. from July 2005 to January 2007; and an executive director and the president of China Jianyin Investment Securities Company Limited from August 2005 to October 2011. Mr. YANG was granted the title of senior economist by China International Trust and Investment Corporation, the predecessor of CITIC Group, in October 1996. Mr. YANG obtained a Bachelor's degree in engineering (majoring in mechanical manufacturing technology and equipment) from the Department of Mechanical Engineering of East China Institute of Textile Science and Technology in 1982 and obtained a Master's degree in engineering (majoring in textile machinery) from the Department of Mechanical Engineering of East China Institute of Textile Science and Technology in 1985.

Mr. LIU Ke, 61, serves as an independent non-executive Director of the Company. Mr. LIU was appointed as an independent non-executive Director of the Company on 19 January 2016. Mr. LIU also serves as a professor of the Business School of Beijing Language and Culture University. Mr. LIU was engaged in teaching, scientific research and management in Lanzhou University of Finance and Economics from July 1984 to October 1997. From October 1997 to May 2001, he served as a professor of Beijing Wuzi University engaging in teaching, scientific research and management and executive deputy chief editor of China Business and Market Magazine. Mr. LIU was accredited as State Council Expert for Special Allowance in April 1999 and was accredited as Beijing Municipal Trans-century Talent in April 2000. Mr. LIU obtained a Bachelor of arts degree from the Department of Foreign Languages of Northwest Normal University in 1984, a Master's degree in business administration from the College of Business of University of Georgia in 1993 and a Doctoral degree in economics from the School of Finance of Renmin University of China in 2000.

Mr. HE Jia, 65, serves as an independent non-executive Director of the Company. Mr. HE was appointed as an independent non-executive Director of the Company on 19 January 2016. He formally took office on 23 March 2016 (upon approval by the regulatory authority on the qualification for serving as an independent director). Mr. HE also serves as a chair professor of Southern University of Science and Technology of China, Cheung Kong Scholar Chair Professor of the Ministry of Education and executive director and academic member of the China Society for Finance and Banking. He is also an independent director of Xinlong Holding (Group) Co., Ltd. (a company listed on SZSE), NORINCO International Cooperation Ltd. (a company listed on SZSE), China Chengtong Development Group Limited (a company listed on Hong Kong Stock Exchange), OP Financial Limited (a company listed on Hong Kong Stock Exchange), Shanghai Junshi Biosciences Co., Ltd. (a company listed on Hong Kong Stock Exchange) and Bank of Tianjin Co., Ltd (a company listed on Hong Kong Stock Exchange). Mr. HE was an assistant professor and associate professor (life tenure) of the University of Houston from August 1991 to August 1999, professor of the Department of Finance of the Chinese University of Hong Kong from August 1996 to July 2015, member of the Planning and Development Committee of the CSRC from June 2001 to July 2002 and the director of the Research Institute of SZSE from June 2001 to October 2002. Mr. HE had served as an independent director of Shenzhen Soling Industrial Co., Ltd. (a company listed on the SME board of SZSE) from August 2015 to November 2016, an independent director of Shenzhen Xinguodu Co., Ltd. (a company listed on the ChiNext of SZSE) from May 2014 to May 2019 and an independent director of Tongfang Co., Ltd. (a company listed on SSE) from May 2016 to February 2020. Mr. HE graduated from Heilongjiang University in 1978, majoring in mathematics (worker-peasant-soldier student). He obtained a double Master's degree in computer science and decision science engineering from Shanghai Jiao Tong University in 1983 and obtained a Doctoral degree majoring in finance from the Wharton Business School of the University of Pennsylvania in 1988.

Mr. ZHOU, Zhonghui, 72, serves as an independent non-executive Director of the Company. Mr. ZHOU was appointed as an independent non-executive Director of the Company on 27 May 2019. Mr. ZHOU has been a senior member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會), a member of the Finance Director Specialized Committee of the China Association for Public Companies (中國上市公司協會) and a member of the Advisory Committee of the China Appraisal Society (中國評估師協會) since November 2010. Mr. ZHOU also serves as an independent director of each of Shanghai Fudan Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company listed on the Hong Kong Stock Exchange), S.F. Holding Co., Ltd. (a company listed on the SZSE), COSCO SHIPPING Holdings Co., Ltd. (a company listed on the SSE and the Hong Kong Stock Exchange) and Goldman Sachs Gao Hua Securities Company Limited. Mr. ZHOU was one of the founders of PricewaterhouseCoopers Zhong Tian CPAs Limited Company, and used to serve as its first general manager and chief accountant. He also served as a senior partner of PricewaterhouseCoopers, a lecturer, an associate professor and a professor of Accounting of Shanghai University of Finance and Economics and the chief financial officer of Xinlong Hong Kong Co., Ltd.. Mr. ZHOU served as the chief accountant of the CSRC from May 2007 to April 2011, a member of the International Advisory Council of the CSRC from September 2011 to September 2016, a senior advisor of PricewaterhouseCoopers from June 2011 to May 2014, and an independent director of China Pacific Insurance (Group) Co., Ltd. (a company listed on the SSE and the Hong Kong Stock Exchange) from July 2013 to June 2019. Mr. ZHOU obtained a master's degree in Economics (majoring in accounting) in 1983 and a Ph.D. degree in Economics (majoring in accounting) in 1993 from Shanghai University of Finance and Economics. He was qualified as a Chinese CPA in 1995.

SUPERVISORS

The following table sets forth information regarding the supervisors.

Name	Age	Position
Mr. LI Ning	35	Employee representative supervisor, convener of the Supervisory Committee
Mr. GUO Zhao	63	Supervisor
Mr. RAO Geping	72	Supervisor
Ms. NIU Xuekun	46	Employee representative supervisor

Mr. LI Ning, 35, serves as employee representative Supervisor, convener of the Supervisory Committee, and senior vice president of the Investment Banking Management Committee of the Company. Mr. LI joined the Company in May 2011 and previously worked as the auditor and senior auditor of PwC Zhong Tian, and senior manager and vice president of the Investment Banking Management Committee of the Company. Mr LI obtained a Bachelor's degree in economics from Shandong Economics College in 2006 and obtained a Master's degree in economics from University of International Business and Economics in 2008. Mr LI was qualified as a Chinese CPA in 2014 and obtained the qualification as sponsor representative in 2019.

Mr. GUO Zhao, 63, serves as a Supervisor of the Company. Mr. GUO joined the Company in 1999 and was appointed as a Supervisor of the Company on 26 September 1999. Mr. GUO previously worked as the deputy chief accountant of Nanjing International Container Handling Co., Ltd. from 1988 to 1992; as the secretary to the board of directors of Nanjing Xingang High-Tech Co., Ltd. from 1992 to 2002; as director of Nanjing Xingang High-Tech Co., Ltd. from January 2001 to January 2013; as vice president of Nanjing Gaoke Co., Ltd. from June 2003 to December 2016; and as director and general manager of Nanjing Chengong Pharmaceuticals Co., Ltd. from January 2001 to January 2017. Mr. GUO obtained the accountant certificate in September 1993, which was granted by the Committee for Assessment of Academic Qualifications of the PRC Ministry of Transport. Mr. GUO obtained a college diploma in water transport finance and accounting in 1988 from Wuhan River Transportation College.

Mr. RAO Geping, 72, serves as a Supervisor of the Company. Mr. RAO joined the Company in 2011 and was appointed as a Supervisor of the Company on 19 January 2016 and formally took office on 23 March 2016. Mr. RAO is also a professor and doctoral supervisor of Peking University Law School, head of the Centre for Hong Kong and Macao Studies in Peking University, the chairman of the Institute of Hong Kong and Macao Affairs of the Development Research Centre of the State Council, a member of the Committee for the Basic Law of Hong Kong of the Standing Committee of the NPC and chairman member of the Law Specialty Committee on National Self-taught Higher Education Examinations. Mr. RAO previously served as a member of 12th CPPCC National Committee, independent supervisor of Travelsky Technology Limited, an independent non-executive Director of the Company and an independent non-executive director of Yangguang Xinye Real Estate Co., Ltd.. Mr. RAO obtained a Master's degree in law in 1982 from Peking University and was a visiting scholar at the University of Washington, New York University, and Max Planck Institute of International Law.

Ms. NIU Xuekun, 46, serves as an employee representative Supervisor and the senior vice president of the Planning and Finance Department of the Company. Ms. NIU joined the Company in October 2000 and previously worked as the accountant of Shenzhen Property Management Co., Ltd., and senior manager and vice president of the Planning and Finance Department of the Company. Ms. NIU currently also serves as a supervisor of each of GoldStone Zexin, CITIC Securities (Qingdao) Training Centre Hotel Management Co., Ltd. (中信証券（青島）培訓 中心酒店管理有限公司) and CITIC Securities Investment. Ms. NIU obtained a Bachelor's degree in economics and a Master's degree in management from Dongbei University of Finance & Economics in 1996 and 1999 respectively. Ms. NIU was qualified as a Chinese CPA and a senior accountant in 2002 and 2015, respectively.

SENIOR MANAGEMENT

The following table sets forth information regarding the senior management of our Company.

Name	Age	Position
Mr. MA Yao	48	Member of the executive committee
Mr. XUE Jirui	46	Member of the executive committee
Mr. YANG Bing	47	Member of the executive committee
Mr. LI Chunbo	44	Member of the executive committee
Mr. ZOU Yingguang	49	Member of the executive committee
Mr. LI Yongjin	49	Member of the executive committee
Mr. LI Jiong	50	Treasurer and chief financial officer
Mr. SONG Qunli	53	Chief engineer (chief information officer)
Mr. ZHANG Hao	50	Chief marketing officer
Mr. ZHANG Guoming	55	Chief compliance officer and chief risk officer
Mr. YE Xinjiang	55	Member of the senior management
Mr. JIN Jianhua	49	Member of the senior management
Mr. SUN Yi	48	Member of the senior management
Mr. GAO Yuxiang	51	Member of the senior management

Mr. MA Yao, 48, serves as a member of the Executive Committee and the head of the Investment Banking Management Committee of the Company. Mr. MA joined the Company in 1998 and previously served as the deputy general manager of the Risk Control Department, deputy general manager of the Bond Distribution and Trading Department, deputy general manager of the Trading Department, person-in-charge of the Capital Market Department, head of the Financial Industry Group and member of the Investment Banking Management Committee. Mr. MA obtained a Bachelor's degree in automatic control from Xi'an Jiaotong University in 1994, a Master's degree in money and banking and a Doctor's degree in international finance from the Graduate School of the People's Bank of China in 1998 and 2012, respectively.

Mr. XUE Jirui, 46, serves as a member of the Executive Committee, head of the Equity Derivatives Business Line and Prime Service Business Line and a member of the Financial Market Management Committee of the Company. Mr. XUE joined the Company in 2000 and previously served as manager of the financial products development group, researcher of the Research Department, head of the product development group of the trading and derivatives business line of the Company. Mr. XUE concurrently served as a director of CITIC Futures and Jindingxin Microfinance. Mr. XUE obtained a Bachelor's degree, a Master's degree and a Doctor's degree in statistics from Renmin University of China in 1997, 2000 and 2006, respectively.

Mr. YANG Bing, 47, serves as a member of the Executive Committee and the chief executive of the asset management business of the Company. Mr. YANG joined the Company in 1999 and previously worked as a teacher of Shaoguan University from 1993 to 1996. He once served in the Company as an assistant trader of the Trading Department, trader of the Fixed Income Department as well as investment manager and investment supervisor of the asset management business. Mr. YANG obtained a Bachelor's degree in fine chemicals from Nanchang University in 1993 and a Master's degree in national economics from Nanjing University in 1999.

Mr. LI Chunbo, 44, serves as a member of the Executive Committee and the division head of the Research Department, Equity Distribution and Trading Department and the Custody Department of the Company, and the Chairman of CLSA Limited. Mr. LI joined the Company in 2001 and previously worked as an analyst of the Research Consulting Department (later renamed as the Research Department), chief analyst of the Research Department, as well as the chief executive of the Research Department and the Equity Distribution and Trading

Department. Mr. LI obtained a Bachelor's degree in vehicle engineering and a Master's degree in management science and engineering from Tsinghua University in 1998 and 2001, respectively.

Mr. ZOU Yingguang, 49, serves as a member of the Executive Committee and chief executive of the Fixed Income Department of the Company. Mr. ZOU joined the Company in 2017 and previously worked as a surgeon of Xuanwu Hospital of Capital Medical University, business manager of Hainan Huayin International Trust Corporation, manager of the institutional client section of South Haidian Road Outlet of Huaxia Securities Co., Ltd., senior business director of the bonds department of Huaxia Securities Co., Ltd., assistant to general manager of the bonds department, the person-in-charge of the fixed income department as well as member of the Executive Committee and concurrently the person-in-charge of the fixed income department of CSC Financial Co., Ltd. Mr. ZOU obtained a Bachelor's degree in clinical medicine from Capital University of Medical Sciences in 1994, a Master's degree in finance from Central University of Finance and Economics in 2000 and an EMBA degree from China Europe International Business School in 2012.

Mr. LI Yongjin, 49, serves as a member of the Executive Committee, director of the Wealth Management Committee, a Director of CITIC Securities Brokerage (HK), a director of each of CITIC Futures and China AMC and director and general manager of Kington Securities. Mr. LI joined the Company in 1998 and previously worked as a staff of the International Business Department of Dalian Branch of Agricultural Bank of China, department manager of Dalian Sales Department of Shenyin Wanguo Securities, assistant to general manager, deputy general manager and general manager of Dalian Securities Outlet of the Company, senior vice president and director of the Brokerage Management Department of the Company, general manager of CITIC Securities (Zhejiang) Co., Ltd. (the predecessor of the Zhejiang Branch Office) and general manager of the Zhejiang Branch Office of the Company. Mr. LI obtained a Bachelor's degree in economics and a Master's degree in finance from Dongbei University of Finance and Economics in 1992 and 2000, respectively.

Mr. LI Jiong, 50, serves as the Chief Financial Officer, the treasurer and the chief executive of the Treasury Department of the Company. Mr. LI joined the Company in 1996 and previously worked as the manager of International Cooperation Office of the Information Center of China International Trust and Investment Corporation (the predecessor of CITIC Group), manager of the Development Department of CITIC International Cooperation Company, manager of the Bonds Department and deputy general manager of the Capital Operation Department (later renamed as the Treasury Department) as well as the chief executive of the Prime Service Business Line of the Company and director of CSI. Mr. LI concurrently serves as the director of each of CITIC Securities Overseas Investment Co., Ltd., CITIC Futures, Jindingxin Microfinance, CITIC Global Financial Leasing CO,. LTD, CLSA Premium Limited and CITIC Securities International USA, LLC. Mr. LI obtained a Bachelor's degree in international finance from the University of International Business and Economics in 1992 and an MBA degree from Tsinghua University in 2000.

Mr. SONG Qunli, 53, serves as the chief engineer (chief information officer) of the Company and administrative person in charge of the Information Technology Center of the Company. Mr. SONG joined the Company in 2016 and previously served as the chief of the software section of Beijing CONTEC Microelectronics Co., Ltd., general manager of the Computer Center of Huaxia Securities Co., Ltd., member of the Business Decision-making Committee and concurrently chief executive of the Information Technology Department of CSC Financial Co., Ltd, vice president of China Minzu Securities Co., Ltd. and managing director of the Information Technology Department of CSC Financial Co., Ltd. Mr. SONG concurrently serves as the executive director of CITIC Securities Information and Quantitative Service (Shenzhen) Co., Ltd. and the director of E-Capital Transfer Co., Ltd. Mr. SONG obtained a Bachelor's degree in automotive control from the School of Engineering of Beijing Union University in 1987.

Mr. ZHANG Hao, 50, serves as the chief marketing officer of the Company and secretary to the Communist Party Committee and chairman of CITIC Futures. Mr. ZHANG joined the Company in 1997 and previously served as teaching assistant of Shanghai Institute of Urban Construction, head of the B-share Business

Department of Shanghai Trust Investment Corporation of China Construction Bank as well as deputy general manager of the Shanghai B-share Business Department, general manager of the Shanghai Fuxing Middle Road Securities Outlet and concurrently deputy general manager of the Shanghai management headquarters, general manager of the Shanghai Huaihai Middle Road Securities Outlet, deputy general manager of the Shanghai management headquarters and general manager of Shanghai Branch of the Company. Mr. ZHANG concurrently serves as vice president of China Futures Association and a director of CITIC Global Financial Leasing CO,. LTD.. Mr. ZHANG was awarded the title of "Skilled Young Worker of SOEs" in 2001. Mr. ZHANG obtained dual Bachelor's degrees in industrial management engineering and engineering mechanics from Shanghai Jiao Tong University in 1991 and an MBA degree from the Antai College of Shanghai Jiao Tong University in 2001.

Mr. ZHANG Guoming, 53, serves as the Chief Compliance Officer, Chief Risk Officer, the chief executive of the Legal Department of the Company and a supervisor of CITIC Futures. Before joining the Company in 2010, Mr. ZHANG worked as deputy chief judge, chief judge and a member of the Judge Committee of the Higher People's Court of Henan Province, and the judge of the Supreme People's Court. Mr. ZHANG obtained his Master's degree in law and Doctor's degree in law from the Renmin University of China in 1994 and 2008, respectively.

Mr. YE Xinjiang, 55, a member of the Senior Management of the Company. Mr. YE joined the Company in December 2005. He was formerly the head of the medical and health industry group, head of the regional IBS group, head of the New OTC Market Business Department, member of the Investment Banking Management Committee (IBMC), and head of the quality control group and the M&A business line under the IBMC of the Company. Mr. YE obtained a Bachelor's degree in agricultural economics in July 1985 and a Master's degree in management in July 1990 from Zhejiang University (formerly Zhejiang Agricultural University).

Mr. JIN Jianhua, 49, a member of the Senior Management, secretary to the Party Committee and general manager of GoldStone Investment and chairman of CITIC PE Fund. Mr. JIN joined the Company in May 1997. He previously served as the deputy general manager of the Investment Banking Department (Beijing), and IBMC member and head of the financial industry group, equipment manufacturing industry group and the M&A business line under the IBMC of the Company. Mr. JIN obtained a Bachelor's degree in industrial foreign trade in July 1993 and a Master's degree in technical economics in July 1996 from Xi'an Jiaotong University, and obtained a Master's degree in business administration in 2009 from China Europe International Business School.

Mr. SUN Yi, 48, a member of the Senior Management, IBMC member and head of the financial industry group under the IBMC of the Company. Mr. SUN joined the Company in April 1998. He once served as the deputy general manager of the Investment Banking Department (Shenzhen) of the Company, managing director of CSI, head of the Operations Department, head of ECM team and head of the transport industry team under the IBMC of the Company, as well as the deputy general manager of China AMC and concurrently general manager of China AMC Capital Management Limited. Mr. SUN obtained a Bachelor's degree in business management in July 1993 from Jiangxi University of Finance and Economics and a Master's degree in corporate management in June 1996 from Xiamen University.

Mr. GAO Yuxiang, 51, a member of the Senior Management, IBMC member, head of the infrastructure and real estate industry group under the IBMC of the Company, and an executive director and the legal representative of Xinjiang Equity Exchange Co., Ltd. (新疆股權交易中心有限公司)). Mr. GAO joined the Company in November 2004 and had served as the deputy head of the real estate and construction materials industry team, the transport industry team and the infrastructure and real estate industry team under the IBMC of the Company. Mr. GAO obtained a College degree in financial accounting from Qingdao Radio and Television University in July 1990 and a Bachelor's degree in national economic management from Peking University in July 1995. He obtained a degree in business management in July 2001 from Capital University of Economics and Business and a Doctor's degree in industrial economics in July 2004 from Beijing Jiaotong University. Mr. GAO obtained the qualification of technical specialty of senior economist in September 2006.

This section provides a brief summary of some of the laws, rules and regulations relevant to our activities. It is not exhaustive and investors should not place undue reliance on the statements in this section. You should consult your own advisers about the legislation referred to in this section.

PRC REGULATORY OVERVIEW

We are subject to extensive regulation in China with respect to our investment banking, sales, trading and brokerage, asset management and investment businesses. The principal laws and regulations governing our businesses in China include the Securities Law of the PRC, the PRC Securities Investment Fund Law and the Regulations on Supervision and Administration of Securities Companies. These regulations relate to, among other things, licensing requirements for securities companies, qualifications of securities professionals, disclosure requirements and risk management. In addition, we are subject to laws and regulations governing Chinese companies generally, such as foreign exchange, taxation and corporate registrations.

Regulatory Authorities

The principal regulators of the PRC securities industry include:

- ***The CSRC.*** The CSRC is responsible for the supervision and regulation of China's securities and futures markets and industry participants. The CSRC formulates policies and development plans for the securities and futures markets, and drafts and enforces relevant laws and regulations.

- ***The Securities Association of China.*** The Securities Association of China is a self-regulatory organisation for securities companies in China. It formulates and enforces practice standards and codes of conduct, and supervises professional qualification examinations and registrations of securities professionals.

- ***Stock Exchanges.*** The two principal stock exchanges in China are the Shanghai Stock Exchange and the Shenzhen Stock Exchange. They accept and review listing applications, arrange for securities listings, oversee trading activities and regulate their members and listed companies.

Business Scope

A securities company may engage in some or all of the following business activities with the approval of the CSRC or by filing with other relevant regulatory authorities:

- brokerage;
- investment advisory;
- trading and investment advisory;
- underwriting and sponsorship;
- proprietary trading;
- asset management; and
- other securities businesses.

In 2012, pursuant to the State Council's directives, the CSRC largely relaxed the regulation on securities companies, including revoking 25 administrative approval items and delegating approval authority to its local branches regarding 10 administrative approval items. For example, the following matters of a securities company no long require approvals from the CSRC: (i) establishment of collective asset management plans, (ii) acting as introducing broker for futures companies, or (iii) changing the place of business of a branch office in the PRC. In addition, the CSRC delegated authority to its local branches to approve a securities company's business of selling third-party funds on an agency basis, establishment, acquisition or termination of a branch office in the PRC, or amendment of major provisions of its articles of association.

A securities company remains required to obtain separate permits and approvals to provide margin financing and securities lending services. In addition, a securities company must obtain prior approvals from the CSRC before undertaking certain "fundamental changes" to its business, including: (i) change of registered capital, or shareholders or control persons holding 5% or more of the shares, of a public securities company; or (ii) change of business scope or corporate form, merger or spin-off, and the suspension, dissolution or bankruptcy of, or the establishment and acquisition of or equity investment in overseas securities companies by, a securities company (whether a public company or not).

Any shareholder that transfers its equity interests in a PRC securities company needs to ensure that the transferee and the beneficial owner of the transferred shares possess the necessary qualifications as required by law and the CSRC. Prior approval from the CSRC (or its local branches, in the case of a non-public securities company) is required for any person or entity to directly or indirectly hold 5% or more of the total equity interest of a securities company in China. Any shareholder that increases its shareholding in a securities company to more than 5% of the company's registered capital without the prior approval CSRC (or its local branches, in the case of a non-public securities company) will lose its voting right associated with such shares until approval from the CSRC is obtained.

A securities company and its subsidiary, or subsidiaries under the control of the same securities company, shall not operate similar businesses which would result in conflicts of interest or competition.

Brokerage

A securities company in China that engages in brokerage business must keep the record of every brokerage client's authorisation for a prescribed period, regardless of whether any transaction is executed on behalf of this client.

A securities company in China cannot accept authorisations to engage in discretionary securities trading on its customer's account, including, for example, deciding the type, quantity and price of securities to buy or sell for its customers.

Proprietary Trading

According to the PRC Regulations on Supervision and Administration of Securities Companies and the Provisions on the CSRC on the Investment Scope for the Proprietary Trading of Securities Companies and Related Matters, a securities company in China is permitted to engage in proprietary trading of domestic publicly traded stocks, securities that have been listed and transferred on the National Equities Exchange and Quotations System, private placement bonds that have been and may be legally listed and transferred on a regulated regional equity trading market and stocks that have been listed and transferred on a regulated regional equity trading market, certain types of bond products traded on the interbank market, as well as securities issued with the approval of or after filing with CSRC or an institution authorised by it and traded over the counter among domestic financial institutions. It is also allowed to trade in other financial products and invest in the equity of non-publicly traded companies through its subsidiaries established for such purposes. Securities companies in

China must conduct their proprietary trading business in their own name and using their own funds or funds lawfully raised.

Asset Management

Asset management business in China is mainly governed by the Regulations on the Supervision and Administration of Securities Companies and the Measures for the Administration of the Privately Offered Asset Management Business of Securities and Futures Business Institutions. A securities company that carries out privately offered asset management business shall obtain approval from the CSRC, unless prescribed otherwise by laws, administrative regulations and the CSRC.

A securities institution may establish a single asset management plan for a single investor or a collective asset management plan for multiple investors. The number of investors of a collective asset management plan shall not be less than two or more than 200.

Investment Advisory

A securities company is required to obtain a permit in order to engage in securities investment advisory business. To engage in securities investment advisory business, a securities professional must obtain the necessary qualifications and be employed by a company qualified to offer securities investment advisory services.

Underwriting and Sponsorship

To participate in securities offerings, a securities company must apply to the CSRC for sponsorship qualification and comply with the CSRC requirements with respect to securities offerings as well as the rules of stock exchanges and securities registration and clearing institutions. A securities company shall submit offering and underwriting plans to the CSRC prior to engaging in any underwriting activities.

Margin Financing and Securities Lending

A securities company that engages in margin financing and securities lending business shall, in its own name, open at securities registration and clearing institutions a special securities lending account, a securities guaranty account for customers' credit, a securities settlement account for credit transactions and a fund settlement account for credit transactions. In addition, it is required to open at commercial banks a special fund financing account and a fund guaranty account for customers' credit transactions. The funds and securities that a securities company can lend to its customers are limited to those held in its special fund financing account and special securities lending account.

In October 2011, margin financing and securities lending became a regular business of securities companies. In November 2011, products that are allowed for trading in margin financing and securities lending were expanded to include 278 stocks and 7 exchange traded funds. As of 31 December 2012, equity investments and reverse repurchase agreements have become regular businesses of securities companies. In July 2015, the CSRC promulgated the Measures for the Administration of the Margin Trading and Short Selling Business of Securities Companies to further regulate the margin trading and short selling business.

Direct Investment

On 30 December 2016, the Securities Association of China issued the Management Criteria for Private Equity Fund Subsidiaries of a Securities Firm (《證券公司私募投資基金子公司管理規範》) and the Management

Criteria for Alternate Investment Subsidiaries of a Securities Firm (《證券公司另類投資子公司管理規範》), which stipulates that: (1) All securities companies shall define the business boundaries of various subsidiaries. In principle, only one subsidiary can be established to do one type of business, and relevant subsidiaries shall carry on professional business, and shall not conduct business concurrently. Various subsidiaries of securities companies shall not carry on non-financial business or establish any second-level subsidiary, in principle. (2) In the transitional period of the two Practices, all securities companies shall regulate the situation where one type of business is performed by several subsidiaries by means of division, merger, etc., and steadily do the work such as customer arrangements, under the principle of no horizontal competition among affiliated companies and as per the two Regulations.

Stock Index Futures

According to the Guidelines for Securities Companies to Participate in Stock Index Futures and Treasury Bond Futures (《證券公司參與股指期貨、國債期貨交易指引》), Trading securities companies are allowed to (1) engage in proprietary trading of stock index futures for hedging purposes and (2) trade stock index futures as part of their asset management business.

Futures Brokerage

A futures company is required to obtain permits from the CSRC to engage in commodity and securities futures businesses, including futures brokerage in China and outside China, futures investment advisory business and other brokerage businesses prescribed by the CSRC. Futures companies in China trade futures in their own name for their customers and cannot engage in proprietary trading of futures.

Under PRC law, one person or entity cannot beneficially hold equity interests in more than two futures companies or controlling interest in more than one futures company.

Fund Management

A securities investment fund management company in China has to obtain approvals from the CSRC to engage in any fund raising activities or sales of fund interests. Under the PRC law, a person or entity cannot beneficially hold equity interests in more than two fund management companies or controlling interests in more than one fund management company in China. In addition, where a shareholder individually holds or jointly with other related shareholders hold 50% or more of the shares of a fund management company, neither such shareholder nor institutions controlled by such shareholder shall engage in the public securities assets management business or any similar securities assets management business, and the number of directors who are related to such shareholder shall not exceed one third of the total number of board directors.

QDIIs

A QDII may designate a foreign securities service institution to buy and sell securities on its behalf. The CSRC and the SAFE are responsible for supervising and managing the foreign securities investment by QDIIs.

QFIIs

A QFII may engage qualified PRC brokers to buy and sell securities on its behalf. The CSRC, the SAFE, the stock exchanges and the securities depositary and clearing institution of the PRC are responsible for regulating and supervising the securities transactions conducted by QFIIs.

Proxy Sale of Financial Products on an Agency Basis

Under the Provisions on the Administration of Proxy Sale of Financial Products by Securities Companies promulgated by the CSRC in November 2012 which was amended on 20 March 2020, a securities company selling financial products on a commission basis shall, in accordance with the regulations on the supervision and administration of securities companies and the provisions of the CSRC, obtain a business qualification for selling financial products on a commission basis. The dispatched office of the CSRC in the jurisdiction of domicile of such securities company shall, in accordance with the criteria and procedures for the securities company to expand the types of regular business, examine and approve such application.

Internal Control and Risk Management

Securities companies in China are required to establish effective internal control mechanisms and internal control systems to evaluate the effectiveness of their internal control on a regular basis. They also need to establish a dynamic net capital monitoring mechanism in line with the changing business environment to comply with the regulatory requirements for net capital. A securities company shall operate independently from its shareholders, beneficial owners and related parties with respect to its assets, finance, personnel, business and structure. In addition, a securities company shall establish a comprehensive system for risk identification, evaluation and control. It shall employ various means, including sensitivity analysis, to constantly monitor credit risk, market risk, liquidity risk, operational risk, technical risk, policy and regulatory risk and moral risk.

Classified Supervision

Based on evaluation results of risk management capabilities, competitiveness and status of regulatory compliance, the CSRC categorises PRC securities companies into five classes and 11 levels, i.e. Class A (AAA, AA, A), Class B (BBB, BB, B), Class C (CCC, CC, C), Class D and Class E.

- Companies under Category A have the best risk management capabilities in the industry and have better control of risks in new businesses and products;

- Companies under Category B have good risk management capabilities in the industry and have better control of risks in business expansion in the midst of market changes;

- Companies under Category C have risk management capabilities that match their existing businesses;

- Companies under Category D have low risk management capabilities and their potential risks may exceed their capacities; and

- For companies under Category E, their potential risks have become real risks and risk control measures have been imposed on them.

The CSRC implements various risk control standards and risk capital reserves calculation ratios for securities companies at different classes and levels. It takes into account the class and level of a securities company when determining resource allocation and examination frequencies and granting licences for additional businesses and branches. In addition, China Securities Investor Protection Corporation determines the specific proportion of securities investor protection funds paid by securities companies of each class according to the classification results of securities companies.

Risk Control Indices

The Risk Control Index Provisions set forth the standards for securities companies to calculate their net capital and risk capital reserves and prepare net capital calculation sheets, risk capital reserves calculation sheets and risk control index supervision statements. Net capital is a measure of risk-adjusted net assets, 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 authorised by CSRC. A securities company is required by the Measures for the Management of Risk Control Indicators of Securities Companies and Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies, the latter of which will be replaced by Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies on 1 June 2020, to maintain a minimum level of net capital that varies based on its business activities. In regulating the activities of China's securities companies, the CSRC has established both a warning ratio and a required ratio for certain risk control index standards. Failure to meet these ratios may cause the CSRC to take certain measures, as detailed under "— *Regulatory Measures*." Securities companies are required to meet the following key risk control index standards:

	Warning ratio[(1)]	Required ratio
Risk coverage rate[(2)]	≥120%	≥100%
Capital leverage ratio[(3)]	≥9.6%	≥8%
Liquidity coverage rate[(4)]	≥120%	≥100%
Net stable capital rate[(5)]	≥120%	≥100%

Notes:

(1) Warning ratios are set by the CSRC as follows, according to the Risk Control Administrative Measures: If the risk control index is required to stay above a certain level, then the warning ratio is 120% of the stipulated risk control requirement, and if the risk control index is required to stay below a certain level, then the warning ratio is 80% of the stipulated risk control requirement.

(2) Calculated as the ratio of our net capital against our total risk capital reserves (%).

(3) Calculated as the ratio of our net capital against our total on- and off-balance sheet assets.

(4) Calculated as the ratio of our quality liquid assets against our net cash outflow in the 30 days immediately after such date.

(5) Calculated as the ratio of the stable funding available to us against the total stable funding we require.

The CSRC may adjust the risk control index standards for a securities company and risk capital reserves calculation ratio for certain business lines based on such company's governance structure, internal control standards and risk control. The CSRC and its local counterparts inspect the generation of the risk control data of securities companies and supervise the authenticity, accuracy and completeness of such data. They may require a securities company to engage certified public accountants with relevant securities qualifications to audit its monthly net capital calculation sheets, risk capital reserves calculation sheets and risk control index supervision statements.

Securities Investor Protection Fund

Securities companies registered in China are required to contribute 0.5% to 5% of their operating income to a securities investor protection fund, which is managed by China Securities Investor Protection Fund Limited Corporation.

Risk Capital Reserves and Net Capital

The Risk Control Administrative Measures and the Risk Control Index Provisions set out the criteria for the calculation of risk capital reserves based on a securities company's businesses. In addition, a securities company's risk capital reserve is also affected by its previous year's operating expenses, the number of its branches, and the results of the CSRC's evaluation of its risk management capabilities, competitiveness and status of regulatory compliance.

In December 2012, the CSRC issued the Provisions on the Subordinated Debts of Securities Companies. The provisions, among other things, defined the maturity of long-term subordinated debts, stipulated the percentage of subordinated debts to be included in the calculation of net capital of securities companies, expanded the scope of eligible institutional investors for subordinated debts, and permitted transfers of subordinated debts on the stock exchanges and the issuance of such debts on the national inter-bank bond market. These provisions would help reduce pressure on net capital of securities companies in the long run.

Regulatory Measures

The CSRC may designate a special on-site risk control supervisory team to a securities company to inspect and supervise its capital allotment, assets disposals, personnel allocations, execution and implementation of contracts, and report to local government on a timely basis when necessary.

If a securities company violates the regulatory requirements for net capital or other risk control indices and fails to rectify the violation within a prescribed time limit, or if its violation seriously endangers its business operations or the legal rights and interests of its clients, the CSRC may take the following administrative or regulatory measures:

- limitation or suspension of existing business activities and suspension of approval of new businesses;
- suspension of approval of establishment or acquisition of new operational branches;
- limitations on dividend distribution and provision of remuneration or benefits to directors, supervisors and senior management;
- limitations on transfer of assets or creation of encumbrances on the assets;
- demanded replacement of directors, supervisors or senior management or limitation on their rights;
- demanded transfer of equity interest held by controlling shareholders or limitations on exercise of their shareholders' rights;
- revocation of business permits;
- suspension of business for rectification;
- handing over the company to a trustee;
- taking over the company; and
- administrative reorganisation of the business.

The CSRC may wind up a securities company if, after the implementation of business suspension for rectification, demanded take-over or administrative reorganisation, such company remains incapable of resuming ordinary business operations within the stipulated time limit and either (1) it is unable to pay off its debts due, and its assets are insufficient to pay off its debts or it clearly demonstrates a lack of liquidity, or (2) it has to use money in its account at the securities investor protection fund to pay off its debts.

Corporate Governance

Securities companies must comply with the corporate governance requirements set forth by the Company Law of the PRC, the Securities Law of the PRC, the Regulations on Supervision and Administration of Securities

Companies the Governance Standards of Securities Companies the Guidelines for the Internal Control of Securities Companies and the Notice Concerning the Review of Internal Control of Securities Companies relating to the composition, functioning, convening and voting procedures of the shareholder 's meeting, the board of directors and the supervisory committee.

Independent Directors

The CSRC requires a securities company to appoint independent directors who do not hold any other positions in the company or have relationships with the company that may affect their independent and objective judgement. Securities companies that engage in two or more of the businesses of securities brokerage, securities asset management, margin financing and securities lending, and securities underwriting and sponsoring must have independent directors.

Board Committees

For securities companies that engage in two or more of the businesses of securities brokerage, assets management, margin financing and securities lending and securities underwriting and sponsorship, their board of directors shall set up a remuneration and nomination committee, an audit committee and a risk control committee, to exercise the relevant functions and powers specified in the articles of association. In accordance with the relevant PRC regulatory requirements, where the board of directors of a securities company sets up committee for remuneration and nomination and auditing, such committees shall be chaired by independent directors.

Cumulative Voting System

Securities companies are encouraged to adopt a cumulative voting system for the election of directors (including independent directors) and supervisors. Where a shareholder individually or jointly with other related shareholders holds 50% or more of the equity interest in a securities company, the securities company must adopt a cumulative voting system in the election of directors (including independent directors) and supervisors, unless such shareholder is the sole shareholder of the securities company. Any securities company adopting the cumulative voting system shall specify detailed implementing rules of such system in its articles of association.

Qualifications of Directors, Supervisors and Senior Management

According to the Measures for the Supervision and Administration of the Professional Qualifications of Directors, Supervisors and Senior Managers of Securities Companies, directors, supervisors and senior management of a securities company shall possess the qualifications certified by the CSRC before taking office. The CSRC requires an audit to be performed on any director and senior management of a securities company upon their departure from such company.

Information Disclosure

In addition to complying with the information disclosure requirement set forth in the Circular on the Relevant Issues Regarding the Information Disclosure by Securities Companies securities companies listed in China are also required to comply with information disclosure requirements of the CSRC and the stock exchanges, including publishing annual, semi-annual and quarterly reports, disclosing information which may materially affect the stock price and announcing other company related matters.

The Provisions on Strengthening the Supervision and Administration of Listed Securities Companies set forth additional disclosure requirements for regular reports and interim reports of listed securities companies. It also requires a listed securities company to establish a comprehensive information management system, taking into account the characteristics of the China securities industry, the company's own conditions and the regulatory disclosure requirements for listed companies in general.

Anti-Money Laundering

The principal anti-money laundering laws and regulations in China include the Anti-money Laundering Law, the Anti-money Laundering Regulations for Financial Institutions and the Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions Under these laws and regulations, securities companies are required to categorise clients according to the level of risks they represent, and establish and maintain internal rules on the management of client risk classification systems.

Foreign Funded Securities Companies

The Rules for the Establishment of Securities Companies with Foreign Equity Participation set forth various requirements for foreign-funded securities companies with respect to their establishment, business scope, shareholders' qualifications and ownership percentage and approval procedures. Pursuant to the rules, overseas and domestic shareholders may apply to establish a new foreign-funded securities companies, or to convert an existing domestic securities company to a foreign-funded securities companies. In 2012, the maximum foreign equity participation in a securities company allowed by PRC laws increased from 33% to 49%, and any Chinese-foreign joint venture securities company may apply to expand its business scope after two consecutive years of business operations.

The CSRC regulates foreign-funded securities companies. With CSRC approval, a securities company with foreign investment may engage in underwriting and sponsoring of shares (including RMB-denominated ordinary shares and foreign shares) and bonds (including government and corporate bonds), brokerage of bonds and foreign shares and proprietary trading of bonds (including government and corporate bonds), and other businesses approved by the CSRC.

Sino-foreign Joint Venture Fund Management Companies

According to the Measures for the Administration of Securities Investment Fund Management Companies and the Provisions on Issues With Respect To the Implementation of the Measures for the Administration of Securities Investment Fund Management Companies, the proportion of the total capital contribution made or equity interests held by foreign investors in a Sino-foreign fund management joint venture, either directly or indirectly, shall not exceed the limit prescribed by the CSRC.

SAFE Rules on Cross-border Security

On 12 May 2014, the SAFE promulgated the Notice concerning the Foreign Exchange Administration Rules on Cross-Border Security and the relating implementation guidelines (國家外匯管理局關於發佈《跨境擔保外匯管理規定》的通知) (collectively the "**New Regulations**"). The New Regulations, which came into force on 1 June 2014, replaced twelve other regulations regarding cross-border security and introduce a number of significant changes, including: (i) abolishing prior SAFE approval for cross-border security; (ii) requiring SAFE registration for two specific types of cross-border security; (iii) removing most of the eligibility requirements for providers of cross-border security; (iv) the validity of any cross-border security agreement is no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; and (v) removing SAFE prior approval for performance of cross-border security. A cross-border guarantee is a form of security under the New Regulations. The New Regulations classify cross-border security into three types:

- Nei Bao Wai Dai (內保外貸) ("**NBWD**"): security/guarantee provided by an onshore security provider for a debt owed by an offshore debtor to an offshore creditor.

- Wai Bao Nei Dai (外保內貸) ("**WBND**"): security/guarantee provided by an offshore security provider for a debt owed by an onshore debtor to an onshore creditor.

- Other Types of Cross-border Security (其他形式跨境擔保): any cross-border security/guarantee other than NBWD and WBND.

In respect of NBWD, in the case where the onshore security provider is a non-financial institution, it shall conduct a registration of the relevant security/guarantee with SAFE within 15 working days after its execution (or 15 working days after the date of any change to major clauses of the security). The funds borrowed offshore shall not be directly or indirectly repatriated to or used onshore by means of loans, equity investments or securities investments without SAFE approval. The onshore security provider can pay to the offshore creditor directly (by effecting remittance through an onshore bank) where the NBWD has been registered with SAFE. In addition, if any onshore security provider under a NBWD provides any security or guarantee for an offshore bond issuance, the offshore issuer's equity shares must be held directly or indirectly by the onshore security provider. Moreover, the proceeds from any such offshore bond issuance must be applied towards offshore project(s) in which the onshore security provider have equity interests, and in respect of which the related approval, registration, record, or confirmation have been obtained from or made with the competent authorities subject to PRC Laws.

Under the New Regulations:

- non-registration of the guarantee will not affect its effectiveness under PRC law, but SAFE may impose penalties on the guarantor if registration is not carried out within the stipulated time frame of 15 business days; and

- non-registration of the guarantee will result in obstacles at the time of remitting funds borrowed with the benefit of the guarantee into the PRC, as evidence of SAFE registration is required by PRC banks to effect such remittance.

Under the New Regulations, the local SAFE will go through a procedural review (as opposed to a substantive approval process) of the guarantor's application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the guarantor to confirm the completion of the registration. The guarantor has been advised by its PRC legal advisors that there are no foreseeable obstacles to the completion of the registration so long as all relevant documents required by SAFE have been duly submitted within the statutory time limit.

In January 2017, SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Promoting the Reform of Foreign Exchange Administration and Improving the Examination of Authenticity and Compliance, according to which, the funds borrowed offshore under NBWD are allowed to directly or indirectly repatriated to or used onshore by means of loans or equity investments.

The NDRC Circular on Recording and Registration of Foreign Debts

On 14 September 2015, NDRC issued the Circular on Accelerating the Reform on the Administration of Filing and Registration of Foreign Debts Issued by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資 [2015] 2044 號), the "**NDRC Circular**"), which became effective on the same day. The NDRC Circular abolishes the case-by-case quota review and approval for the issuance of foreign debts, conducts the recordation and registration system and sets forth various measures to promote the administrative reform of foreign debts.

For the purpose of issuing foreign debts, enterprises shall apply to NDRC for the recording and registration procedures prior to the issuance of the bonds and report the information on the issuance of the foreign debt to NDRC within ten PRC business days after the completion of each issuance. NDRC shall decide whether to accept an application within five PRC business days upon the receipt of such application and shall issue an Enterprise Foreign Debt Pre-issuance Registration Certificate within seven PRC business days of accepting the application.

The NDRC and MOF Circular on Foreign Debt Risks

Pursuant to Circular 706, any enterprise that intends to incur medium and long-term foreign debts is prohibited from including public schools, public hospitals, public cultural facilities, parks, public squares, office buildings of government departments and public institutions, municipal roads, non-toll roads, non-operating water conservancy facilities, not-charged pipe network facilities and other public assets and the use right of reserve land in enterprise assets. In addition, an enterprise that intends to issue medium and long-term foreign debt shall not make any statement or disclosure that implicitly or explicitly indicates government endorsement by describing the local or national government's creditworthiness, such as financial information regarding revenue and expenditures and government debt, nor issue any misleading public statement which implies such issuer having a connection or an association with the government's creditworthiness. Moreover, such enterprise shall specify in the relevant bond offering circulars that the local government, as a shareholder, bears only limited liability to the extent of its equity contribution in the issuer, and the debt owed by such enterprise shall be repaid by such enterprise, in the case of a local state-owned enterprise, as an independent legal person. This is supported by Circular 23.

According to Circular 23, (i) state-owned financial enterprises are prohibited from increasing loans to local government financing platform companies in violation of regulations including the new Budget Law of the PRC which took effect on 1 January 2015 and other requirements, except for purchase of local government debts; (ii) while providing financing for state-owned enterprises, financing platforms of local governments or public-private-partnership projects of local construction companies, state-owned financial enterprises shall, under the "penetration principle", ensure that the source of financing entities' capital funds is in compliance with applicable laws and regulations, and that the financing projects satisfy the requirements for the proportion of capital funds; (iii) state-owned financial enterprises are obliged to evaluate the financial capabilities of entities raising funds and sources of repayments when they provide agency services to local state-owned enterprises, such as financing platforms of local governments, for domestic and overseas bonds issuances. Where the source of repayments made by the entities raising funds involves fiscal funds, state-owned financial enterprises shall conduct due diligence, and carefully verify whether the arrangement to offer fiscal funds is in compliance with applicable laws and regulations; and (iv) the relevant documents including any offering circulars shall not disclose information that can implicitly or explicitly indicate the government's endorsement, such as local financial revenues and expenditures and government debt information, or conduct misleading publicity that implies an association with the government's credit.

Guiding Opinions for Asset Management Businesses

On 27 April 2018, with the consent of the State Council, the PBOC, the China Banking and Insurance Regulatory Commission, the CSRC and the SAFE jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (關於規範金融機構資產管理業務的指導意見) ("**Circular 106**"). According to Circular 106, (i) financial institutions may not provide any direct or indirect, explicit or implicit guarantees, repurchases, etc. for the risk-bearing commitments of non-standardised debt assets or equity assets invested in asset management products; (ii) financial institutions may not provide channel services for asset management products of other financial institutions to circumvent regulatory requirements such as investment scope and leverage constraints; (iii) financial institutions acting as agents for the sale of asset management products originated by other financial institutions shall meet the qualifications stipulated by the financial supervision and administration department; no non-financial institution or individual may act as agent for the sale of asset management products without the permission of the financial supervisory authority; (iv) financial institutions shall manage the funds of each asset management product separately, establish separate accounts, and conduct separate accounting; (v) when a financial institution conducts asset management business, it should ensure that the asset management business is separated from other businesses, the asset management products are separated from the financial products they sell, the asset management products are separated from each other, and the asset management business operations are separated from other business operations.

HONG KONG REGULATORY OVERVIEW

Introduction

The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") is the primary legislation regulating the securities and futures industry in Hong Kong, including the regulation of securities, futures and leveraged foreign exchange markets, intermediaries and their conduct of regulated activities and the offering of investments to the public in Hong Kong. The SFO is administered by the SFC which is a statutory regulatory body in Hong Kong.

The SFO prescribes 10 types of regulated activities. They are:

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;

Reforms made to the SFO, for which there is currently no commencement date, also introduce two new regulated activities:

Type 11: dealing in OTC derivative products or advising on OTC derivative products; and

Type 12: providing client clearing services for OTC derivative transactions.

The SFO provides for a single licensing regime under which a person needs only one licence or registration to carry on different types of regulated activities (as defined in Schedule 5 of the SFO) provided that he is fit and proper to do so.

As of 31 December 2019, the following Group companies are licensed under the SFO:

- CITIC Securities Brokerage (HK) Limited (licensed for Types 1 and 4 regulated activities)
- CITIC Securities Futures (HK) Limited (licensed for Type 2 regulated activity)
- CLSA Limited (licensed for Types 1, 4 and 7 regulated activities)
- CLSA Capital Markets Limited (licensed for Types 4 and 6 regulated activities)
- CLSA Capital Partners (HK) Limited (licensed for Types 4 and 9 regulated activities)
- CLSA Premium International (HK) Limited (licensed for Type 3 regulated activity)
- CLSA Alternative Investment Management Limited (licensed for Types 4 and 9 regulated activities)

Overview of Licensing Requirements

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 exceptions under the SFO applies.

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

In addition to the licensing requirements on corporations, any individual who:

(a) performs any regulated function for its 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 be licensed under the SFO as a licensed representative accredited to his principal.

For each regulated activity conducted by a licensed corporation, it must appoint at least two responsible officers (at least one of whom must be an executive director (as defined under the SFO)) to directly supervise the conduct of each regulated activity. A responsible officer is a licensed representative who is also approved by the SFC to supervise the regulated activity or activities of the licensed corporation to which he is accredited. In addition, every director of the licensed corporation who actively participates in or directly supervises the business of its regulated activity or activities must apply to the SFC to become a responsible officer in respect of the regulated activity (or activities) concerned.

Fit and Proper Requirement

Each applicant for a licence under the SFO must satisfy the SFC requirement that, among other things, it is a fit and proper person to be licensed to carry on the regulated activity in question.

In considering whether an applicant is a fit and proper person to be licensed under the SFO, the SFC will have regard to:

(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 activity competently, honestly and fairly; and

(d) the reputation, character, reliability and financial integrity of the applicant and, where the applicant is a corporation, any officer of the applicant.

In considering whether a corporation is fit and proper, the SFC will also take into account, among other things:

(a) whether the applicant has established effective internal control procedures and risk management systems to ensure compliance with all applicable regulatory requirements (in the case of a corporation licensed under section 116 or 117 of the SFO or registered under section 119 of the SFO); and

(b) any information relating to:

- any substantial shareholder or officer of the applicant;
- any other corporation in the same group of companies as the applicant, and any substantial shareholder or officer of any such intra-group company;
- any person who is or is to be employed by, or associated with, the applicant for the purposes of the regulated activity in question (in the case of a corporation licensed under section 116 or 117 of the SFO); and
- any person who will be acting for or on behalf of the applicant in relation to the regulated activity in question (in the case of a corporation licensed under section 116 or 117 of the SFO or registered under section 119 of the SFO).

Key Ongoing Obligations of Licensed Corporations

Licensed corporations, licensed representatives and responsible officers 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 the SFC.

Outlined below are some of the key ongoing obligations of a licensed corporation:

- 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) (as discussed in more detail below);

- 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);

- record keeping requirements prescribed under the Securities and Futures (Keeping of Records) Rules (Chapter 571O of the laws of Hong Kong);

- 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);

- payment of annual fees and submission of annual returns to the SFC, within one month after each anniversary date of the licence;

- 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);

- 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);

- implementation of appropriate policies and procedures relating to customer acceptance, customer due diligence, record keeping, identification and reporting of suspicious transactions and staff screening, education and training, in accordance with the requirements under the Prevention of Money Laundering and Terrorist Financing Guidance Note issued by the SFC (as discussed in more detail below); and

- business conduct requirements under the Code of Conduct for Persons Licensed by or Registered with the SFC, the Management, Supervision and Internal Control Guidelines for Persons Licensed by or Registered with the SFC and other applicable codes and guidelines issued by the SFC.

Securities and Futures (Financial Resources) Rules ("Financial Resources Rules")

Subject to certain exemptions described below, a licensed corporation is required to maintain minimum paid-up share capital of:

- HK$5,000,000 — in the case of: (i) a corporation licensed for Type 1 regulated activity that is neither an approved introducing agent nor a trader and does not provide securities margin financing; (ii) a corporation licensed for Type 2 regulated activity that is not an approved introducing agent, a trader or a futures non-clearing dealer, or a corporation licensed for Type 7 regulated activity; (iii) a corporation licensed for Type 3 regulated activity that is an approved introducing agent; (iv) a corporation licensed for Type 4, Type 5, Type 9 or Type 10 regulated activity that in relation to the regulated activity is not subject to the licensing condition that it shall not hold client assets; or (v) a corporation licensed for Type 6 regulated activity that does not act as a sponsor and is not subject to the licensing condition that it shall not hold client assets;

- HK$10,000,000 — in the case of: (i) a corporation licensed for Type 1 regulated activity that provides securities margin financing; (ii) a corporation licensed for Type 8 regulated activity; or (iii) a corporation licensed for Type 6 regulated activity that acts as a sponsor; or

- HK$30,000,000 — in the case of a corporation licensed for Type 3 regulated activity that is not an approved introducing agent.

There is no minimum paid-up share capital requirement if the corporation is: (i) licensed for Type 1 regulated activity and is an approved introducing agent or a trader; (ii) licensed for Type 2 regulated activity and is an approved introducing agent, a trader or a futures non-clearing dealer; and/or (iii) licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity that is subject to the licensing condition that it shall not hold client assets.

Pursuant to the Financial Resources Rules, a licensed corporation shall also maintain minimum liquid capital of the higher of the amount of (a) and (b) below:

(a) the amount of:

  - HK$100,000 — in the case of a corporation licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity that is subject to the licensing condition that it shall not hold client assets;

  - HK$500,000 — in the case of: (i) a corporation licensed for Type 1 regulated activity that is an approved introducing agent or trader; or (ii) a corporation licensed for Type 2 that is an approved introducing agent, a trader or a futures non-clearing dealer; or

  - HK$3,000,000 — in the case of: (i) a corporation licensed for Type 1 regulated activity that is not an approved introducing agent or a trader; (ii) a corporation licensed for Type 2 that is not an approved introducing agent, a trader or a futures non-clearing dealer; (iii) a corporation licensed for Type 3 regulated activity that is an approved introducing agent; (iv) a corporation licensed for Type 4, Type 5, Type 6, Type 9 or Type 10 regulated activity that is not subject to the licensing condition that it shall not hold client assets; or (v) a corporation licensed for Type 7 or Type 8 regulated activity; or

  - HK$15,000,000 — in the case of a corporation licensed for Type 3 regulated activity that is not an approved introducing agent; and

(b) its specified liquid capital, in accordance with the Financial Resources Rules.

If the licensed corporation is licensed for more than one type of regulated activity, the minimum paid-up share capital and liquid capital that the corporation should maintain shall be the higher or highest amount required amongst those regulated activities.

Anti-Money Laundering and Terrorist Financing

Licensed corporations are also required to comply with applicable anti-money laundering laws and regulations in Hong Kong, as well as the Prevention of Money Laundering and Terrorist Financing Guidance Note ("**Guidance Note**") issued by the SFC.

We set out below a brief summary of the principal legislation concerned with money laundering and terrorist financing in Hong Kong.

(1) 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 on financial institutions requirements regarding customer due diligence and record-keeping and provides the relevant authorities (include the HKMA, the SFC, the Insurance Authority and the Commissioner of the Customs and Excise) the powers to supervise compliance with requirements under the AMLO. It is an offence under the AMLO if a financial institution (1) knowingly; or (2) with the intent to defraud any relevant authorities, contravenes a specified provision of the AMLO. It is also an offence under the AMLO if a person who is an employee of or is employed to work for or is concerned in the management of a financial institution (1) knowingly; or (2) with the intent to defraud the financial institution or any relevant authorities, causes or permits the financial institution to contravene a specified provision in the AMLO. The relevant authorities may take disciplinary actions against financial institutions for any contravention of a specified provision in the AMLO. The disciplinary actions that can be taken include publicly reprimanding the financial institution; ordering the financial institution to take any action for the purpose of remedying the contravention; and ordering the financial institution to pay a pecuniary penalty.

(2) The Drug Trafficking (Recovery of Proceeds) Ordinance (Chapter 405 of the Laws of Hong Kong) ("**DTROP**")

Among other things, the DTROP contains provisions for the investigation of 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 offence under the DTROP if a person deals with any property knowing or having reasonable grounds to believe it to represent the proceeds of drug trafficking. The DTROP requires a person to report to an authorised officer if he knows or suspects that any property represents the proceeds of drug trafficking or is intended to be used or was used in connection with drug trafficking, and failure to make such disclosure constitutes an offence under the DTROP.

(3) The Organised and Serious Crime Ordinance (Chapter 455 of the Laws of Hong Kong) ("**OSCO**")

Among other things, the OSCO empowers officers of the Police and the Customs and Excise Department to investigate organised criminal activities, and it gives the court jurisdiction to confiscate the proceeds of organised 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 offence to cover the proceeds of all indictable offences in addition to drug trafficking.

(4) 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 offence to: (i) provide or collect funds with the intention or knowledge that the funds will be used to commit one or more terrorist acts; or (ii) make any funds or financial (or related) services available 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 authorised officer, and failure to make such disclosure constitutes an offence under the UNATMO.

The Guidance Note sets out the steps that a licensed corporation and its representatives should implement to discourage and identify any money laundering or terrorist financing activities. Under the Guidance Note, licensed corporations should, among other things:

- develop customer acceptance policies and procedures to identify the types of customers that are likely to pose a higher than average risk of money laundering and terrorist financing;

- take all reasonable steps to establish to their satisfaction the true and full identity of each customer, and of each customer's financial situation and investment objectives;

- ensure compliance with all applicable record keeping requirements and maintain such records that are sufficient to permit reconstruction of individual transactions; and

- conduct ongoing monitoring for identification of suspicious transactions and satisfy 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.

TAXATION

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

TAXATION IN THE BRITISH VIRGIN ISLANDS

The Issuer, as a company established under the BVI Business Companies Act, 2004 (as amended), is exempt from all provisions of the Income Tax Act of the British Virgin Islands, including with respect to all amounts of principal, interest and premium payable by the Issuer in respect of the Notes and other amounts payable by the Issuer to persons who are not persons resident in the British Virgin Islands. There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to payments that the Issuer may make on the Notes.

Capital gains realised with respect to the Notes by persons who are not resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Act of the British Virgin Islands.

No estate, inheritance, succession or gift tax imposed by or in the British Virgin Islands is payable by persons who are not persons resident in the British Virgin Islands with respect to the Notes.

PRC TAXATION

Enterprise Income Tax

Under the EIT Law, an enterprise established outside of China with a "*de facto* management body" within China is deemed a "resident enterprise," meaning that it can be treated as a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income." The implementing rules of the EIT Law define "*de facto* management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 ("**Circular 82**") provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "*de facto* management body" located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within China; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within China. On 27 July 2011, the State Administration of Taxation issued *Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group* ("**Circular 45**"), to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group." Circular 45 provides two ways for a foreign enterprise "controlled by a PRC enterprise or a PRC enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its *de facto* management body is located in China based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise after its active investigation.

We believe that the Issuer is currently not a PRC resident enterprise. However, since substantially all of the Issuer 's management is currently based in China, we cannot assure you that the Issuer will not be deemed a "resident enterprise" under the EIT Law and, therefore, be subject to enterprise income tax at a rate of 25% on its global income in the future.

Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-sourced income derived by non-resident enterprises, subject to reduction under applicable tax treaties. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-sourced income if the enterprise or the establishment that pays or bears the interest is situated in China. If the Issuer is deemed a PRC resident enterprise for tax purposes, interest paid to non-PRC holders of the Notes may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at a rate of 10% for non-PRC holders of Notes that are enterprises and 20% for non-PRC individual holders of the Notes. Any gains realised on the transfer of the Notes by such investors may also be subject to PRC income tax at a rate of 10% for non-PRC holders of Notes that are enterprises or 20% for non-PRC individual holders of the Notes, if such gains are regarded as PRC-sourced.

In addition, as the Company is a PRC resident enterprise, in the event that the Company is required to fulfil its obligations under the Guarantee by making interest payments on behalf of the Issuer, the Company will be obliged to withhold PRC enterprise income tax at a rate of 10% on such payments for non-PRC holders of the Notes that are enterprise and 20% for non-PRC holders of the Notes that are individuals. If the Issuer or the Company is required to withhold PRC taxes from payments on the Notes or the Guarantee, the Issuer or the Company (as the case may be) will pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to exceptions described in Condition 8 of the Terms and Conditions of the Notes.

Value Added Tax

On 23 March 2016, the MOF and the State Administration of Taxation jointly issued the Circular 36 which provides that all business tax payers are included into the pilot programme to pay VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax will be entirely replaced by, and subject to VAT.

According to Circular 36, the entities and individuals providing the services within PRC shall be subject to VAT. The services are treated as being provided within PRC where either the service provider or the service recipient is located in PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the interpretation of "loans" under the Circular 36, the issuance of Notes may be treated as the holders of the Notes providing loans to the Issuer or the Company, which thus shall be regarded as the provision of financial services that could be subject to VAT. If the holders of the Notes are regarded as providing financial services to the Issuer or the Company within PRC by the competent PRC tax authorities, the holders of the Notes shall be subject to VAT at the rate of 6 per cent. plus local levies when receiving the interest payments from the Issuer under the Notes or from the Company under the Guarantee.

The Circular 36 has been issued quite recently and the above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

Stamp Duty

No PRC stamp tax will be chargeable upon the issue or transfer of a Note as long as the relevant documents and vouchers related to the Offering are not executed in the PRC and the Notes are not received or kept in the PRC.

HONG KONG TAXATION

Withholding Tax

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

Profits Tax

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

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

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

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

(c) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(d) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Pursuant to the Exemption from Profits Tax (Interest Income) Order, interest income accruing to a person other than a financial institution, on deposits (denominated in any currency and whether or not the deposit is evidenced by a certificate of deposit) placed with, inter alia, an authorised institution in Hong Kong (within the meaning of section 2 of the Banking Ordinance (Chapter 155) of Hong Kong) is exempt from the payment of Hong Kong profits tax. This exemption does not apply, however, to deposits that are used to secure or guarantee money borrowed in certain circumstances. Provided no prospectus with respect to the issue of Notes is registered under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), the issue of Notes by the Company is expected to constitute a deposit to which the above exemption from payment will apply.

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

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes by the Company, provided either:

(a) such Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Chapter 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the Company on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes.

Stamp duty may be payable on any transfer of Registered Notes issued by the Company if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(a) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

PRC CURRENCY CONTROLS

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

The Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

The PBOC, MOF, MOFCOM, the General Administration of Customs of the PRC, State Administration of Taxation and China Banking Regulatory Commission promulgated Measures for the Administration of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (跨境貿易人民幣結算試點管理辦法, the "**Measures**") on 1 July 2009 and its implementation rules on 3 July 2009, pursuant to which designated and eligible enterprises are allowed to settle their cross-border trade transactions in Renminbi. Since 1 July 2009, subject to the Measures and its implementation rules, the PRC has commenced a scheme pursuant to which Renminbi may be used for settlement of cross-border trade between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, the PBOC, MOF and MOFCOM promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算試點有關問題的通知), pursuant to which (i) the list of designated pilot districts was expanded to cover 20 provinces including Beijing, Shanghai, Tianjin, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Chongqing, Guangdong, Shandong, Jiangsu, Zhejiang, Fujian, Hubei, Guangxi, Hainan, Tibet, Xinjiang, Yunnan and Sichuan, and (ii) the restriction on designated offshore districts was lifted. Accordingly, any enterprises in the designated pilot districts and offshore enterprises are entitled to use Renminbi to settle any current account items between them (except in the case of payments for exports of goods from the PRC, such Renminbi remittance may only be effected by approved pilot enterprises in 16 provinces within the designated pilot districts in the PRC). On 27 July 2011, the PBOC, MOF and MOFCOM promulgated the Circular on the Expansion of the Regions of Renminbi Settlement of Cross-Border Trades (關於擴大跨境貿易人民幣結算地區的通知), pursuant to which the list of designated pilot districts was expanded to the whole country. On 3 February 2012, the PBOC, MOF and MOFCOM promulgated the Circular on the Relevant Issues Pertaining to Administration over Enterprises Engaging in RMB Settlement of Export of Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知), pursuant to which any enterprises in China which are qualified to engage in import and export trade are allowed to settle their goods export trade in Renminbi.

On 5 July 2013, the PBOC issued the Circular on the Simplification of Renminbi Cross-border Business Processes and the Improvement of Relevant Policies (關於簡化跨境人民幣業務流程和完善有關政策的通知, the "**2013 PBOC Circular**"), pursuant to which on the basis of three principles of "know your customer," "know your business," and "due diligence," PRC banks can directly handle the cross-border settlement upon the PRC enterprises presenting the payment instruction (except for enterprises on the key regulatory list of regulating Renminbi cross-border settlement in export goods trade). PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions in some circumstances (noting that verification of underlying transactions is usually a precondition for cross-border remittance).

The Measures and the subsequent circulars, including the 2013 PBOC Circular, will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Measures and impose conditions for settlement of current account items.

Capital Account Items

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

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

That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or shareholder's loan to a foreign invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign invested enterprise may also be required to complete registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (中國人民銀行關於明確跨境人民幣業務相關問題的通知, the "**PBOC Circular**"). The PBOC Circular provides instructions to local PBOC authorities on procedures for the approval of settlement activities for non-financial Renminbi foreign direct investment into the PRC. The PBOC Circular applies to all non-financial Renminbi foreign direct investment into the PRC, and includes investment by way of establishing a new enterprise, acquiring an onshore enterprise, transferring the shares, increasing the registered capital of an existing enterprise, or providing loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications to the PBOC which include, inter alia, requisite approval letters issued by the relevant MOFCOM authorities. The PBOC Circular only applies to cases where the receiving onshore enterprise is not a financial institution and the approval from PBOC has only been granted on a trial basis.

On 13 October 2011, the PBOC issued the PBOC RMB FDI Measures, to commence the PBOC's detailed RMB FDI administration system, which covers almost all aspects of RMB FDI, including capital injection, payment of purchase price in the acquisition of PRC domestic enterprises, repatriation of dividends and distribution, as well as RMB denominated cross-border loans. Under the PBOC RMB FDI Measures, special approval for RMB FDI and shareholder loans from the PBOC which was previously required by the PBOC Circular is no longer necessary and the required enterprise registration is implemented on a regular, rather than trial, basis.

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

Please refer to "*Summary of Relevant PRC and Hong Kong Laws and Regulations*" for description of the new SAFE rules on cross-border security.

If any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or the CMU (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer, the Company nor any Dealer nor the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer, the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Issuing and Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular, unlike the European Clearing Systems, the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-US beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream, each have with the CMU.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer has made applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted for clearance through the CMU. In respect of Bearer Notes, a temporary Global Note and/or a permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU. Transfers of interests in a temporary Global Note or a permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the CMU, Euroclear and Clearstream. Each Global Note will, where applicable, have an International Securities Identification Number ("**ISIN**") and/or a CMU Instrument Number.

Investors in Notes may hold their interest in a Global Note only through a common depositary for Euroclear and/or Clearstream or a sub-custodian for CMU.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Global Certificate. The Issuer may also apply to have Notes to be represented by a Global Certificate accepted for clearance through the CMU. Each Global Certificate will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in Notes of such Series may hold their interests in a Global Certificate through Euroclear, Clearstream or the CMU (if applicable).

Each Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Subscription and Sale*."

All Registered Notes will initially be in the form of a Global Certificate. Individual Certificates will be available, in the case of Notes initially represented by a Global Certificate, in amounts specified in the applicable Pricing Supplement.

Transfers of Notes Represented by Global Registered Notes

Transfers of any interests in Notes represented by a Global Certificate within Euroclear and Clearstream will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. Euroclear and Clearstream have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Certificates among accountholders of Euroclear and Clearstream. However, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued or changed at any time. None of the Issuer, the Trustee, the Paying Agents, the Registrar or any Dealer will be responsible for any performance by Euroclear or Clearstream, Luxembourg or their respective accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement dated 17 October 2014 as amended and/or supplemented from time to time (the "**Dealer Agreement**"), agreed with the Issuer and the Company a basis on which they or any of them may from time to time agree to subscribe the Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*." Under the terms of the Dealer Agreement, the Issuer, failing whom the Company, will pay each Dealer a commission (if any) agreed between the Issuer, the Company and the Dealer in respect of the Notes subscribed by it. The Issuer has agreed to reimburse the Arrangers for certain of their expenses properly incurred in connection with the establishment of the Programme and any future update of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Issuer and the Company have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and certain of their affiliates may have performed certain investment banking and advisory services for the Issuer, the Company and/or their respective affiliates from time to time for which they have received customary fees and expenses and may, from time to time, engage in transactions with and perform services for the Issuer, the Company and/or their respective affiliates in the ordinary course of their business.

In connection with each Tranche of the Notes issued under the Programme, the Dealers or certain of their affiliates may place orders for the Notes, purchase the Notes and allocate the Notes for asset management and/or proprietary purposes but not with a view to distribution (and such orders, purchase and/or allocation may be material). Further, the Dealers or their respective affiliates may purchase the Notes for their or their affiliate's own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer, the Company or their respective subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

Selling Restrictions

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer and the Company in such jurisdiction.

United States of America

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold or, in the case of Bearer Notes, delivered, and shall not offer and sell or, in the case of Bearer Notes, deliver, Notes of any Series (i) as part of their distribution at any time and (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer who has subscribed for Notes of a Tranche (or in the case of a sale of a Tranche of Notes issued to or through more than one Dealer, each of such Dealers as to the Notes of such Tranche purchased by or through it or, in the case of a syndicated issue, the lead manager) shall determine and certify to the Issuing and Paying Agent the completion of the distribution of the Notes of such Tranche. Each Dealer and its affiliates have also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the Dealer(s), in the case of a non-syndicated issue, or the lead manager, in the case of syndicated issue, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in the paragraphs above have the meanings given to them by Regulation S.

Unless the Pricing Supplement or the subscription agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "TEFRA C" or "not applicable", each Dealer has represented and agreed in relation to each Tranche of Notes in bearer form:

(i) except to the extent permitted under U.S. Treasury Regulations § 1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA D**"):

   a. it has not offered or sold, and during a 40 day restricted period shall not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

   b. it has not delivered and shall not deliver within the United States or its possessions definitive Notes in bearer form that are sold during the restricted period;

(ii) it has and throughout the restricted period shall have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;

(iii) if it is a United States person, it is acquiring the Notes in bearer form for purposes of resale in connection with their original issuance and if it retains Notes in bearer form for its own account, it shall only do so in accordance with the requirements of U.S. Treasury Regulations § 1.163-5(c)(2)(i)(D)(6) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code);

(iv) with respect to each affiliate that acquires from it Notes in bearer form for the purpose of offering or selling such Notes during the restricted period, it either (a) repeats and confirms the representations contained in sub-paragraphs (i), (ii) and (iii) on behalf of such affiliate or (b) agrees that it shall obtain from such affiliate for the benefit of the Issuer the representations contained in sub-paragraphs (i), (ii) and (iii); and

(v) that it has not and agrees that it will not enter into any written contract (other than a confirmation or other notice of the transaction) pursuant to which any other party to the contract (other than one of its affiliates or another Dealer) has offered or sold, or during the restricted period will offer or sell, any Notes, except where pursuant to the contract the Dealer has obtained or will obtain from that party, for the benefit of the Issuer and the several Dealers, the representations contained in, and that party's agreement to comply with, the provisions of clauses (i), (ii), (iii) and (iv).

Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA D and Notice 2012-20.

Notes issued pursuant to TEFRA D and any Receipts or Coupons appertaining thereto will bear the following legend:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

To the extent that the Pricing Supplement or the subscription agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "TEFRA C", under U.S. Treasury Regulations § 1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA C**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer has represented and agreed that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with their original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the Code and regulations thereunder, including TEFRA C.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

If the Issuer and the Company intend to offer any Tranche to any qualified institutional investors in reliance on exemption from the registration requirements of the Securities Act provided by Rule 144A, the Issuer and the Company shall provide such assistance to the Arrangers and the Dealers, and agree to such amendments or supplements to the Terms and Conditions of the Notes, the Offering Circular, the Dealer Agreement, the Trust Deed, the Agency Agreement, each Deed of Guarantee and other documents, and to undertake such other actions, as may reasonably be requested by the Arrangers and the Dealers.

European Economic Area and the United Kingdom

Each Dealer (severally, and not jointly) has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement, in relation thereto to any retail investor in the EEA or in the UK. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in the Prospectus Regulation; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Each Dealer has represented, warranted and agreed that:

- in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer or the Company;

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Company; and

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

Hong Kong

In relation to each Tranche of Notes issued by the Company, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that:

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

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

Singapore

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

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

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

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

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

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

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

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

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

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

Japan

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

PRC

Each Dealer has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan), except as permitted by the securities laws of the PRC.

The British Virgin Islands

Each Dealer has represented, warranted and agreed that it has not made and will not make any invitation to the public in the British Virgin Islands or a natural person who is a British Virgin Islands resident or citizen to subscribe for the Notes and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the British Virgin Islands, except as otherwise permitted by British Virgin Islands law.

This Offering Circular does not constitute, and will not be, an offering of the Notes to any person in the British Virgin Islands.

Taiwan

Each Dealer has represented, warranted and agreed that:

- The notes have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan pursuant to relevant securities laws and regulations and may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

- No person or entity in Taiwan has been authorised to offer or sell the notes in Taiwan.

Macau

Each Dealer has represented and agreed that the Notes may not be promoted, distributed, sold or delivered in Macau, and any document relating to the Notes may not be distributed or circulated in Macau, except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Notes in Macau. The Notes are not registered or otherwise authorised for public offer under the Financial System Act of Macau, and may not be offered or sold in Macau, unless such offer is made by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Macau Monetary Authority, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

GENERAL INFORMATION

1. **Listing of the Notes:**

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only, and will be made for the permission to deal in, and for the listing of, Notes issued under the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. Notes to be listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies).

The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Admission to the Hong Kong Stock Exchange and quotation of any Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Guarantee, the Issuer, the Company or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

2. **Authorisations:**

The establishment of the Programme was authorised by resolutions of the board of directors of the Issuer dated 10 October 2014 and the updating of the Programme was authorised by resolutions of the board of directors of the Issuer dated 12 May 2020. The establishment of the Programme and the giving of the Guarantee were authorised by resolutions of the shareholders of the Company on 18 June 2014 and the updating of the Programme and the giving of the Guarantee were authorised by the shareholders of the Company on 26 June 2018. Each of the Issuer and the Company has obtained or has agreed to obtain from time to time all necessary consents, approvals and authorisations in connection with the issue of Notes and the giving of the Guarantee under the Programme and entry into the relevant transaction documents.

3. **No Material Adverse Change:**

Except as disclosed in this Offering Circular there has been no significant change in the financial or trading position of the Company since 31 December 2019. Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Issuer since its date of incorporation.

4. **Litigation:**

Save as disclosed in this Offering Circular or otherwise in our Group's annual or interim reports (which are not incorporated by reference in this Offering Circular), none of the Issuer, the Company or any of its respective subsidiaries is involved in any litigation or arbitration proceedings that may have, or have had during the 12 months preceding the date of this Offering Circular, a material adverse effect on the financial position of the Company and its subsidiaries taken as a whole nor is the Issuer or the Company aware that any such proceedings are pending or threatened.

5. **Available Documents:**

As long as any Note is outstanding, copies of the following documents will be available for inspection, and in the case of the documents referred to in paragraph (b) below, copies may be obtained, during normal business hours at the specified office of the Company at CITIC Securities Tower, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province, PRC:

(a) the Memorandum and Articles of Association of each of the Issuer and the Company;

(b) the audited financial statements of the Company for the years ended 31 December 2017, 2018 and 2019;

(c) the mostly recently published or issued audited financial statements of the Company and the most recently published or issued unaudited interim financial statements (if any) of the Company;

(d) the Dealer Agreement, the Agency Agreement, the Trust Deed, and the Deed of Guarantee;

(e) a copy of this Offering Circular together with any supplement to this Offering Circular and any other documents incorporated herein or therein referenced;

(f) any future prospectuses, offering memoranda, information memoranda and supplements (including Pricing Supplements save that a Pricing Supplement related to an unlisted Series of Notes will only be available for inspection by a holder of any such Notes and such holder must produce evidence satisfactory to the Issuer, the Company or the Trustee, as the case may be, as to the identity of such holder) to this Offering Circular and the documents incorporated therein by reference; and

(g) in the case of a syndicated issue of listed Notes, the subscription agreement (or equivalent document).

6. **Auditors:**

PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, our external auditors, have audited and issued auditor's reports with unqualified opinions on the Company's consolidated financial statements as of and for the years ended 31 December 2017, 2018 and 2019, respectively.

7. **Clearing Systems:**

The Notes have been accepted for clearance through Euroclear and Clearstream. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream will be specified in the applicable Pricing Supplement. The Issuer may also apply to have Notes accepted for clearance through the CMU. The relevant CMU Instrument Number will be specified in the applicable Pricing Supplement. If the Notes are to be cleared through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

8. **Legal Entity Identifier:**

The legal entity identifier of the Issuer is 5493007B0X41FW1DM450.

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Independent Auditor's Report

To the Shareholders of CITIC Securities Company Limited
(Incorporated in People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of CITIC Securities Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 198 to 343, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Valuation of financial instruments held at fair value classified under Level 3 financial instruments
- Expected credit impairment allowance of Financing Assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to note 3(20), 4(1) and 22 to the consolidated financial statements. As at 31 December 2019, the carrying amount of goodwill was RMB10,023 million, primarily resulting from the acquisition of China Asset Management Co., Ltd ("China AMC") (RMB7,419 million) and CITIC Securities International Company Limited's acquisition of CLSA B.V. ("CLSA") (RMB2,004 million). As at 31 December 2019, the Group's accumulated impairment of goodwill was RMB929 million. Goodwill impairment assessment is performed annually. The impairment assessment relies upon the calculation of the recoverable amount for each of the Group's cash generating units ("CGUs"). The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. Management considers China AMC and CLSA as separate CGUs. The results of the value in use approach ("VIU") of China AMC and CLSA show no goodwill impairment in 2019 and it is not necessary to estimate using the other method.	We compared the key assumptions used by Management in preparing the cash flow forecasts of China AMC and CLSA under the VIU approach against the historical figures, the approved budgets and the business plans. We involved our internal valuation specialist to assess the reasonableness of the DCF model, including the growth rate in the forecast period, terminal growth rate and the discount rate used. Our assessment was based on our knowledge of the business and industry. We also tested the mathematical accuracy of calculations used in the cash flow forecast. Based on the results of our procedures, we found that management's judgements and assumptions used in the estimation of China AMC and CLSA's recoverable amounts to be acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment (Continued) Management used the VIU to assess the recoverable amount by applying a discounted cash flow ("DCF") model based on key assumptions and inputs including revenue growth rate, terminal growth rate and discount rate. Goodwill impairment assessment was a key area of audit focus due to the significant management judgement involved in selecting the appropriate key assumptions and inputs used in the estimation of each CGU's recoverable amount, and the amount of any goodwill impairment that may be required.	
Valuation of financial instruments held at fair value classified under Level 3 Financial Instruments Refer to note 3(3)(c), 4(3) and 57 to the consolidated financial statements. As at 31 December 2019, the Group's financial instruments included those classified under Level 3 in the fair value hierarchy ("Level 3 Financial Instruments"), which were measured using valuation techniques that involve significant inputs that were not based on observable market data ("unobservable inputs"). Such inputs included liquidity discounts, volatility, risk adjusted discount rate and price to book ratios, etc. The amounts of Level 3 financial assets and financial liabilities as at 31 December 2019 were RMB16,093 million and RMB6,958 million, respectively. Valuation of the Level 3 Financial Instruments was a key area of audit focus due to the size of their amounts and the selection of unobservable inputs used in the valuation process which involved significant judgement.	We evaluated the design and tested the operating effectiveness of the Group's controls over data inputs to the valuation models and the ongoing monitoring and optimization of the models. We evaluated the appropriateness of the models used by Management for the valuation of Level 3 Financial Instruments by using our knowledge of those used in current industry practice. We also evaluated on a sample basis the reasonableness and appropriateness of the unobservable and observable inputs used for measuring the fair value of Level 3 Financial Instruments with reference to relevant market data. We performed an independent valuation and sensitivity analysis of the Level 3 Financial Instruments on a sample basis. Based on the results of our procedures performed above, we found the models used and inputs adopted by Management acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of Financing Assets	
Refer to note 3(3)(e), 4(5), 14, 31, 34 and 58(a) to the consolidated financial statements. As at 31 December 2019, stock repo and stock-pledged repo under reverse repurchase agreements totalled RMB40,489 million (31 December 2018: RMB38,619 million) with credit impairment loss allowance of RMB3,046 million (31 December 2018: RMB1,966 million). The credit loss allowances as at 31 December 2019 for Financing Assets represented Management's best estimates of the expected credit losses ("ECL") in accordance with International Financial Reporting Standard 9: "Financial Instruments". Management applied a three-stage impairment model to calculate the ECL. For Financing Assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including exposure at default and loss rate after taking into consideration forward looking factors. For credit-impaired Financing Assets classified under Stage 3, Management assessed the credit loss allowance by estimating the future cash flows after taking into consideration forward looking factors. Management assesses whether objective evidence of impairment existed for Financing Assets at each reporting date. The measurement model for ECL involves significant management judgments and assumptions, primarily including: (1) Selection of the appropriate models and assumptions; (2) Determination of the criteria for significant increase in credit risk ("SICR"), definition of default and credit impairment;	We evaluated and tested the Group's internal controls relating to the measurement of ECL for Financing Assets which included: (1) Governance over ECL models, including the selection and approval of methodologies and model; and the ongoing monitoring and optimization of such models; (2) Review and approval of significant management judgements and assumptions, including: i) the criteria for SICR; ii) the definition of default and credit-impairment; and iii) the use of economic variables and relative weighting for forward-looking scenarios; (3) Internal controls over the accuracy and completeness of key inputs used by the models. In addition, we also performed the following procedures: (1) We examined the ECL modelling methodologies and assessed their reasonableness. We also evaluated whether the underlying coding for the models reflected the methodologies established by Management; (2) We examined the application of the SICR criteria and credit impairment definition by testing the collateral to Financing Assets ratio and the backstop past due days defined by Management; (3) For forward-looking scenarios, we examined the basis of determining of the economic variables, number of scenarios and relative weightings; assessed the reasonableness of the economic variables forecasted under the different scenarios; and performed sensitivity analysis on economic indicators and relative weightings;

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of Financing Assets (Continued) (3) Projection of macroeconomic variables for forward-looking scenarios and probability weightings. The Group has established governance processes and controls over the measurement of ECL. ECL assessment of Financing Assets was considered to be a key area of audit focus due to the size of the balance and the significant management judgements involved.	(4) We examined major data inputs to the ECL models for selected samples, including exposure at default and loss rate after taking into consideration forward looking factors; (5) For credit-impaired assets under Stage 3, we tested, on a sample basis, the credit loss allowance computed by Management with reference to financial information of borrowers and guarantors, and the latest collateral valuations, as appropriate. Based on the audit procedures performed, in the context of the inherent uncertainties associated with the measurement of ECL, we considered the models, key parameters, significant judgements and assumptions adopted by Management and the measurement results to be acceptable.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Shuk Ching, Margarita.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	Notes	2019	2018
Revenue			
Fee and commission income		**21,515,042**	20,294,821
Interest income	8	**13,257,056**	13,654,422
Investment income	9	**15,891,370**	8,045,850
		50,663,468	41,995,093
Other income	10	**6,416,894**	9,065,926
Total revenue and other income		**57,080,362**	51,061,019
Fee and commission expenses	11	**3,492,863**	2,868,013
Interest expenses	11	**11,212,466**	11,232,013
Staff costs	11	**12,441,448**	10,524,690
Depreciation of property, plant and equipment		**378,562**	420,114
Tax and surcharges		**292,697**	255,151
Other operating expenses and costs	11	**10,478,415**	11,816,544
Expected credit losses	14	**1,891,580**	2,186,773
Impairment losses on other assets	15	**698,816**	23,805
Total operating expenses		**40,886,847**	39,327,103
Operating profit		**16,193,515**	11,733,916
Share of profits and losses of:			
Associates		**792,777**	742,865
Joint ventures		**8,344**	(11,210)
Profit before income tax		**16,994,636**	12,465,571
Income tax expense	16	**4,346,200**	2,589,143
Profit for the year		**12,648,436**	9,876,428
Attributable to:			
Owners of the Parent		**12,228,610**	9,389,896
Non-controlling interests		**419,826**	486,532
		12,648,436	9,876,428
Earnings per share attributable to Owners of the Parent (in RMB yuan)			
— Basic	19	**1.01**	0.77
— Diluted	19	**1.01**	0.77

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	2019	2018
Profit for the year	**12,648,436**	9,876,428
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		
Net gains on investments in debt instruments measured at fair value through other comprehensive income	**164,748**	143,191
Net (losses)/gains on debt instruments measured at fair value through other comprehensive income in prior period reclassified to profit on disposal	**(25,049)**	21,438
Income tax relating to these items	**(41,187)**	(35,797)
	98,512	128,832
Share of other comprehensive income of associates and joint ventures	**5,998**	40,171
Exchange differences on translation of foreign operations	**234,747**	571,760
Other	**(26,008)**	(3,931)
	313,249	736,832

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	2019	2018
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods		
Net gains/(losses) on investments in equity instruments designated as at fair value through other comprehensive income	**741,454**	(2,202,092)
Income tax relating to these items	**(194,134)**	520,401
	547,320	(1,681,691)
Share of other comprehensive income of associates and joint ventures	**13,119**	(18,951)
Other	**1,041**	(280)
	561,480	(1,700,922)
Other comprehensive income for the year, net of tax	**874,729**	(964,090)
Total comprehensive income for the year	**13,523,165**	8,912,338
Attributable to:		
Owners of the Parent	**13,001,196**	8,372,396
Non-controlling interests	**521,969**	539,942
	13,523,165	8,912,338

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2019

(In RMB thousands, unless otherwise stated)

	Notes	31 December 2019	2018
Non-current assets			
Property, plant and equipment	20	**7,761,756**	8,046,233
Investment properties	21	**1,254,733**	1,332,508
Goodwill	22	**10,022,824**	10,507,495
Land-use rights and intangible assets	23	**3,072,628**	3,269,423
Investments in associates	25	**8,925,954**	8,638,309
Investments in joint ventures	25	**75,129**	399,986
Financial assets at fair value through other comprehensive income	26	**16,279,369**	15,532,415
Financial assets at fair value through profit or loss	32	**26,201,794**	22,561,994
Refundable deposits	27	**1,459,937**	1,112,777
Deferred income tax assets	28	**5,241,489**	4,223,026
Right-of-use assets	29	**1,600,885**	
Other non-current assets	30	**2,186,789**	4,049,183
Total non-current assets		**84,083,287**	79,673,349
Current assets			
Fee and commission receivables		**1,712,168**	1,397,133
Margin accounts	31	**70,673,845**	57,197,814
Financial assets at fair value through other comprehensive income	26	**23,684,063**	36,327,828
Financial assets at fair value through profit or loss	32	**329,146,513**	224,875,080
Derivative financial assets	33	**7,351,073**	11,388,102
Reverse repurchase agreements	34	**58,830,053**	67,370,441
Assets held for sale		**194,678**	—
Other current assets	35	**33,202,905**	30,255,394
Cash held on behalf of customers	36	**118,401,385**	92,420,971
Cash and bank balances	37	**64,442,459**	52,226,605
Total current assets		**707,639,142**	573,459,368
Current liabilities			
Customer brokerage deposits	38	**123,351,754**	97,773,997
Derivative financial liabilities	33	**13,991,750**	9,311,899
Financial liabilities at fair value through profit or loss	39	**44,317,791**	38,880,234
Repurchase agreements	40	**174,447,893**	121,669,027
Due to banks and other financial institutions	41	**33,136,195**	19,314,867
Taxes payable	42	**2,884,805**	2,872,998
Short-term loans	43	**7,404,905**	5,656,710
Short-term financing instruments payable	44	**20,137,293**	18,059,345
Lease liabilities	45	**463,904**	
Other current liabilities	46	**97,606,548**	82,013,442
Total current liabilities		**517,742,838**	395,552,519
Net current assets		**189,896,304**	177,906,849
Total assets less current liabilities		**273,979,591**	257,580,198

Consolidated Statement of Financial Position

At 31 December 2019

(In RMB thousands, unless otherwise stated)

	Notes	31 December 2019	2018
Non-current liabilities			
Debt instruments issued	47	**89,420,833**	88,057,370
Deferred income tax liabilities	28	**2,843,995**	1,967,608
Long-term loans	48	**383,334**	953,229
Financial liabilities at fair value through profit or loss	39	**13,399,208**	8,765,605
Lease liabilities	45	**1,102,999**	
Other non-current liabilities	49	**1,379,430**	1,004,890
Total non-current liabilities		**108,529,799**	100,748,702
Net assets		**165,449,792**	156,831,496
Equity			
Equity attributable to Owners of the Parent			
Issued Share capital	50	**12,116,908**	12,116,908
Reserves	51	**89,404,254**	85,826,084
Retained earnings		**60,104,047**	55,197,777
		161,625,209	153,140,769
Non-controlling interests		**3,824,583**	3,690,727
Total equity		**165,449,792**	156,831,496

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 19 March 2020.

ZHANG Youjun
Chairman

YANG Minghui
Executive Director and President

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

		Attributable to owners of the Parent									
			Reserves								
	Notes	Share capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 1 January 2019		12,116,908	54,426,233	8,410,205	22,811,407	(454,624)	632,863	55,197,777	153,140,769	3,690,727	156,831,496
Profit for the year		–	–	–	–	–	–	12,228,610	12,228,610	419,826	12,648,436
Other comprehensive income for the year		–	–	–	–	639,982	132,604	–	772,586	102,143	874,729
Total comprehensive income for the year		–	–	–	–	639,982	132,604	12,228,610	13,001,196	521,969	13,523,165
Dividend – 2018	18	–	–	–	–	–	–	(4,240,918)	(4,240,918)	–	(4,240,918)
Appropriation to surplus reserves		–	–	272,681	–	–	–	(272,681)	–	–	–
Appropriation to general reserves		–	–	–	2,803,580	–	–	(2,803,580)	–	–	–
Capital decrease by equity holders – Others		–	(270,677)	–	–	–	–	(5,161)	(275,838)	(200,049)	(475,887)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	(188,064)	(188,064)
At 31 December 2019		12,116,908	54,155,556	8,682,886	25,614,987	185,358	765,467	60,104,047	161,625,209	3,824,583	165,449,792

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

		Attributable to owners of the Parent									
			Reserves								
	Notes	Share capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 31 December 2017		12,116,908	54,449,057	8,164,570	20,826,927	2,131,888	102,709	52,006,987	149,799,046	3,343,513	153,142,559
Changes in accounting policy		–	–	88,986	143	(1,048,577)	9,719	782,076	(167,653)	–	(167,653)
At 1 January 2018 (Restated)		12,116,908	54,449,057	8,253,556	20,827,070	1,083,311	112,428	52,789,063	149,631,393	3,343,513	152,974,906
Profit for the year		–	–	–	–	–	–	9,389,896	9,389,896	486,532	9,876,428
Other comprehensive income for the year		–	–	–	–	(1,537,935)	520,435	–	(1,017,500)	53,410	(964,090)
Total comprehensive income for the year		–	–	–	–	(1,537,935)	520,435	9,389,896	8,372,396	539,942	8,912,338
Dividend – 2017	18	–	–	–	–	–	–	(4,846,763)	(4,846,763)	–	(4,846,763)
Appropriation to surplus reserves		–	–	156,895	–	–	–	(156,895)	–	–	–
Appropriation to general reserves		–	–	–	1,984,337	–	–	(1,984,337)	–	–	–
Capital increase/(decrease) by equity holders – Others		–	(22,824)	(246)	–	–	–	6,813	(16,257)	535	(15,722)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	(193,263)	(193,263)
At 31 December 2018		12,116,908	54,426,233	8,410,205	22,811,407	(454,624)	632,863	55,197,777	153,140,769	3,690,727	156,831,496

The accompanying notes from an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Profit before income tax	**16,994,636**	12,465,571
Adjustments for:		
Financing interest expense	**6,417,900**	6,516,019
Share of profits and losses of associates and joint ventures	**(801,121)**	(731,655)
Interest income and dividend income from financial assets at fair value through other comprehensive income	**(2,050,296)**	(2,193,926)
Net gains on disposal of debt instruments at fair value through other comprehensive income	**(259,572)**	(55,211)
Net gains on disposal of property, plant and equipment and other assets	**783**	28,377
Gains on disposal of associates and joint ventures	**(493,821)**	(18,495)
Fair value (losses)/gains on financial assets and liabilities measured at fair value through profit or loss	**2,055,398**	(1,706,195)
Depreciation	**1,146,313**	532,567
Amortisation	**392,085**	432,503
Expected credit losses	**1,891,580**	2,186,773
Impairment on other assets	**698,816**	23,805
	25,992,701	17,480,133
Net (increase)/decrease in operating assets		
Financial assets at fair value through profit or loss	**(94,764,699)**	(56,837,870)
Cash held on behalf of customers	**(25,980,414)**	(34,634)
Other assets	**202,577**	69,016,900
	(120,542,536)	12,144,396
Net increase/(decrease) in operating liabilities		
Customer brokerage deposits	**25,442,481**	(2,617,679)
Repurchase agreements	**52,778,866**	10,049,100
Other liabilities	**17,069,330**	23,032,742
	95,290,677	30,464,163
Net cash inflow/(outflow) from operating activities before tax	**740,842**	60,088,692
Income tax paid	**(4,744,887)**	(2,469,822)
Net cash inflow/(outflow) from operating activities	**(4,004,045)**	57,618,870

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

(In RMB thousands, unless otherwise stated)

	Notes	2019	2018
Cash flows from investing activities			
Dividend income and interest income received from financial assets at fair value through other comprehensive income		**2,050,296**	2,193,926
Net cash flow from purchases, leases and sales of items of property, plant and equipment and other assets		**(422,701)**	(449,868)
Net cash flow from disposal of subsidiaries	24(c)	**(78,523)**	—
Net cash flow from acquisition of subsidiaries	24(d)	**—**	(97,391)
Net cash flow from investments in associates and joint ventures		**27,582**	(244,394)
Net cash flow from disposal or purchase of financial assets at fair value through other comprehensive income		**14,670,872**	(22,196,936)
Net cash inflow/(outflow) from investing activities		**16,247,526**	(20,794,663)
Cash flows from financing activities			
Capital contribution from non-controlling interests		**—**	1,000
Cash inflows from borrowing activities		**15,408,411**	20,355,184
Cash inflows from issuing bonds		**102,389,150**	119,587,234
Payment of debts		**(106,666,041)**	(148,877,939)
Dividends and interest expense		**(10,321,724)**	(11,740,466)
Other cash outflows from financing activities		**(968,577)**	(1,076,302)
Net cash inflow/(outflow) from financing activities		**(158,781)**	(21,751,289)
Net increase in cash and cash equivalents		**12,084,700**	15,072,918
Cash and cash equivalents at the beginning of the year		**47,575,304**	30,938,954
Effect of exchange rate changes on cash and cash equivalents		**(238,522)**	1,563,432
Cash and cash equivalents at the end of the year	52	**59,421,482**	47,575,304

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2019

(In RMB thousands, unless otherwise stated)

1 CORPORATE INFORMATION

CITIC Securities Company Limited (the "Company") was established in Beijing, the People's Republic of China (the "PRC" or "Mainland China", which excludes for the purpose of these consolidated financial statements, the Hong Kong Special Administrative Region of the PRC or "Hong Kong", the Macau Special Administrative Region of the PRC or "Macau", and Taiwan) on 25 October 1995. Pursuant to approval by the China Securities Regulatory Commission (the "CSRC"), the Company was restructured as a joint stock limited company in 1999. The Company's common stock was listed on the PRC domestic A-share market in 2003. The registered office of the Company is located at North Tower, Excellence Times Plaza II, No. 8 Zhongxin San Road, Futian District, Shenzhen, Guangdong Province, the PRC.

According to a resolution relating to the issue and listing of H Shares in Hong Kong passed in the first extraordinary general meeting of shareholders in 2011, along with the "Approval of Issue of Overseas-Listed Foreign Shares of CITIC Securities" (CSRC [2011] No.1366) issued by the CSRC, the Company conducted its initial public offering of Overseas-Listed Foreign Shares ("H shares") from September to October 2011. Under this offering, the Company offered a total of 1,071,207,000 H shares (including over-allotment of 75,907,000 H shares) with a nominal value of RMB1.00 per share. As at 31 December 2011, the total share capital of the Company increased to RMB11,016,908,400.00. The capital increase has been verified by Ernst & Young Hua Ming according to the capital verification report of Ernst & Young Hua Ming Yan Zi (2011) 60469435_A09.

According to a resolution relating to the additional issuance and listing of H shares in Hong Kong passed in the first extraordinary general meeting of the shareholders in 2015, along with the "Approval of Issue of Overseas-Listed Foreign Shares of CITIC Securities the Approval relating to Additional Issuance of Overseas-Listed Foreign Shares of CITIC Securities Company Limited (CSRC [2015] No. 936)" issued by the CSRC, on 23 June 2015, the Company completed its additional issuance and listing of H shares in Hong Kong. Under this offering, the Company offered a total of 1,100,000,000 H shares with an offering price of HKD24.60 per share. As at 31 December 2015, the total share capital of the Company increased to RMB12,116,908,400.00. The capital increase has been verified by PricewaterhouseCoopers Zhong Tian Yan Zi (2015) No. 748.

The Company (also referred to as the "Parent") and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- Securities and futures brokerage;
- Securities investment fund distribution and introducing brokerage business for futures companies;
- Agency sale of financial products;
- Securities underwriting and sponsorship;
- Investment advisory and consultancy services;
- Proprietary securities activities;
- Asset management and fund management;
- Margin financing and securities lending; and
- Stock option market-making.

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

These consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which have been measured at fair value, as further explained in the respective accounting policies below. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Relevant standards and amendments effective in 2019 and adopted by the Group:

(1)	IFRS 16	Leases
(2)	IFRIC 23	Uncertainty over Income Tax Treatments
(3)	Amendments to IFRS 9	Prepayment Features with Negative Compensation
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015–2017 Cycle
(5)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement
(6)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures

(1) IFRS 16: Leases

IFRS 16 — Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. Accounting policies under IFRS 16 are described in Note 3 (18).

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

(2) IFRIC 23: Uncertainty Over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments.

(3) Amendments to IFRS 9: Prepayment Features with Negative Compensation

The narrow-scope amendments made to IFRS 9 Financial Instruments in October 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

2 BASIS OF PREPARATION (Continued)

(4) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015–2017 Cycle

The Annual Improvements to IFRSs 2015–2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 — Business combinations, the amendments to IFRS 11 — Joint arrangements, the amendments to IAS 12 — Income taxes, the amendments to IAS 23 — Borrowing costs.

(5) Amendments to IAS 19: Employee Benefits Regarding Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change;

- recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling;

- separately recognise any changes in the asset ceiling through other comprehensive income.

(6) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture-to which the equity method is not applied should be accounting for using IFRS 9.

The new accounting standard IFRS 16 leases and its impact are disclosed in Note 3 Significant Accounting Policies and Note 5 The Impact of Changes in Principal Accounting Policies respectively. The adoption of the other standards and amendments did not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

(6) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (Continued)

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early adoption of the amendments continue to be permitted
(2)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(3)	Amendments to IFRS 3	The Definition of A Business	1 January 2020

(1) *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture*

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(2) *Amendments to IAS 1 and IAS 8: The Definition of Material*

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(3) ***Amendments to IFRS 3: The Definition of A Business***

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries for the year ended 31 December 2019. The financial statements of the subsidiaries are prepared for the same reporting period as the Company (also referred to as the "Parent"), using consistent accounting policies.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) derecognises the cumulative translation differences recorded in equity;

(d) recognises the fair value of the consideration received;

(e) recognises the fair value of any investment retained;

(f) recognises any resulting surplus or deficit in profit or loss; and

(g) reclassifies the Group's share of components previously recognised in other comprehensive income (OCI) to profit or loss.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position separately from the Equity attributable to Owners of the Parent. An acquisition of non-controlling interests is accounted for as an equity transaction.

3 SIGNIFICANT ACCOUNTING POLICIES

(1) Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid assets, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and bank balances.

(2) Foreign currency transactions and foreign currency translation

The financial statements are presented in RMB, which is the Company's functional and presentation currency. The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. The financial statements are presented in RMB.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. All differences are taken to the statement of profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's overseas operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates that approximate the exchange rates of the date of the transaction. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognised in OCI and accumulated in the foreign exchange translation reserve. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows.

The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(3) Financial instruments

(a) Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value, in the case of a financial asset or financial liability not at fair value through profit or loss, plus or minus transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost;

(ii) Fair value through other comprehensive income ("FVOCI"); or

(iii) Fair value through profit or loss ("FVPL").

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determine whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of asset.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

Debt Instruments (Continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.

(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.

(iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading books) and other financial liabilities designated as such at initial recognition.

Contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

(b) **Reclassification of financial assets**

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

(c) **Fair value of financial instruments**

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. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on quoted market prices. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, the Group uses observable inputs. Unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(d) Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; and (iii) for financial assets, adjusted for any loss allowance. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue on the instrument's amortized cost which are recognized in profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Investment income".

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(d) Subsequent measurement of financial instruments (Continued)

Fair value through other comprehensive income (Continued)

Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Investment income" in the period in which it arises.

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Investment income" line in the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

When financial liabilities designated as at FVPL are derecognized, fair value gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(e) Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures the ECL of a financial instrument reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

— Stage I: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.

— Stage II: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.

— Stage III: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

The Group applies the impairment requirements for the recognition and measurement of some loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(e) Impairment of financial instruments (Continued)

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss.

(f) Derecognition of financial instruments

A financial instrument (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised, which means to derecognise a financial asset or financial liability from the account and statement of financial position of the Group when:

(i) the contractual rights to receive cash flows from the assets have expired; or

(ii) the Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but not retain control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognised, while the financial liability under modified terms is recognised as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognised in profit or loss.

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognised and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognised shall be recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Derivative financial instruments

The Group uses derivatives, such as foreign currency contracts, interest rate swaps, contracts of stock index and contracts for difference to economically hedge its foreign currency risk, interest rate risk and stock price risk, respectively. Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including the discounted cash flow analysis and option pricing models, as appropriate. Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group itself, respectively.

(5) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(6) Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers, for which the customers provide the Group with collateral.

The Group recognises margin accounts at initial recognition, and recognises interest income accordingly. Securities lent are not derecognised, but still accounted for as the original financial assets, and interest income is recognised accordingly.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

For impairment of financial assets arising from margin financing and securities lending, refer to Note 3(3)(e).

(7) Reverse repurchase agreements and repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognised through interest income or expenses.

For impairment of reverse repurchase agreements, refer to Note 3(3)(e). Stock repo and stock-pledged repo under reverse purchase agreements are assets arising from financing businesses.

(8) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

(9) Associates

Associates are all entities 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.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates.

(10) Joint ventures

Joint ventures are all entities over which the Group has joint control. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of post-acquisition results and reserves of joint ventures is included in the consolidated statement of profit or loss and reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures.

(11) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased out. Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

The Group's investment properties are accounted for using cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Investment properties (Continued)

When an investment property is transferred to owner-occupied property, it is reclassified to property, plant and equipment with the carrying amount determined at the carrying amount of the investment property at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the property, plant and equipment is transferred to investment properties with the carrying amount determined at the carrying amount at the date of the transfer.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of profit or loss.

(12) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment comprise buildings, transportation vehicles and electronic devices that the Group expects to use for more than one year and other tangible assets that are expected to be used for more than one year and the unit costs of which are greater than RMB2,000.

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees. The cost of a self-constructed asset comprises all costs incurred before the asset is ready for its intended use.

Subsequent expenditure incurred for the property and equipment is included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably, while the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation of property, plant and equipment is calculated on the straight-line basis.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Property, plant and equipment (Continued)

(b) Property, plant and equipment initially measured at cost (Continued)

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the Group are as follows:

Types of property, plant and equipment	Estimated useful lives	Monthly depreciation rate	Estimated residual value rate
Properties and buildings	35 years	0.2262%	5%
Electronic devices	2–5 years	1.667%–4.167%	—
Transportation vehicles			
— Leased out	(i)	(i)	(i)
— Others	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	—
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

(i) Transportation vehicles that are leased out under operating lease represent aircraft and cargo vessel. The Group determines the useful lives and depreciation method according to conditions of aircraft and cargo vessel. Among transportation vehicles, the estimated useful lives of cargo vessel is 20 years, and the estimated residual value is determined based on the expected residual value; the estimated useful lives of aircraft is 18 years with a monthly depreciation rate of 0.394%, and the estimated residual value rate is 15% of its original cost.

The years that property, plant and equipment were already in use upon purchase were excluded when determining the estimated useful lives of these types of property, plant and equipment. The estimated useful lives, the estimated residual value rate and the depreciation method of each type of property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value rate.

(c) Impairment of property, plant and equipment

The Group assesses whether there is any indication that assets are impaired at each financial reporting date. When any such indication exists, the Group estimates the recoverable amount. When recoverable amounts of assets are lower than carrying amounts, the Group decreases the carrying amount to recoverable amount, the decreased amount recognized in the consolidated income statement.

An impairment loss recognized for property, plant and equipment is not reversed in subsequent periods.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Property, plant and equipment (Continued)

(d) Disposal of property, plant and equipment

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized through profit or loss.

(e) Construction in progress

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(13) Land-use rights and intangible assets

(a) Land-use rights

Land-use rights acquired by the Group are amortised over the period that is confirmed by the land use permit.

(b) Intangible assets

Intangible assets are recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item shall be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognised as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortised on a straight-line basis over the useful period. The useful lives and amortisation method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life. Impairment for intangible assets not readily for use is also assessed annually.

Software acquired from third party shall be amortised over 5 years. The self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets shall be amortised over their useful lives.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(13) Land-use rights and intangible assets (Continued)

(b) Intangible assets (Continued)

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed each reporting date. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

Internal research and development expenses are classified as research phase expense and development phase expense. Expenditure on research phase of an internal project shall be recognised as an expense when it is incurred. Development phase expense can be capitalised only an entity can demonstrate all of the following:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) its intention to complete the intangible asset and use or sell it;

(iii) its ability to use or sell the intangible asset;

(iv) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The development phase expenses that do not meet above conditions shall be recognised in profit or loss when incurred.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Revenue

Revenue from underwriting services is recognized when the outcome of the underwriting services provided can be reliably estimated and reasonably recognized. The revenue is usually recognized upon completion of the offering.

Revenue from the securities brokerage services is recognised on the date of the securities transaction.

Revenue from asset management services is recognised when management services are provided in accordance with the asset management contract.

Dividend income is recognised when the Group's right to receive payment has been established.

Other business revenue mainly comes from the bulk commodities sales of the Group's commodities trading subsidiaries.

The Group recognizes sales revenue from bulk commodity goods when fulfills the Group's performance obligations in the contract, that is, the revenue is recognized when the customer obtains control of the relevant bulk commodity goods.

In the process of selling goods, the Group, as the primary obligor, has the primary responsibility of providing goods and performing orders to customers. The Group exposure inventory risk before or after the bulk commodity goods have been ordered by a customer; the Group has discretion in establishing prices of bulk commodity goods and exposed to credit risk for the amount receivable from customers in exchange for the other party's goods and commodity risk for inventory. The Group satisfies the performance obligation above and recognized revenue in the gross amount. When the group acts as an agent the net amount of the consideration received or receivable after deducting the price payable to other related parties shall be recognized and listed as income.

When the Group recognises revenue in accordance with the progress of completed services, the part of unconditional receivables that the Group has acquired will be recognised as accounts receivables, and the rest will be recognised as contract assets. The Group identifies loss allowance on the basis of expected credit losses for accounts receivable and contractual assets; if the Group's received consideration or receivable consideration exceed the completed services, the excess part will be recognised as contractual liabilities. The Group's contractual assets and liabilities under the same contract are shown in net.

Interest income of debt investments at amortized costs and FVOCI, is measured by amortized cost and effective interest rate; excluding financial assets credit impaired are measured by amortized cost and credit-adjusted effective interest rate. The net gains of holding period from financial investments at FVTPL is measured as "Investment income".

(15) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using balance sheet liability method according to the temporary differences between the carrying amount of an asset or liability at the end of the reporting period and its tax base, and the temporary difference between the carrying amount of an item not recognised as an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognised as deferred income tax liabilities, except:

(i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, unused tax credits carried forward and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax credits carried forward and unused tax losses can be utilised, except that deferred income tax asset relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income 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 income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered the services to the Group.

In accordance with the applicable laws and regulations, Mainland China employees of the Group participate in various social insurance schemes including basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. Contributions to these schemes are recognised in profit or loss as incurred.

All eligible employees outside Mainland China participate in the respective local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

(17) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all the attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognised at nominal amount.

Government grants for purchasing, building or other development of long-term assets regulated in government documents are recognised as government grants related to assets. Judgments should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or other development of long-term assets as basic condition are recognised as government grants related to assets, and the remaining type of grants are recognised as related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released to profit or loss during the period when the expense is incurred. Government grants that are to compensate the incurred expenses or losses are recognised into profit or loss directly. Government grants related to assets are recognised as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded into profit or loss directly.

(18) Leases

As a lessor

Lease income from operating leases is recognised in income on a straight-line basis over the period of the lease.

As a lessee (the following accounting policies apply in 2019)

(a) Initial measurement of the right-of-use asset and lease liability

Initial measurement of the right-of-use asset

The right-of-use asset is defined as the right of underlying assets in the lease term for the Group as a lessee. The lease term is defined as the non-cancellable period of the lease for the Group as a lessee.

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

(i) the amount of the initial measurement of the lease liability;

(ii) any lease payments made at or before the commencement date, less any lease incentives received;

(iii) any initial direct costs incurred by the lessee; and

(iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Initial direct costs are defined as incremental costs that would not have been incurred if a lease had not been obtained.

Initial measurement of the lease liability

At the commencement date, a lessee shall measure the lease liability at the present value of the lease payments that are not paid at that date.

The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

The lessee uses as the discount rate the interest rate implicit in the lease — this is the rate of interest that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor.

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Leases (Continued)

(b) *Subsequent measurement of the right-of-use asset and lease liability*

Subsequent measurement of the right-of-use asset

At the commencement date, the Group as a lessee shall measure the right-of-use asset at cost and apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. When the recoverable amount is less than the book value of the right-to-use assets, the Group shall write down its book value to the recoverable amount.

Subsequent measurement of the lease liability

After the commencement date, the Group shall recognise interest on the lease liability in profit or loss. Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

(c) *Recognition of short-term leases and leases for which the underlying asset is of low value*

Short-term leases are defined as leases with a lease term of less than 12 months from the commencement date. Leases for which the underlying asset is of low value are defined as underlying assets of low value when new. The right-of-use asset and lease liability are not recognized by the Group for short-term leases and leases for which the underlying asset is of low value. The lessee shall recognise the lease payments associated with those leases as an expense.

(19) Inventories

Inventories are recognised at cost for initial recognition. The cost of inventories comprises all costs of purchase, costs of conversion and other costs.

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. When net realisable value is lower than the carrying amount, the Group decreases the carrying amount to net realisable value. The decreased amount is recognised in profit or loss and corresponding allowance is made.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and related taxes.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Goodwill impairment

The Group assesses goodwill acquired from business combination, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units to which the asset belongs will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group decreases their carrying amount to recoverable amount. The decreased amounts are recognised in profit or loss and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognises relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on a pro rata basis. An impairment loss recognized for goodwill can not be reversed in subsequent periods.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close family member of that person and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Provisions and contingencies

The obligation pertinent to contingencies shall be recognised as provisions when the following conditions are satisfied concurrently:

(i) the obligation is a present obligation of the Group;

(ii) the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and

(iii) the amount of the obligation can be reliably measured.

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot actually reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

(23) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, and non-current assets are not depreciated or amortised. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset is recognised at the date of derecognition.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(24) Profit distribution

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory reserve under surplus reserves, 10% of after-tax profit for a general risk reserve under general reserves, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve under general reserves. In addition, with the approval from the Annual General Meeting, the Company may set aside 5%–10% of after-tax profit for a discretionary reserve after setting aside the funds for the various statutory reserves. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General reserves set aside by the Company are used to make up for any losses arising from securities transactions. The Company's surplus reserves are used to make up for any losses of the Company or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve are converted to capital, the balance of the statutory reserve cannot be less than 25% of the Company's registered capital.

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the ordinary equity holders, they are recognized as a liability.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these judgements assumptions and estimates could result in outcomes that could require an adjustment to the carrying amounts of the assets or liabilities.

(1) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, which requires significant judgement. This involves an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. The recoverable amount is the higher of a cash-generating unit's fair value less costs to sell and its value in use.

(2) Income tax

Determining provisions for income tax requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and provides for taxes accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement of the tax treatments of certain transactions and also significant estimation of the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(3) Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of observable market inputs. However, where observable market inputs are not available, management needs to make estimates and use alternatives on such unobservable market inputs.

(4) Consolidation of structured entities

The management makes significant judgment on whether the Group controls and therefore is required to consolidate its structured entities. The decision outcome impacts the financial and operational results of the Group.

When assessing control, the Group considers: 1) the level of power of the Group over the investee; 2) variable returns gained through participation of relevant activities of the investee; and 3) the ability of the Group in using its power over the investee to affect its return.

When assessing the level of power over the structured entities, the Group considers the following four aspects:

(i) the degree of participation when establishing the structured entities;

(ii) contractual arrangements;

(iii) activities that take place only at special occasions or events;

(iv) commitments made to the investee from the Group.

When assessing whether there is control over the structured entities, the Group also considers whether it's acting as a principal or as an agent. Aspects of considerations normally include the decision making power over the structured entities, substantive rights enjoyed by the other third parties, level of reward to the Group, and exposure to variable risks and returns from owning other benefits of the structured entities.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(5) Measurement of the expected credit loss allowance

Expected credit loss measurement

The measurement of the expected credit loss allowance for debt instruments measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring expected credit losses (ECL), such as:

— Determining criteria for significant increase in credit risk;

— Choosing appropriate models and assumptions for the measurement of ECL;

— Projection of macroeconomic variables for forward-looking scenarios.

Inputs, assumptions and estimation techniques

The ECL of different financial portfolios is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined above. For debt securities investments, ECL are the discounted product of the Probability of Default ("PD"), Exposure at Default ("EAD"), and Loss Given Default ("LGD"). For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements, ECL are the discounted product of the EAD and Loss Ratio ("LR").

Forward-looking information incorporated in the ECL model

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the PD vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 58(a).

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(6) Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are prepayments); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

5 THE IMPACT OF CHANGES IN PRINCIPAL ACCOUNTING POLICIES

The Group has adopted IFRS 16 effectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance of Consolidated Statement of Financial Position on 1 January 2019.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. As at 1 January 2019, the incremental borrowing rate applied to the lease liabilities ranged from 2.50% to 11.00%, within which those related to entities in Mainland China ranged from 4.10% to 5.42%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases and the right-of-use assets and lease liabilities were not recognized. The adoption of the expedients has no significant impact on the Group's consolidated financial statements.

Right-of use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the Consolidated Statement of Financial Position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(In RMB thousands, unless otherwise stated)

5 THE IMPACT OF CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)

(1) As at 1 January 2019, the Group adjusted the unpaid minimum operating lease payments disclosed under the original leasing standards to the leasing liabilities recognized under the new leasing standards as follows:

Operating lease commitments disclosed as at 31 December 2018	2,225,884
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,942,457
Add: finance lease liabilities recognised as at 31 December 2018	—
Less: short-term leases recognised on a straight-line basis as expense	120,184
Less: low-value leases recognised on a straight-line basis as expense	—
Lease liabilities recognized on 1 January 2019	1,822,273

(2) The change in accounting policy affected the following items in the Consolidated Statement of Financial Position on 1 January 2019

Impacted statement items

	Impacted amounts 1 January 2019
Right-of-use assets	**1,925,410**
Other current assets	**(89,816)**
Lease liabilities	**1,822,273**
Other current liabilities	**13,321**

6 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Company is currently subject are as follows:

(1) Income tax

From 1 January 2008, the "Enterprise Income Tax Law of the PRC" and the "Regulations on the Implementation of Enterprise Income Tax Law of the PRC" became effective for the Company. Income tax computation and payment are governed by the "Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations" (Public Notice of the State Administration of Taxation [2012] No. 57). The income tax rate applicable to the Company is 25%.

(2) Value added tax

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No.36), the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the "Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions" (Cai Shui [2016] No.70) issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%, instead of business tax at 5% prior to 1 May 2016.

In accordance with the "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

(3) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

(4) Urban maintenance and construction taxes, education surcharges and local education surcharges are levied at 7%, 3% and 2%, respectively, of the payable amount of relevant turnover taxes.

7 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities, which are subject to risks and returns that are different from the other operating segments.

Investment Banking — Securities placement and underwriting activities, and financial advisory services;

Brokerage — Securities and futures dealing and brokerage, as well as the sale of financial products as agent;

Trading — Equity, fixed income and derivatives trading and market-making, margin financing and securities lending and alternative investment activities;

Asset Management — Asset management services to collective assets management, directive assets management, special assets management, fund management and other investment account management; and

Others — Private equity investment, principal investment and other financial activities.

Management monitors the results of the Group's operating segments for the purposes of resource allocation and operating decision-making. Operating segment performance is measured consistently, and on the same basis as, operating profit or loss in the Group's consolidated financial statements.

Income taxes are managed as a whole and are not allocated to operating segments.

7 OPERATING SEGMENT INFORMATION (Continued)

2019	Investment banking	Brokerage	Trading	Asset management	Others	Total
Segment revenue and other income						
Fee and commission income	4,625,004	10,143,485	229,590	6,073,111	443,852	21,515,042
Interest income	2,819	2,782,485	9,952,168	200,280	319,304	13,257,056
Investment income	–	53,789	11,582,673	1,035,371	3,219,537	15,891,370
Other income	(2,496)	79,975	284,945	122,993	5,931,477	6,416,894
Subtotal	4,625,327	13,059,734	22,049,376	7,431,755	9,914,170	57,080,362
Operating expenses	2,560,503	10,986,864	15,607,390	3,785,116	7,946,974	40,886,847
Including: Finance costs	70	577,722	9,654,927	39,543	940,204	11,212,466
Expected credit losses	–	781	1,522,795	–	368,004	1,891,580
Impairment losses on other assets	38,270	524,152	–	67,918	68,476	698,816
Operating profit	2,064,824	2,072,870	6,441,986	3,646,639	1,967,196	16,193,515
Share of profits and losses of associates and joint ventures	–	–	–	–	801,121	801,121
Profit before income tax	2,064,824	2,072,870	6,441,986	3,646,639	2,768,317	16,994,636
Income tax expenses						4,346,200
Profit for the year						12,648,436
Other segment information:						
Depreciation and amortisation	4,702	742,901	67,694	206,257	516,844	1,538,398
Capital expenditure	72,871	219,969	37,198	81,078	17,482	428,598

(In RMB thousands, unless otherwise stated)

7 OPERATING SEGMENT INFORMATION (Continued)

2018	Investment banking	Brokerage	Trading	Asset management	Others	Total
Segment revenue and other income						
Fee and commission income	2,968,251	10,382,464	160,151	6,146,006	637,949	20,294,821
Interest income	4,975	2,666,466	10,433,629	188,672	360,680	13,654,422
Investment income	—	64,093	7,520,481	164,558	296,718	8,045,850
Other income	39,105	103,705	878,358	37,026	8,007,732	9,065,926
Subtotal	3,012,331	13,216,728	18,992,619	6,536,262	9,303,079	51,061,019
Operating expenses	1,805,215	10,157,320	15,200,053	3,671,596	8,492,919	39,327,103
Including: Finance costs	41	782,321	9,723,546	51,551	674,554	11,232,013
Expected credit losses	—	7,760	2,092,231	310	86,472	2,186,773
Impairment losses on other assets	—	2,605	—	—	21,200	23,805
Operating profit	1,207,116	3,059,408	3,792,566	2,864,666	810,160	11,733,916
Share of profits and losses of associates and joint ventures	—	—	—	—	731,655	731,655
Profit before income tax	1,207,116	3,059,408	3,792,566	2,864,666	1,541,815	12,465,571
Income tax expenses						2,589,143
Profit for the year						9,876,428
Other segment information:						
Depreciation and amortisation	3,178	290,823	17,315	61,418	592,336	965,070
Capital expenditure	95,828	238,294	40,772	64,836	18,830	458,560

8 INTEREST INCOME

	2019	2018
Interest income on margin and other financing	**7,717,513**	8,771,357
Bank interest income	**4,373,109**	3,867,374
Interest income on debt instruments at fair value through other comprehensive income	**1,021,226**	854,755
Others	**145,208**	160,936
Total	**13,257,056**	13,654,422

9 INVESTMENT INCOME

	2019	2018
Net gains/(losses) from financial assets at fair value through profit or loss(Mandatory)	**20,393,092**	(5,221,853)
Net gains from financial assets at fair value through profit or loss (Designated)	**3,428,434**	1,167,400
Net gains from disposal of debt instruments at fair value through other comprehensive income	**259,572**	55,211
Dividend income from financial assets at fair value through other comprehensive income	**1,029,070**	1,339,171
Net (losses)/gains from financial liabilities at fair value through profit or loss	**(4,844,312)**	1,867,081
Net gains/(losses) from derivatives and others	**(4,374,486)**	8,838,840
Total	**15,891,370**	8,045,850

10 OTHER INCOME

	2019	2018
Income from bulk commodity trading	**5,516,016**	7,180,012
Losses on disposal of property, plant and equipment	**(783)**	(1,683)
Others	**901,661**	1,887,597
Total	**6,416,894**	9,065,926

(In RMB thousands, unless otherwise stated)

11 OPERATING EXPENSES

	2019	2018
Fee and commission expenses:		
— Commission expenses	**3,182,791**	2,638,537
— Others	**310,072**	229,476
Total	**3,492,863**	2,868,013

	2019	2018
Finance costs:		
— Due to banks and other financial institutions	**3,977,093**	3,896,667
— Debt instruments issued and short-term financing instruments payable	**5,942,600**	6,028,064
— Customer brokerage deposits	**504,728**	339,558
— Others	**788,045**	967,724
Total	**11,212,466**	11,232,013

	2019	2018
Staff costs (including directors', supervisors' and senior executives' remuneration):		
— Salaries and bonuses	**10,705,556**	8,891,221
— Staff benefits	**1,460,515**	1,008,933
— Contributions to defined contribution schemes (i)	**275,377**	624,536
Total	**12,441,448**	10,524,690

11 OPERATING EXPENSES (Continued)

(i) Retirement benefits are included herein and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to the government related to these government-sponsored retirement plans for active employees. The Group has no obligation for post-retirement benefits beyond these contributions, which are expensed as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

	2019	2018
Other operating expenses and costs:		
— Cost of bulk commodity trading	**5,377,495**	7,146,338
— Electronic device operating costs	**678,470**	555,920
— Fund distribution and administration expenses	**670,957**	613,250
— Right-of-use asset depreciation cost	**609,500**	
— Travel expenses	**451,991**	362,136
— Consulting expense	**375,535**	191,598
— Amortization of intangible assets	**285,678**	338,479
— Postal and communication expenses	**265,098**	270,721
— Rental expense	**235,070**	838,347
— Business publicity expenses	**205,667**	208,151
— Auditors' remuneration (i)	**39,717**	34,558
— Others	**1,283,237**	1,257,046
Total	**10,478,415**	11,816,544

(i) Which include audit service fees of RMB31 million (2018: RMB30 million).

(In RMB thousands, unless otherwise stated)

12 DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION

Details of the directors', supervisors' and senior executives' remuneration before tax, as disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance, are as follows:

		2019				
Name	Position	Salaries and allowances (1)	Discretionary bonuses (2)	Fees (3)	Contribution to retirement benefit schemes (4)	Total remuneration before tax (5)=(1)+(2)+(3)+(4)
Zhang Youjun	Executive Director, Chairman and Member of the Executive Committee	2,387	2,400	–	164	4,951
Yang Minghui	Executive Director, President and Member of the Executive Committee	2,147	7,600	–	152	9,899
He Jia	Independent Non-executive Director	–	–	156	–	156
Liu Ke	Independent Non-executive Director	–	–	156	–	156
Zhou Zhonghui	Independent Non-executive Director	–	–	91	–	91
Rao Geping	Supervisor	–	–	100	–	100
Guo Zhao	Supervisor	–	–	100	–	100
Ma Yao	Member of the Executive Committee	1,546	8,250	–	122	9,918
Xue Jirui	Member of the Executive Committee	1,547	8,500	–	122	10,169
Yang Bing	Member of the Executive Committee	1,546	9,650	–	122	11,318
Li Chunbo	Member of the Executive Committee	1,547	7,500	–	122	9,169
Zou Yingguang	Member of the Executive Committee	1,547	5,000	–	122	6,669
Li Yongjin	Member of the Executive Committee	1,547	6,250	–	122	7,919
Li Jiong	Chief Financial Officer, Treasurer	1,547	6,500	–	122	8,169
Song Qunli	Chief Engineer, (Chief Information Officer)	1,427	2,250	–	116	3,793
Zhang hao	Chief Marketing Officer	1,597	7,300	–	49	8,946
Zhang Guoming	Chief Compliance Officer, Chief Risk Officer	1,427	4,250	–	116	5,793
Ye Xinjiang	Senior Management Members	1,536	7,000	–	98	8,634
Jin Jianhua	Senior Management Members	1,546	7,550	–	122	9,218
Sun Yi	Senior Management Members	1,827	7,975	–	122	9,924
Gao Yuxiang	Senior Management Members	1,547	9,000	–	122	10,669
Ge Xiaobo	Former Chief Financial Officer, Former Member of the Executive Committee, and Former Chief Risk Management Officer	515	2,500	–	43	3,058
Tang Zhenyi	Former Member of the Executive Committee	607	321	–	29	957
Cai Jian	Former Chief Risk Management Officer	234	2,550	–	11	2,795
Zheng Jing	Former Secretary to the Board, Former Company Secretary	1,109	2,700	–	100	3,909
Kuang Tao	Former Non-executive Director	–	–	–	–	–
Chan, Charles Sheung Wai	Former Independent Non-executive Director	–	–	41	–	41
Liu Hao	Former Supervisor, Former Supervisor and Chairman of the Supervisory Committee	1,287	1,150	–	100	2,537
Lei Yong	Former Supervisor representing Employees	1,058	2,303	–	97	3,458
Yang Zhenyu	Former Supervisor representing Employees	880	1,560	–	89	2,529
		31,958	120,059	644	2,384	155,045

Note: Certain of these independent non-executive directors act as representative directors of the Company in the board of certain subsidiaries and they do not receive any directors' remuneration from these subsidiaries. Related amounts were received by the Company.

12 DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

During the year ended 31 December 2019 and 2018, the Group's Non-executive Director Mr. Kuang Tao waived his remuneration arrangements.

During the years ended 31 December 2019 and 2018, no special emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. There were no other retirement benefits for directors or supervisors.

During the years ended 31 December 2019 and 2018, there were no consideration provided to third parties for making available directors' or supervisor's services.

During the years ended 31 December 2019 and 2018, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. In addition, the Group did not provide any the guarantees or securities to certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loan, quasi-loans or credit transactions.

				2018		
Name	Position	Salaries and allowances (1)	Discretionary bonuses (2)	Fees (3)	Contribution to retirement benefit schemes (4)	Total remuneration before tax (5)=(1)+(2)+(3)+(4)
Zhang Youjun	Executive Director, Chairman and Member of the Executive Committee	2,379	2,400	–	169	4,948
Yang Minghui	Executive Director, President and Member of the Executive Committee	2,138	7,500	–	157	9,795
Kuang Tao	Non-executive Director	–	–	–	–	–
He Jia	Independent Non-executive Director	–	–	156	–	156
Liu Ke	Independent Non-executive Director	–	–	156	–	156
Chan, Charles Sheung Wai	Independent Non-executive Director	–	–	153	–	153
Li Fang	Former Supervisor and Chairman of the Supervisory Committee	258	–	–	21	279
Rao Geping	Supervisor	–	–	100	–	100
Guo Zhao	Supervisor	–	–	100	–	100
Lei Yong	Supervisor representing Employees	1,041	3,104	–	102	4,247
Yang Zhenyu	Supervisor representing Employees	865	1,262	–	94	2,221
Ge Xiaobo	Chief Financial Officer, Member of the Executive Committee, and Chief Risk Management Officer	1,539	14,002	–	127	15,668
Tang Zhenyi	Former Member of the Executive Committee	2,864	2,831	–	143	5,838
Ma Yao	Member of the Executive Committee	1,298	10,490	–	127	11,915
Xue Jirui	Member of the Executive Committee	1,539	9,100	–	127	10,766

(In RMB thousands, unless otherwise stated)

12 DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

		2018				
Name	Position	Salaries and allowances (1)	Discretionary bonuses (2)	Fees (3)	Contribution to retirement benefit schemes (4)	Total remuneration before tax (5)=(1)+(2)+(3)+(4)
Yang Bing	Member of the Executive Committee	1,538	7,574	–	127	9,239
Li Chunbo	Member of the Executive Committee	1,539	6,780	–	127	8,446
Zou Yingguang	Member of the Executive Committee	1,539	2,500	–	127	4,166
Li Yongjin	Member of the Executive Committee	1,421	5,550	–	116	7,087
Li Jiong	Treasurer	1,535	5,208	–	127	6,870
Song Qunli	Chief Engineer	1,419	2,100	–	118	3,637
Zhang Hao	Chief Marketing Officer	1,587	6,160	–	50	7,797
Cai Jian	Former Chief Risk Management Officer	1,385	1,750	–	56	3,191
Zhang Guoming	Chief Compliance Officer	1,419	3,929	–	118	5,466
Zheng Jing	Secretary to the Board, Company Secretary	1,061	2,436	–	103	3,600
Sun Yi	Senior Management Members	743	–	–	54	797
Ye Xinjiang	Senior Management Members	255	–	–	16	271
		29,362	94,676	665	2,206	126,909

13 FIVE HIGHEST PAID EMPLOYEES

The Group's five highest paid employees during the year did not include directors and supervisors (2018: five). Details of the remuneration of the five (2018: five) non-director and non-supervisor highest paid employees for the year are as follows:

	2019	2018
Salaries, allowances and other benefits	**62,802**	27,956
Discretionary bonuses	**40,794**	73,283
Termination compensation	**–**	–
Total	**103,596**	101,239

13 FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of these individuals whose remuneration fell within the following bands is set out below:

	Number of employees	
	2019	2018
RMB13,000,001 to RMB14,000,000	**2**	—
RMB16,000,001 to RMB18,000,000	**1**	1
RMB18,000,001 to RMB20,000,000	**—**	2
RMB20,000,001 to RMB30,000,000	**1**	2
RMB30,000,001 to RMB40,000,000	**1**	—
Total	**5**	5

Note: During the year of 2019, the emoluments paid by the Group to these non-director and non-supervisor individuals were based on the services provided to the Group by these individuals.

14 EXPECTED CREDIT LOSSES

	2019	2018
Reverse repurchase agreements	**790,521**	1,622,553
Margin accounts	**359,728**	58,452
Financial assets at fair value through other comprehensive income (debt instruments)	**224,813**	116,328
Other assets	**516,518**	389,440
Total	**1,891,580**	2,186,773

15 IMPAIRMENT LOSSES ON OTHER ASSETS

	2019	2018
Impairment losses on goodwill (Note 22)	**528,479**	—
Impairment losses on investment property	**67,837**	—
Impairment losses on inventory	**68,476**	21,200
Others	**34,024**	2,605
Total	**698,816**	23,805

(In RMB thousands, unless otherwise stated)

16 INCOME TAX EXPENSE

(a) Income tax

	2019	2018
Current income tax expense		
Mainland China	**4,605,569**	3,401,646
Outside Mainland China	**112,269**	204,536
Deferred income tax expense	**(371,638)**	(1,017,039)
Total	**4,346,200**	2,589,143

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	2019	2018
Profit before income tax	**16,994,636**	12,465,571
Tax at the PRC statutory income tax rate	**4,248,659**	3,116,393
Effects of different applicable rates of tax prevailing in various regions	**(18,171)**	76,517
Non-deductible expenses	**102,080**	197,666
Non-taxable income	**(391,267)**	(689,394)
Adjustments in respect of current and deferred income tax of prior years	**101,855**	(109,290)
Others	**303,044**	(2,749)
Tax expense at the Group's effective income tax rate	**4,346,200**	2,589,143

17 PROFIT ATTRIBUTABLE TO THE COMPANY

The consolidated profit attributable to the Company for the year ended 31 December 2019 amounted to RMB11,701 million (2018: RMB8,214 million), which has been dealt with in the financial statements of the Company (Note 60).

18 DIVIDENDS

	2019	2018
Dividends on ordinary shares proposed but not paid	**6,463,388**	4,240,918
Dividends on ordinary shares paid	**4,240,918**	4,846,763

Dividends on ordinary shares proposed for approval were RMB0.50 yuan per share for the year ended 31 December 2019 (2018: RMB0.35 yuan per share).

Dividends proposed by the directors are not deducted from equity, until they have been approved by the shareholders in the general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

19 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculations of basic and diluted earnings per share are based on:

	2019	2018
Earnings:		
Profit attributable to Owners of the Parent	**12,228,610**	9,389,896
Shares:		
Weighted average number of ordinary shares in issue (thousand)	**12,116,908**	12,116,908
Basic and diluted earnings per share (in RMB yuan)	**1.01**	0.77

Basic earnings per share was calculated by dividing profit for the year attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding.

There were no dilutive shares during the year ended 31 December 2019 (2018: None).

(In RMB thousands, unless otherwise stated)

20 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Communication equipment	Office equipment	Transportation vehicles	Security equipment	Electronic devices	Others	Subtotal	Construction in progress	Total
31 December 2019										
Cost										
31 December 2018	6,147,103	73,696	290,035	2,502,858	6,857	2,372,836	40,781	11,434,166	316,611	11,750,777
Increases	35,280	6,518	18,971	4	731	185,114	61	246,679	66,551	313,230
Decreases	(66,128)	(1,824)	(13,580)	(2,095)	(334)	(60,173)	(3,119)	(147,253)	(88,851)	(236,104)
Effect of exchange rate changes	3,091	1,125	1,572	38,729	–	21,382	252	66,151	–	66,151
31 December 2019	6,119,346	79,515	296,998	2,539,496	7,254	2,519,159	37,975	11,599,743	294,311	11,894,054
Accumulated depreciation										
31 December 2018	950,407	66,328	257,278	321,563	4,197	2,074,749	30,022	3,704,544	–	3,704,544
Increases	182,856	3,555	19,207	132,027	911	152,815	4,056	495,427	–	495,427
Decreases	(25,070)	(1,360)	(13,484)	(1,942)	(301)	(52,612)	(2,725)	(97,494)	–	(97,494)
Effect of exchange rate changes	2,041	1,030	1,352	5,533	–	19,294	218	29,468	–	29,468
31 December 2019	1,110,234	69,553	264,353	457,181	4,807	2,194,246	31,571	4,131,945	–	4,131,945
Allowances for impairment										
31 December 2018	–	–	–	–	–	–	–	–	–	–
Increases	–	–	106	–	–	237	–	343	–	343
Decreases	–	–	–	–	–	(10)	–	(10)	–	(10)
Effect of exchange rate changes	–	–	–	–	–	–	–	–	–	–
31 December 2019	–	–	106	–	–	247	–	353	–	353
Net carrying amount										
31 December 2019	5,009,112	9,962	32,539	2,082,315	2,447	324,666	6,404	7,467,445	294,311	7,761,756
31 December 2018	5,196,696	7,368	32,757	2,181,295	2,660	298,087	10,759	7,729,622	316,611	8,046,233

20 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Properties and buildings	Communication equipment	Office equipment	Transportation vehicles	Security equipment	Electronic devices	Others	Subtotal	Construction in progress	Total
31 December 2018										
Cost										
31 December 2017	6,099,997	71,944	290,326	2,392,744	6,355	2,307,822	83,338	11,252,526	361,592	11,614,118
Increases	50,605	3,644	20,222	313	879	155,799	3,449	234,911	104,101	339,012
Decreases	(7,338)	(3,644)	(22,163)	(2,315)	(377)	(138,756)	(48,330)	(222,923)	(149,082)	(372,005)
Effect of exchange rate changes	3,839	1,752	1,650	112,116	–	47,971	2,324	169,652	–	169,652
31 December 2018	6,147,103	73,696	290,035	2,502,858	6,857	2,372,836	40,781	11,434,166	316,611	11,750,777
Accumulated depreciation										
31 December 2017	774,961	59,616	250,177	224,981	3,796	1,967,590	68,438	3,349,559	–	3,349,559
Increases	178,961	7,964	26,310	87,426	767	196,891	7,183	505,502	–	505,502
Decreases	(6,896)	(2,968)	(20,667)	(2,270)	(366)	(133,619)	(47,788)	(214,574)	–	(214,574)
Effect of exchange rate changes	3,381	1,716	1,458	11,426	–	43,887	2,189	64,057	–	64,057
31 December 2018	950,407	66,328	257,278	321,563	4,197	2,074,749	30,022	3,704,544	–	3,704,544
Allowances for impairment										
31 December 2017	–	–	–	–	–	–	–	–	–	–
Increases	–	–	–	–	–	–	–	–	–	–
Decreases	–	–	–	–	–	–	–	–	–	–
Effect of exchange rate changes	–	–	–	–	–	–	–	–	–	–
31 December 2018	–	–	–	–	–	–	–	–	–	–
Net carrying amount										
31 December 2018	5,196,696	7,368	32,757	2,181,295	2,660	298,087	10,759	7,729,622	316,611	8,046,233
31 December 2017	5,325,036	12,328	40,149	2,167,763	2,559	340,232	14,900	7,902,967	361,592	8,264,559

(In RMB thousands, unless otherwise stated)

21 INVESTMENT PROPERTIES

31 December 2019	**Properties and Buildings**
Cost	
31 December 2018	**1,506,262**
Increases	**44,532**
Decreases	**23,828**
Effect of exchange rate changes	**23,322**
31 December 2019	**1,550,288**
Accumulated depreciation and amortisation	
31 December 2018	**173,754**
Increases	**51,928**
Decreases	**539**
Effect of exchange rate changes	**389**
31 December 2019	**225,532**
Allowances for impairment	
31 December 2018	**–**
Increases	**67,837**
Decreases	**–**
Effect of exchange rate changes	**2,186**
31 December 2019	**70,023**
Net carrying amount	
31 December 2019	**1,254,733**
31 December 2018	**1,332,508**

21 INVESTMENT PROPERTIES (Continued)

31 December 2018	Properties and Buildings
Cost	
31 December 2017	1,018,050
Increases	488,212
Decreases	—
31 December 2018	1,506,262
Accumulated depreciation and amortisation	
31 December 2017	146,496
Increases	27,258
Decreases	—
31 December 2018	173,754
Allowances for impairment	
31 December 2017	—
Increases	—
Decreases	—
31 December 2018	—
Net carrying amount	
31 December 2018	1,332,508
31 December 2017	871,554

(In RMB thousands, unless otherwise stated)

22 GOODWILL

	31 December 2019	2018
Carrying amount at the beginning of the year:		
Cost	**10,884,922**	10,640,172
Accumulated impairment	**377,427**	359,235
Net carrying amount	**10,507,495**	10,280,937
Movements during the year:		
Additions and effect of exchange rate changes	**67,388**	244,750
Impairment and effect of exchange rate changes*	**552,059**	18,192
Carrying amount at the end of the year:		
Cost	**10,952,310**	10,884,922
Accumulated impairment	**929,486**	377,427
Net carrying amount	**10,022,824**	10,507,495

* Amount to RMB24 million was caused by foreign exchange fluctuation in goodwill accumulated impairment for the year ended 31 December 2019. (Year ended 31 December 2018: RMB18 million.)

	31 December 2019	2018
China Asset Management Co., Ltd.	**7,418,587**	7,418,587
CITIC Securities International Co., Ltd.	**2,273,059**	2,275,795
CITIC Futures Co., Ltd.	**193,826**	193,826
CITIC Securities (Shandong) Co., Ltd.	**88,675**	88,675
CITIC Securities Company Limited	**43,500**	43,500
Xin Jiang Equity Exchange Centre Limited	**4,542**	4,542
CITIC Securities Overseas Investment Company Limited	**635**	482,570
Total	**10,022,824**	10,507,495

As at 31 December 2019, the net carrying amount of the goodwill arising from CITIC Securities International Co., Ltd.'s acquisition of CLSA was RMB2,004 million (31 December 2018: RMB1,971 million).

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use ("VIU").

22 GOODWILL (Continued)

The fair value less costs of disposal approach was based on fair value of asset groups and costs of disposal. The VIU approach was performed by applying a discounted cash flow ("DCF") model based on operation plans of management and an adjusted discount rate. Cash flows beyond the forecast period have been extrapolated using a sustainable growth rate and a closing value. In 2019, discount rates used by the Group ranged from 11.00% to 16.00% (2018: 11.00% to 16.00%) and growth rates for the forecast period ranged from 2.00% to 21.11% (2018: 4.50% to 25.93%).

The recoverable amount of CLSA Premium Limited (formerly known as KVB Kunlun Financial Group Limited) was lower than the carrying amount, with a higher value in fair value less costs of disposal than VIU, and an impairment losses of RMB490 million (2018: Nil) was recognized. The recoverable amount of CITIC Securities Corporate Finance (HK) Limited was lower than its carrying amount and impairment losses was recognized as RMB38 million (2018: Nil).

(In RMB thousands, unless otherwise stated)

23 LAND-USE RIGHTS AND INTANGIBLE ASSETS

	Intangible assets					
	Seats on stock exchanges	Software development	Customer relationships	Trademarks	Land-use rights	Total
31 December 2019						
Cost						
31 December 2018	132,526	1,401,579	1,373,575	292,033	2,261,433	5,461,146
Increases	–	99,696	21,622	–	11,990	133,308
Decreases	(2,871)	(433)	–	–	–	(3,304)
Effect of exchange rate changes	1,015	11,206	20,470	4,789	–	37,480
31 December 2019	130,670	1,512,048	1,415,667	296,822	2,273,423	5,628,630
Accumulated amortisation						
31 December 2018	99,886	1,143,586	736,266	–	208,018	2,187,756
Increases	120	95,256	152,887	–	58,906	307,169
Decreases	(11)	(363)	–	–	–	(374)
Effect of exchange rate changes	510	10,450	12,909	–	–	23,869
31 December 2019	100,505	1,248,929	902,062	–	266,924	2,518,420
Allowance for impairment						
31 December 2018	1,496	2,471	–	–	–	3,967
Increases	–	33,681	–	–	–	33,681
Decreases	–	–	–	–	–	–
Effect of exchange rate changes	7	(73)	–	–	–	(66)
31 December 2019	1,503	36,079	–	–	–	37,582
Net carrying amount						
31 December 2019	28,662	227,040	513,605	296,822	2,006,499	3,072,628
31 December 2018	31,144	255,522	637,309	292,033	2,053,415	3,269,423

23 LAND-USE RIGHTS AND INTANGIBLE ASSETS (Continued)

	Intangible assets					
	Seats on stock exchanges	Software development	Customer relationships	Trademarks	Land-use rights	Total
31 December 2018						
Cost						
31 December 2017	127,522	1,280,764	1,271,237	277,976	2,261,433	5,218,932
Increases	2,715	93,289	44,389	–	–	140,393
Decreases	–	(1,023)	–	–	–	(1,023)
Effect of exchange rate changes	2,289	28,549	57,949	14,057	–	102,844
31 December 2018	132,526	1,401,579	1,373,575	292,033	2,261,433	5,461,146
Accumulated amortisation						
31 December 2017	98,347	964,750	557,658	–	149,339	1,770,094
Increases	120	153,170	147,620	–	58,679	359,589
Decreases	–	(819)	–	–	–	(819)
Effect of exchange rate changes	1,419	26,485	30,988	–	–	58,892
31 December 2018	99,886	1,143,586	736,266	–	208,018	2,187,756
Allowance for impairment						
31 December 2017	1,506	–	–	–	–	1,506
Increases	–	2,606	–	–	–	2,606
Decreases	–	–	–	–	–	–
Effect of exchange rate changes	(10)	(135)	–	–	–	(145)
31 December 2018	1,496	2,471	–	–	–	3,967
Net carrying amount						
31 December 2018	31,144	255,522	637,309	292,033	2,053,415	3,269,423
31 December 2017	27,669	316,014	713,579	277,976	2,112,094	3,447,332

(In RMB thousands, unless otherwise stated)

23 LAND-USE RIGHTS AND INTANGIBLE ASSETS (Continued)

The Company and its wholly owned subsidiary GoldStone ZeXin Investment Management Co., Ltd. (hereinafter referred to as "GoldStone ZeXin") jointly bid for a piece of land-use right in Shenzhen in January 2014. GoldStone ZeXin is engaged in, among other business activities, real estate development. The Company and GoldStone ZeXin obtained the land-use right certificate in August 2015. GoldStone ZeXin obtained a bank loan in September 2015, which is secured over the land-use right held by the Company and GoldStone ZeXin and guaranteed by GoldStone Investment Co., Ltd., the immediate holding company of GoldStone ZeXin. The bank loan has been paid off as at 1 April 2019 but the pledge over the land-use right has yet to be released as at 31 December 2019.

The portion of the land-use right attributable to GoldStone ZeXin for real estate development is classified under Other Non-Current Assets (Note 30), and the portion attributable to the Company is classified under land-use rights.

24 INVESTMENTS IN SUBSIDIARIES

Company

	31 December **2019**	2018
Unlisted shares, at cost	**33,943,279**	32,045,836

Particulars of the Company's principal subsidiaries are as follows:

(a) Principal subsidiaries acquired through establishment or investment

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
GoldStone Investment Co., Ltd. (金石投資有限公司)	Mainland China	RMB3 billion	Direct investment, investment advisory and management	RMB1.7 billion	100%	–
CITIC Securities International Co., Ltd. (中信証券國際有限公司)	Hong Kong	Not applicable	Holding, investment	HK$6,516.05 million	100%	–
CITIC Securities Investment Ltd. (中信証券投資有限公司)	Mainland China	RMB14 billion	Financial product investment, securities investment, equity investment	RMB14 billion	100%	–
CITICS Global Absolute Return Fund	Cayman Islands	Not applicable	Offshore portfolio hedge fund, investment fund	US$7,281,400	80.98%	19.02%
CITIC Securities Finance 2013 Co., Ltd.	The British Virgin Islands	Not applicable	Bond issuance	US$1	–	100%
CITIC Securities Finance MTN Co., Ltd.	The British Virgin Islands	Not applicable	Bond issuance	US$1	–	100%
CITIC Securities Regal Holding Limited	The British Virgin Islands	Not applicable	Holding company	US$1	–	100%
CITIC Securities Qingdao Training Centre (青島中信証券培訓中心)	Mainland China	RMB1 million	Business training	RMB1 million	70.00%	30.00%

24 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Principal subsidiaries acquired through establishment or investment (Continued)

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
CITIC Securities Information and Quantitative Service (Shenzhen) Co., Ltd. (中信証券信息與量化服務（深圳）有限責任公司)	Mainland China	RMB10 million	Computer hardware and software technology development, technical consulting, technical services, system integration and sales, data processing (excluding restricted items)	RMB10 million	100%	–
CITIC Securities Overseas Investment Company Limited (中信証券海外投資有限公司)	Hong Kong	Not applicable	Holding, investment	HK$0.01 million	100%	–
Jintong Securities Co., Ltd. (金通證券有限責任公司)	Mainland China	RMB135 million	Securities brokerage	RMB35 million	100%	–
CITICS Investment Services Company Limited (中信中證投資服務有限責任公司)	Mainland China	RMB100 million	Investment management, advisory service, finance outsourcing service	RMB100 million	100%	–
Xin Jiang Equity Exchange Limited (新疆股權交易中心有限公司)	Mainland China	RMB110 million	Finance	RMB60 million	54.55%	–
Qingdao GoldStone Storm Investment Consulting Company Limited (青島金石暴風投資諮詢有限公司)	Mainland China	RMB50.1 million	Investment management, advisory services	RMB50.1 million	–	100%
Qingdao GoldStone Runhui Investment Management Company Limited (青島金石潤匯投資管理有限公司)	Mainland China	RMB10.1 million	Investment management, advisory services, investment with self-owned capital	RMB10.1 million	–	100%
Qingdao GoldStone Haorui Investment Company Limited (青島金石灝汭投資有限公司)	Mainland China	RMB805 million	Investment management, advisory services, investment with self-owned capital	RMB2,000 million	–	100%
Jinjin Investment (Tianjin) Co., Ltd. (金津投資（天津）有限公司)	Mainland China	RMB100 million	Investment	RMB500 million	–	100%
CITIC GoldStone Fund Management Company Limited (中信金石基金管理有限公司)	Mainland China	RMB100 million	Investment	RMB100 million	–	100%
GoldStone ZeXin Investment Management Co., Ltd. (金石澤信投資管理有限公司)	Mainland China	RMB1,000 million	Investment management, investment advisory, investment consultancy, fiduciary management, equity investment, fund, real estate.	RMB1,000 million	–	100%
CITIC Buyout Fund Management Company Limited (中信併購基金管理有限公司)	Mainland China	RMB100 million	Investment management, advisory services	RMB100 million	–	100%
CITIC Buyout Investment Fund (Shenzhen) (Limited Partnership) (中信併購投資基金（深圳）合夥企業（有限合夥）)	Mainland China	Not applicable	Investment, advisory services	RMB887.53 million	–	25.24%[®]

(In RMB thousands, unless otherwise stated)

24 INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Principal subsidiaries acquired through establishment or investment (Continued)

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Attributable equity interest Indirect
Qingdao GoldStone Blue Ocean Investment Management Co., Ltd. (青島金石藍海投資管理有限公司)	Mainland China	RMB5 million	Investment	RMB0.3 million	–	100%
GoldStone Boxin Investment Management Co., Ltd. (金石博信投資管理有限公司)	Mainland China	RMB500 million	Investment	–	–	100%
Three Gorges GoldStone Investment Management Co., Ltd. (三峽金石投資管理有限公司)	Mainland China	RMB100 million	Investment management	RMB60 million	–	60%
Anhui Xinan M&A Private Fund Management Co., Ltd (安徽信安併購私募基金管理有限公司)	Mainland China	RMB20 million	Investment management	RMB4 million	–	80%
Jinshi Fengrui Investment Management (Hangzhou) Co., Ltd (金石灃汭投資管理（杭州）有限公司)	Mainland China	RMB30 million	Investment management	–	–	100%
Goldstone Biology Entrepreneurship (Suzhou) Co., Ltd (金石生物創業投資（蘇州）有限公司)	Mainland China	RMB10 million	Investment management	RMB6 million	–	60%
Shenzhen Jinshi Rongzhi Holding Investment Co., Ltd (深圳金石戎智股權投資管理有限公司)	Mainland China	RMB10 million	Investment management	RMB6 million	–	60%
Anhui Transport Control Jinshi Private Fund Management Co., Ltd (安徽交控金石私募基金管理有限公司)	Mainland China	RMB30 million	Investment fund management	RMB10.5 million	–	70%
Qingdao Jindingxin Micro Financing Co., Ltd. (青島金鼎信小額貸款股份有限公司)	Mainland China	RMB300 million	Micro financing	RMB300 million	–	100%
CITIC Securities (Qingdao) Training Centre Hotel Management Co., Ltd. (中信証券（青島）培訓中心酒店管理有限公司)	Mainland China	RMB10 million	Catering, accommodation, convention, exhibition	RMB2 million	–	100%
CITIC Securities Capital Management Co., Ltd (中信中證資本管理有限公司)	Mainland China	RMB1,000 million	Investment and asset management	RMB1,000 million	–	100%
CITIC Futures International Co., Ltd. (中信期貨國際有限公司)	Hong Kong	RMB300 million	Futures brokerage	RMB300 million	–	100%
CITIC Wings Asset Management Co., Ltd. (中信盈時資產管理有限公司)	Mainland China	RMB200 million	Asset management	RMB100 million	–	100%
CITIC Securities Corporate Finance (HK) Limited	Hong Kong	Not applicable	Investment banking	HK$380 million	–	100%
CSI AMC Company Limited	Hong Kong	Not applicable	Investment service	HK$1	–	100%
CSI Principal Investment Holding Limited	The British Virgin Islands	US$50 thousand	Holding company	US$1	–	100%
CLSA Europe B.V.	Netherlands	EUR750 thousand	Investment banking	EUR750 thousand	–	100%
China Wealth Investment management Limited Company (上海華夏財富投資管理有限公司)	Mainland China	RMB20 million	Asset management	RMB20 million	–	62.20%
Xinjiang Micro Finance Service Co., Ltd. (新疆小微金融服務中心有限公司)	Mainland China	RMB1,820 thousand	Research and development of financial products, portfolio design, consulting services, etc.	RMB910 thousand	–	54.55%

(i) According to the investment contract, the Company believes that it has actual control over the entity.

24 INVESTMENTS IN SUBSIDIARIES (Continued)

(b) Principal subsidiaries acquired from business combination

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
CITIC Securities (Shandong) Co., Ltd. (中信証券(山東)有限責任公司)	Mainland China	RMB2,500 million	Securities business	RMB1,151.94 million	100%	–
CITIC Futures Co., Ltd.(中信期貨有限公司)	Mainland China	RMB3,600 million	Futures brokerage, asset management, fund distribution	RMB3,949.36 million	100%	–
China Asset Management Co., Ltd. (華夏基金管理有限公司)	Mainland China	RMB238 million	Fund investment	RMB2,663.95 million	62.20%	–
Tianjin Jingzheng Property Services Co., Limited (天津京證物業服務有限公司)	Mainland China	RMB0.3 million	Property management and leasing service	RMB336.86 million	100%	–
Tianjin Shenzheng Property Services Co., Limited (天津深證物業服務有限公司)	Mainland China	RMB0.3 million	Property management and leasing service	RMB244.87 million	100%	–
Jinshang (Tianjin) Investment Management Co., Ltd. (金尚(天津)投資管理有限公司)	Mainland China	RMB12.5 million	Investment management, advisory service	RMB18.59 million	–	100%
China Asset Management (Hong Kong) Limited (華夏基金(香港)有限公司)	Hong Kong	HK$200 million	Asset management	HK$200 million	–	62.20%
China AMC Capital Management Limited (華夏資本管理有限公司)	Mainland China	RMB350 million	Asset management, financial advisory	RMB350 million	–	62.20%
CLSA B.V.(里昂證券)	Netherlands	Not applicable	Investment, holding	US$1,090.30 million	–	100%
CLSA Premium Limited *	Cayman Island	Not applicable	Leveraged foreign exchange transactions and other transactions, cash transactions, other services	HK$780.2 million	–	59.03%
CSI Capricornus Limited	The British Virgin Islands	US$50 thousand	Investment, holding	–	–	100%

* In October 2019, KVB Kunlun Financial Group Limited (昆侖國際金融集團有限公司) changed its name to CLSA Premium Limited.

(c) Net cash flows from disposal of subsidiaries

	2019	2018
Total consideration	**21,814**	–
Cash and cash equivalents received	**21,814**	–
Cash and cash equivalents in the subsidiaries disposed	**(100,337)**	–
Net cash (outflow)/inflow from disposal of subsidiaries	**(78,523)**	–

(In RMB thousands, unless otherwise stated)

24 INVESTMENTS IN SUBSIDIARIES (Continued)

(d) Net cash flows from acquisition of subsidiaries

	2019	2018
Total consideration	–	(107,664)
Cash and cash equivalents paid	–	(107,664)
Cash and cash equivalents in the subsidiaries acquired	–	10,273
Net cash (outflow)/inflow from acquisition of subsidiaries	–	(97,391)

(e) Non-cash financing activities

The Group had no significant non-cash financing activities during the year ended 31 December 2019.

(f) Structured entities included in the consolidated financial statement

The Group acts as asset manager for or invested in a number of structured entities. Management makes significant judgment on whether the Group controls and therefore should consolidate these structured entities.

Management has determined that the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. 17 of the controlled structured entities have been consolidated as at 31 December 2019, of which 4 were consolidated by the Company and 13 were consolidated by the Company's wholly owned subsidiary CITIC Futures Co., Ltd. (16 of the controlled structured entities have been consolidated as at 31 December 2018, of which 5 were consolidated by the Company and 11 were consolidated by the Company's wholly owned subsidiary CITIC Futures Co., Ltd.).

The fair value and book value of identifiable assets and liabilities of the consolidated structured entities were as follows:

	Fair value as at 31 December 2019	**Book value as at 31 December 2019**
Current assets	**3,780,485**	**3,780,485**
Non-current assets	**7,685**	**7,685**
Total asset	**3,788,170**	**3,788,170**
Current liabilities	**95,227**	**95,227**
Non-current liabilities	**–**	**–**
Total liabilities	**95,227**	**95,227**

24 INVESTMENTS IN SUBSIDIARIES (Continued)

(f) Structured entities included in the consolidated financial statement (Continued)

	Fair value as at 31 December 2018	Book value as at 31 December 2018
Current assets	3,863,294	3,863,294
Non-current assets	36,045	36,045
Total asset	3,899,339	3,899,339
Current liabilities	132,303	132,303
Non-current liabilities	—	—
Total liabilities	132,303	132,303

The operating results and cash flows of the consolidated structured entities for the year ended 31 December 2019 and 2018 included in the consolidated financial statements are as follows:

	2019	2018
Revenue	**145,550**	46,093
Profit for the year	**129,442**	26,940
Net increase in cash and cash equivalents	**1,246,686**	(515,746)

(In RMB thousands, unless otherwise stated)

24 INVESTMENTS IN SUBSIDIARIES (Continued)

(g) Details of the Group's subsidiary with material non-controlling interests is set out below:

China Asset Management Co., Ltd.

	31 December 2019	2018
Percentage of equity interest held by non-controlling interests	**37.80%**	37.80%
Dividends paid to non-controlling interests	**141,294**	165,880
Ending balances of non-controlling interests	**3,381,013**	3,061,515
Profit for the year attributable to non-controlling interests	**453,965**	430,928

The following tables illustrate the summarised financial information of the above subsidiary:

	2019	2018
Revenue	**3,988,457**	3,754,771
Profit from continuing operations	**1,200,965**	1,140,022
Total comprehensive income for the year	**1,219,028**	1,170,929
Net cash flows from operating activities	**712,078**	438,550
Net cash flows from investing activities	**(66,110)**	(17,575)
Net cash flows used in financing activities	**(498,782)**	(438,836)
Net increase in cash and cash equivalents	**150,825**	8,361

	31 December 2019	2018
Current assets	**10,389,129**	9,470,685
Non-current assets	**1,255,955**	871,033
Current liabilities	**1,905,783**	1,678,386
Non-current liabilities	**794,822**	564,087

As at 31 December 2019, there were no significant restrictions on the ability of the Group to access or use the assets and settle the liabilities of the Group's subsidiaries (2018: Nil).

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2019	2018
Associates	**8,925,954**	8,638,309
Joint ventures	**75,129**	399,986
Total	**9,001,083**	9,038,295

(a) Particulars of the Group's principal associates and joint ventures are as follows:

Name	Place of incorporation/ registration	Registered share capital	Principal activities	Percentage of equity interest	Percentage of voting rights
Associates					
CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司)	Mainland China	RMB1.8 billion	Investment fund management	35%	35%
Qingdao Blue Ocean Equity Exchange Limited (青島藍海股權交易中心有限責任公司)	Mainland China	RMB50 million	Equity trading	40%	40%
CSC Financial Co., Ltd. (中信建投證券股份有限公司)	Mainland China	RMB7,246.39 million	Securities brokerage, securities investment consulting	5.0069%	5.0069%
Beijing Agricultural Investment Fund (Limited Partnership) (北京農業產業投資基金（有限合夥）)	Mainland China	RMB620 million	Investment	32%	32%
Beijing GoldStone Agricultural Investment Fund Management Center (Limited Partnership) (北京金石農業投資基金管理中心（有限合夥）)	Mainland China	RMB30 million	Fund management	33%	33%
Shenzhen Qianhai Zhongzheng Urban Development And Management Co., Ltd (深圳市前海中證城市發展管理有限公司)	Mainland China	RMB50 million	Investment management	35%	35%
Zhongzheng Fund Management Co., Ltd (中證基金管理有限公司)	Mainland China	RMB110 million	Investment management	29%	29%
Xinrong Customer Services Club Co., Ltd. (深圳市信融客戶服務俱樂部有限公司)	Mainland China	RMB10 million	Financial services	25%	25%
Qianhai Infrastructure Investments Fund Management Co., Ltd. (深圳前海基礎設施投資基金管理有限公司)	Mainland China	RMB300 million	Fund management	11.67%	11.67%(i)
Taifu GoldStone (Tianjin) Fund Management Co., Ltd. (泰富金石（天津）基金管理有限公司)	Mainland China	RMB50 million	Entrusted management of equity investment entities, investment management and relevant consulting services	40%	40%

(In RMB thousands, unless otherwise stated)

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(a) Particulars of the Group's principal associates and joint ventures are as follows: (Continued)

Name	Place of incorporation/ registration	Registered share capital	Principal activities	Percentage of equity interest	Percentage of voting rights
Suning GoldStone (Tianjin) Fund Management Co., Ltd. (蘇寧金石（天津）基金管理有限公司)	Mainland China	RMB50 million	Entrusted management of equity investment entities, investment management and relevant consulting services	40%	40%
Xi'an Future Aerospace Industry Co., Ltd. (西安明日宇航工業有限責任公司)	Mainland China	RMB50 million	Aerospace components and ground equipment manufacturing, sheet metal components manufacturing	35%	35%
Sailing Capital International (Shanghai) Co., Ltd (賽領國際投資基金（上海）有限公司)	Mainland China	RMB8,010 million	investment and loan fund	11.10%	11.10%(i)
Sailing Capital Management (Shanghai) Co., Ltd (賽領資本管理有限公司)	Mainland China	RMB280.5 million	Equity investment management	9.09%	9.09%(i)
CITIC POLY (Tianjin) Private Equity Fund Management Co., Ltd. (信保（天津）股權投資基金管理有限公司)	Mainland China	RMB100 million	Entrusted management of equity investment	33%	33%
Tibet Xinsheng equity investment partnership (limited partnership) (西藏信昇股權投資合夥企業（有限合夥）)	Mainland China	RMB1,821.83 million	Private equity investment	14.64%	14.64%
CITIC PE Holdings Limited	The British Virgin Islands	HKD171.6 million	Investment holding	35%	Not applicable
Aria Investment Partners III, L.P.	Cayman Islands	Not applicable	Direct investment fund	15.35%	11.39%(i)
Aria Investment Partners IV, L.P.	Cayman Islands	Not applicable	Direct investment fund	39.24%	39.14%
Aria Investment Partners V, L.P.	Cayman Islands	Not applicable	Direct investment fund	45.53%	31.25%
Clean Resources Asia Growth Fund L.P.	Cayman Islands	Not applicable	Direct investment fund	17.59%	17.59%(i)
Fudo Capital L.P. II	Cayman Islands	Not applicable	Direct investment fund	6.13%	6.13%(i)
Fudo Capital L.P. III	Cayman Islands	Not applicable	Direct investment fund	5%	5%(i)
Sunrise Capital L.P. II	Cayman Islands	Not applicable	Direct investment fund	23.99%	23.99%
Sunrise Capital L.P. III	Cayman Islands	Not applicable	Direct investment fund	6.25%	6.25%(i)
CLSA Aviation Private Equity Fund I	Korea	US$58.28 million	Direct investment fund	6.86%	6.86%(i)
CLSA Aviation Private Equity Fund II	Korea	US$60.24 million	Direct investment fund	0.1%	0.08%(i)
CLSA Aviation II Investments (Cayman) Limited	Cayman Islands	US$50 thousand	Direct investment fund	12.39%	12.39%(i)
CT CLSA Holdings Limited	Sri Lanka	LKR500 Million	Investment holding	25%	25%
Pan Asia Realty Ltd.	Cayman Islands	USD1.7 million	Asset management	20%	20%
Holisol Logistics Private Ltd.	Cayman Islands	USD1	Asset management	20.31%	20.31%
CLSA Infrastructure Private Equity Fund	Korea	Not applicable	Asset management	0.2%	0.14%(i)
CSOBOR Fund, L.P.	Cayman Islands	USD52 million	Asset management	29.03%	33.33%
CSI Partners Limited	The British Virgin Islands	USD50 thousand	Investment holding	33.00%	33.00%
Alfalah Securities (Private) Limited	Pakistan	Not applicable	Investment banking and securities brokerage	24.90%	24.90%
Pine Tree Special Opportunity FMC LLC	Cayman Islands	Not applicable	Investment holding	50.00%	50.00%
Lending Ark Asia Secured Private Debt Fund I (Non-US), LP	Cayman Islands	USD4	Asset management	43.80%	43.80%

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(a) Particulars of the Group's principal associates and joint ventures are as follows: (Continued)

Name	Place of incorporation/ registration	Registered share capital	Principal activities	Percentage of equity interest	Percentage of voting rights
Joint ventures:					
CITIC Standard and Poor's Information Service (Beijing) Co., Ltd. (中信標普指數信息服務（北京）有限公司)	Mainland China	RMB8.027 million	Financial services	50%	50%
Double Nitrogen Fund. GP Limited.	Cayman Islands	USD100	Investment management	48%	50%[ii]
Sino-Ocean Land Logistics Investment Management Limited	Cayman Islands	USD0.05 million	Investment management	50%	33.33%
CSOBOR Fund GP, Limited	Cayman Islands	USD52 million	Investment management	49%	33.33%
Platinum Property Management Limited	United Kingdom	GBP 100	Asset management	50%	Not applicable
Merchant Property Limited	Guernsey	Not applicable	Property investment	50%	50%
Kingvest Limited	Cayman Islands	JPY5,000 million	Asset management	44.85%	45.00%
Lending Ark Asia Secured Private Debt Holding Limited	Cayman Islands	USD4	Asset management	50%	50%

(i) The Group has a significant influence over these funds as it acts as the fund manager of these funds.

(ii) The Group has joint control over this entity with other parties through contractual arrangement.

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(b) The following table illustrates the summarised financial information of the Group's material associates:

(i) CITIC Private Equity Funds Management Co., Ltd., as a major associate of the Group, is primarily engaged in investment fund management, and is accounted for using the equity method. The unaudited financial information is as follows:

	31 December	
	2019	2018
Current assets	**4,711,306**	4,971,620
Non-current assets	**18,692**	15,646
Current liabilities	**153,882**	409,984
Non-current liabilities	**202,563**	179,357

	2019	2018
Revenue	**834,363**	700,689
Profit from continuing operations	**609,722**	343,875
Total comprehensive income	**609,722**	343,875

(ii) CSC Financial Co., Ltd., as a major associate of the Group, is primarily engaged in securities brokerage and investment consulting, and is accounted for using the equity method. The financial information is as follows (in RMB millions):

	31 December	
	2019 (unaudited)	2018 (audited)
Assets	**285,670**	195,082

	2019 (unaudited)	2018 (audited)
Net profit attributable to equity holders of the Company	**5,502**	3,087

25 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(b) The following table illustrates the summarised financial information of the Group's material associates: (Continued)

(iii) Sailing Capital International (Shanghai) Co., Ltd., as a major associate of the Group, is primarily engaged in investment, investment management and consulting, and is accounted for using the equity method. The unaudited financial information is as follows:

	31 December 2019	2018
Current assets	**9,395,659**	10,458,827
Current liabilities	**11,969**	4,406
Non-current liabilities	**271,588**	306,637

	2019	2018
Revenue	**59,942**	496,595
Profit from continuing operations	**18,943**	340,167
Total comprehensive income	**18,943**	340,167

(c) The following table illustrates the aggregate unaudited financial information of the Group's associates and joint ventures that are not individually material.

	2019	2018
Profit from continuing operations	**360,185**	409,297
Other comprehensive income	**3,611**	(282)
Total comprehensive income	**363,797**	409,015

(d) As at 31 December 2019, there was no capital commitment to the associates and joint ventures (31 December 2018: Nil).

(e) There were no significant restrictions on the ability of the Group's associates and joint ventures to transfer funds to the Group in form of cash dividends or to repay any liability owed to the Group as at 31 December 2019 and 31 December 2018.

(In RMB thousands, unless otherwise stated)

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019	
	Current	**Non-current**
Debt instruments (Mandatory)	**23,684,063**	**–**
Equity instruments (Designated)		
CSF No.1 investment [i]	**–**	**16,074,056**
Others	**–**	**205,313**
	–	**16,279,369**
Total	**23,684,063**	**16,279,369**
Loss allowance	**262,920**	**–**
Analyzed into:		
Listed	**23,654,041**	**–**
Unlisted	**30,022**	**16,279,369**
	23,684,063	**16,279,369**

26 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

	31 December 2018	
	Current	Non-current
Debt instruments (Mandatory)	36,327,828	—
Equity instruments (Designated)		
CSF No.1 investment (i)	—	15,310,637
Others	—	221,778
	—	15,532,415
Total	36,327,828	15,532,415
Loss allowance	145,846	—
Analyzed into:		
Listed	36,327,828	—
Unlisted	—	15,532,415
	36,327,828	15,532,415

(i) The balance represented the investment portfolio, operating by China Securities Finance Corporation Limited ("CSF"). Under the investment agreement, the Company and other joint investors share the income/loss based on contribution proportion. The Company manages these financial assets for purposes other than to generate investment returns.

As at 31 December 2019, based on the investment report provided by CSF, the cost of the Company's investment managed by CSF was RMB15,675 million (31 December 2018: RMB15,675 million), while the fair value was RMB16,074 million (31 December 2018: RMB15,311 million).

27 REFUNDABLE DEPOSITS

	31 December	
	2019	2018
Trading deposits	**1,110,269**	930,376
Credit deposits	**283,297**	157,765
Performance bonds	**66,371**	24,636
Total	**1,459,937**	1,112,777

(In RMB thousands, unless otherwise stated)

28 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets:	**Depreciation allowance**	**Fair value changes of financial instruments**	**Allowance for impairment losses**	**Salaries, bonuses, and allowances payable**	**Others**	**Total**
At 31 December 2018	**18,341**	**293,692**	**894,017**	**2,807,438**	**209,538**	**4,223,026**
Credited/(debited) to the statement of profit or loss	**1,269**	**(52,993)**	**351,407**	**605,376**	**204,520**	**1,109,579**
Credited/(debited) to other comprehensive income	**4,298**	**(86,406)**	**3,672**	**(686)**	**(11,994)**	**(91,116)**
At 31 December 2019	**23,908**	**154,293**	**1,249,096**	**3,412,128**	**402,064**	**5,241,489**

Deferred income tax assets:	Depreciation allowance	Fair value changes of financial instruments	Allowance for impairment losses	Salaries, bonuses, and allowances payable	Others	Total
At 31 December 2017	28,421	30,301	633,116	2,531,678	161,436	3,384,952
Changes in accounting policy	–	288,289	(237,824)	79,184	–	129,649
At 1 January 2018	28,421	318,590	395,292	2,610,862	161,436	3,514,601
Credited/(debited) to the statement of profit or loss	1,584	(115,602)	498,725	205,877	27,404	617,988
Credited/(debited) to other comprehensive income	(11,664)	90,704	–	(9,301)	20,698	90,437
At 31 December 2018	18,341	293,692	894,017	2,807,438	209,538	4,223,026

28 DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

Deferred income tax liabilities:	**Amortisation allowance**	**Fair value changes of financial instruments**	**Others**	**Total**
At 31 December 2018	**303,037**	**974,266**	**690,305**	**1,967,608**
Debited/(credited) to the statement of profit or loss	**(42,843)**	**684,302**	**96,482**	**737,941**
Debited/(credited) to other comprehensive income	**4,132**	**133,898**	**416**	**138,446**
At 31 December 2019	**264,326**	**1,792,466**	**787,203**	**2,843,995**

Deferred income tax liabilities:	Amortisation allowance	Fair value changes of financial instruments	Others	Total
At 31 December 2017	353,036	1,454,756	824,419	2,632,211
Changes in accounting policy	—	103,677	—	103,677
At 1 January 2018	353,036	1,558,433	824,419	2,735,888
Debited/(credited) to the statement of profit or loss	(63,569)	(199,271)	(136,211)	(399,051)
Debited/(credited) to other comprehensive income	13,570	(384,896)	2,097	(369,229)
At 31 December 2018	303,037	974,266	690,305	1,967,608

(In RMB thousands, unless otherwise stated)

29 RIGHT-OF-USE ASSETS

31 December 2019	Properties and Buildings	Transportation Vehicles	Electronic Devices	Others	Total
Cost					
31 December 2018					
Changes in accounting policy	1,922,509	1,708	39	1,154	1,925,410
1 January 2019	1,922,509	1,708	39	1,154	1,925,410
Increases	329,488	26	707	268	330,489
Decreases	75,435	–	–	72	75,507
Effect of exchange rate change	13,807	28	9	–	13,844
31 December 2019	2,190,369	1,762	755	1,350	2,194,236
Accumulated depreciation					
31 December 2018					
Changes in accounting policy	–	–	–	–	–
1 January 2019	–	–	–	–	–
Increases	599,804	502	184	247	600,737
Decreases	10,263	–	–	22	10,285
Effect of exchange rate change	2,876	16	7	–	2,899
31 December 2019	592,417	518	191	225	593,351
Allowances for impairment					
31 December 2018					
Changes in accounting policy	–	–	–	–	–
1 January 2019	–	–	–	–	–
Increases	–	–	–	–	–
Decreases	–	–	–	–	–
Effect of exchange rate change	–	–	–	–	–
31 December 2019	–	–	–	–	–
Net carrying amount					
31 December 2019	1,597,952	1,244	564	1,125	1,600,885
31 December 2018					

30 OTHER NON-CURRENT ASSETS

	31 December	
	2019	2018
Project investment (Note 23)	**1,731,135**	1,715,612
Receivables and others	**455,654**	2,333,571
Total	**2,186,789**	4,049,183

31 MARGIN ACCOUNTS

	31 December	
	2019	2018
Margin accounts	**71,446,330**	57,514,449
Less: loss allowance	**772,485**	316,635
Total	**70,673,845**	57,197,814

Margin accounts are funds that the Group lends to its customers for margin financing business.

As at 31 December 2019, the Group received collateral with fair value amounted to RMB261,259 million (31 December 2018: RMB169,406 million), in connection with its margin financing business.

(In RMB thousands, unless otherwise stated)

32 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	
	Current	**Non-current**
Mandatory		
Debt instruments	**214,989,531**	**40,000**
Equity instrument	**79,601,887**	**14,558,580**
Others	**34,470,280**	**5,126,775**
	329,061,698	**19,725,355**
Designated		
Equity instruments[i]	**84,815**	**6,402,501**
Others	**—**	**73,938**
	84,815	**6,476,439**
Total	**329,146,513**	**26,201,794**
Analyzed into:		
Mandatory		
Listed	**269,252,947**	**1,939,174**
Unlisted	**59,808,751**	**17,786,181**
	329,061,698	**19,725,355**
Designated		
Listed	**84,815**	**5,733,872**
Unlisted	**—**	**742,567**
	84,815	**6,476,439**
Total	**329,146,513**	**26,201,794**

(i) As of 31 December 2019, financial assets at fair value through profit or loss of RMB134,392 million (31 December 2018: RMB93,369 million) were collateralized for reverse repurchase agreements, amount due to CSF and securities lending transactions.

32 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	31 December 2018	
	Current	Non-current
Mandatory		
Debt instruments	149,131,770	40,000
Equity instruments(i)	44,351,654	18,285,180
Others	30,743,767	3,693,509
	224,227,191	22,018,689
Designated		
Equity instruments	647,889	543,305
Total	224,875,080	22,561,994
Analyzed into:		
Mandatory		
Listed	179,862,349	1,170,684
Unlisted	44,364,842	20,848,005
	224,227,191	22,018,689
Designated		
Listed	81,341	543,305
Unlisted	566,548	—
	647,889	543,305
Total	224,875,080	22,561,994

(In RMB thousands, unless otherwise stated)

33 DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2019		
	Notional amounts	**Fair value**	
		Assets	**Liabilities**
Interest rate derivatives	**1,172,493,937**	**3,413,912**	**3,709,853**
Currency derivatives	**46,715,883**	**437,723**	**193,179**
Equity derivatives	**185,283,203**	**3,144,735**	**9,590,424**
Credit derivatives	**14,830,280**	**138,696**	**224,716**
Others	**40,957,155**	**216,007**	**273,578**
Total	**1,460,280,458**	**7,351,073**	**13,991,750**

	31 December 2018		
	Notional amounts	Fair value	
		Assets	Liabilities
Interest rate derivatives	796,920,216	4,891,535	4,989,224
Currency derivatives	63,666,183	439,709	366,690
Equity derivatives	98,130,524	5,632,099	3,384,686
Credit derivatives	28,759,234	292,442	312,918
Others	14,289,289	132,317	258,381
Total	1,001,765,446	11,388,102	9,311,899

Under the "Daily Mark-to-Market and Settlement Arrangement", the Group's future contracts were settled daily and the amount of mark-to-market gain or loss of those unexpired future contracts is reflected in profit or loss and not included in derivative financial instruments above. The corresponding payments or receipts are reflected in "cash and bank balances". As at 31 December 2019, the fair value of those unexpired daily settled future contracts was RMB37 million (31 December 2018: RMB-143 million).

34 REVERSE REPURCHASE AGREEMENTS

	31 December	
	2019	2018
Analysed by collateral:		
Stocks	**40,488,704**	38,599,288
Debts	**21,387,258**	30,633,645
Others	**–**	103,354
	61,875,962	69,336,287
Less: loss allowance	**3,045,909**	1,965,846
Total	**58,830,053**	67,370,441
Analysed by business		
Stock repo	**4,911**	140,882
Pledged repo(i)	**52,831,453**	56,140,512
Debt securities outright repo	**9,039,598**	12,951,539
Others	**–**	103,354
	61,875,962	69,336,287
Less: loss allowance	**3,045,909**	1,965,846
Total	**58,830,053**	67,370,441
Analysed by counterparty:		
Banks	**1,078,684**	6,548,276
Non-bank financial institutions	**4,034,164**	5,845,492
Others	**56,763,114**	56,942,519
	61,875,962	69,336,287
Less: loss allowance	**3,045,909**	1,965,846
Total	**58,830,053**	67,370,441

(i) As at 31 December 2019, stock repo and stock-pledged repo under reverse repurchase agreements totalled RMB40,489 million (31 December 2018: RMB38,478 million) was attributable to stock-pledged repo.

(In RMB thousands, unless otherwise stated)

34 REVERSE REPURCHASE AGREEMENTS (Continued)

As at 31 December 2019, the Group's financial assets arising from financing businesses included margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements ("Financing Assets") totalled RMB111,935 million with credit impairment loss allowances of RMB3,818 million. This comprised margin accounts and repo of RMB71,446 million and RMB40,489 million; with credit impairment loss allowances of RMB772 million and RMB3,046 million, respectively; and related expected impairment losses charged to profit and loss account for the year ended 31 December 2019 was RMB360 million and RMB791 million, respectively.

As at 31 December 2019, the Group received collateral amounted to RMB142,218 million (31 December 2018: RMB108,898 million), in connection with its reverse repurchase agreements.

As part of the reverse repurchase agreements, the Group received securities allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

As at 31 December 2019, the amount of the above collateral allowed to be re-pledged was RMB10,807 million (31 December 2018: RMB9,501 million), and the amount of the collateral re-pledged was RMB7,483 million (31 December 2018: RMB7,984 million).

35 OTHER CURRENT ASSETS

	31 December	
	2019	2018
Accounts due from brokers	**10,405,015**	4,769,314
Brokerage accounts due from clients	**9,655,059**	13,932,585
Settlement deposits receivable	**4,897,035**	2,637,540
Interest receivable	**141,633**	95,678
Deferred expenses	**79,995**	213,981
Dividends receivable	**659**	2,443
Bulk commodity trading inventory and others	**9,795,260**	10,260,416
Subtotal	**34,974,656**	31,911,957
Less: loss allowance	**1,771,751**	1,656,563
Total	**33,202,905**	30,255,394

36 CASH HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of customers and the corresponding liabilities as customer brokerage deposits (Note 38). In the PRC, the use of cash held on behalf of customers for security and the settlement of their transactions is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" together with the related provisions of the Securities and Futures Ordinance impose similar restrictions. In other countries and regions, cash held on behalf of customers is supervised by relevant authorities.

37 CASH AND BANK BALANCES

	31 December	
	2019	2018
Cash on hand	**306**	369
Deposits in banks	**64,442,153**	52,226,236
Total	**64,442,459**	52,226,605

As at 31 December 2019, the Group had restricted funds of RMB4,818 million (31 December 2018: RMB4,310 million).

38 CUSTOMER BROKERAGE DEPOSITS

	31 December	
	2019	2018
Customer brokerage deposits	**123,351,754**	97,773,997

Customer brokerage deposits represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage activities. For more details, please refer to Note 36 "Cash held on behalf of customers".

(In RMB thousands, unless otherwise stated)

39 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2019	
	Current	**Non-current**
Financial liabilities held for trading		
Debt instruments	**11,072,465**	**—**
Equity investments	**1,054,678**	**—**
Subtotal	**12,127,143**	**—**
Financial liabilities designated as at fair value through profit or loss		
Structured notes	**31,855,240**	**6,445,859**
Minority interests of consolidated structured entities	**335,408**	**—**
Others	**—**	**6,953,349**
Subtotal	**32,190,648**	**13,399,208**
Total	**44,317,791**	**13,399,208**

As at 31 December 2019 and 31 December 2018, there were no significant fair value changes related to the changes in the credit risk of the Group.

	31 December 2018	
	Current	Non-current
Financial liabilities held for trading		
Debt instruments	5,994,425	—
Equity investments	1,457,589	—
Subtotal	7,452,014	—
Financial liabilities designated as at fair value through profit or loss		
Structured notes	30,983,153	3,357,565
Minority interests of consolidated structured entities	402,854	—
Others	42,213	5,408,040
Subtotal	31,428,220	8,765,605
Total	38,880,234	8,765,605

40 REPURCHASE AGREEMENTS

	31 December	
	2019	2018
Analysed by collateral:		
Equity	**5,234,802**	1,410,646
Debts	**132,736,829**	98,234,574
Gold	**11,454,423**	1,649,094
Others	**25,021,839**	20,374,713
Total	**174,447,893**	121,669,027
Analysed by counterparty:		
Banks	**56,977,106**	37,463,246
Non-bank financial institutions	**11,983,359**	6,427,323
Others	**105,487,428**	77,778,458
Total	**174,447,893**	121,669,027

As at 31 December 2019, the Group's pledged collateral in connection with its repurchase financing business amounted to RMB196,335 million (31 December 2018: RMB129,076 million).

(In RMB thousands, unless otherwise stated)

41 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2019	2018
Due to banks	**25,116,285**	16,312,467
Due to China Securities Finance Corporation Limited (Note 32)	**5,018,507**	3,002,400
Due to non-bank financial institution	**3,001,403**	—
Total	**33,136,195**	19,314,867

42 TAXES PAYABLE

	31 December 2019	2018
Enterprise income tax	**2,322,868**	2,353,702
Individual income tax	**311,670**	225,683
Value added tax	**190,435**	253,143
Others	**59,832**	40,470
Total	**2,884,805**	2,872,998

43 SHORT-TERM LOANS

	31 December 2019	2018
Analysed by nature:		
Credit loans	**6,813,690**	4,915,067
Collateralised loans	**591,215**	741,643
Total	**7,404,905**	5,656,710
Analysed by maturity:		
Maturity within one year	**7,404,905**	5,656,710

As at 31 December 2019, the annual interest rates on the short-term loans were in the range of 2.00% to 5.66% (31 December 2018: 1.70% to 5.70%). As at 31 December 2019, the book value of the collateral was RMB2,137 million (31 December 2018: RMB2,202 million) (Note 32).

44 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

2019

Name	Issue date	Maturity date	Coupon rate	Opening balance	Increase	Decrease	Ending balance
18 CITIC CP009	22/10/2018	18/01/2019	3.30%	5,031,953	7,828	5,039,781	–
18 CITIC CP010BC	13/11/2018	12/02/2019	3.20%	3,012,678	11,256	3,023,934	–
18 CITIC CP011	07/12/2018	08/03/2019	3.15%	2,004,096	11,611	2,015,707	–
18 CS 05	30/10/2018	18/04/2019	3.50%	1,508,990	15,463	1,524,453	–
18 CS 06	30/10/2018	27/07/2019	3.70%	1,509,512	31,542	1,541,054	–
19 CITIC CP001	18/01/2019	19/04/2019	2.95%	–	2,015,388	2,015,388	–
19 CITIC CP002	22/02/2019	24/05/2019	2.71%	–	3,020,723	3,020,723	–
19 CITIC CP003	08/03/2019	06/06/2019	2.79%	–	3,021,033	3,021,033	–
19 CITIC CP004	18/04/2019	17/07/2019	3.00%	–	3,022,590	3,022,590	–
19 CITIC CP005	17/05/2019	15/08/2019	2.99%	–	3,022,455	3,022,455	–
19 CITIC CP006BC	10/06/2019	06/09/2019	3.07%	–	2,015,056	2,015,056	–
19 CITIC CP007	27/06/2019	25/09/2019	2.60%	–	2,013,012	2,013,012	–
19 CITIC CP008	12/07/2019	10/10/2019	2.70%	–	3,020,227	3,020,227	–
19 CITIC CP009	19/09/2019	18/12/2019	2.75%	–	5,035,350	5,035,350	–
19 CITIC CP010	18/10/2019	16/01/2020	2.95%	–	6,037,196	1,112	6,036,084
19 CITIC CP011	19/11/2019	18/02/2020	3.10%	–	5,018,915	1,493	5,017,422
19 CITIC CP012	13/12/2019	12/03/2020	3.05%	–	3,004,856	502	3,004,354
CITICSMTNECP01	09/01/2019	24/12/2019	0.00%	–	1,372,796	1,372,796	–
CITICSMTNECP02	10/01/2019	24/12/2019	0.00%	–	2,059,194	2,059,194	–
CITICSMTNECP03	20/11/2019	20/05/2020	0.00%	–	690,727	–	690,727
Structured notes	11/01/2018 ~31/12/2019	02/01/2019 ~29/06/2020	0.50%~5.00%	4,992,116	18,354,756	17,958,166	5,388,706
Total				18,059,345	62,801,974	60,724,026	20,137,293

2018

Name	Issue date	Maturity date	Coupon rate	Opening balance	Increase	Decrease	Ending balance
17 CITIC 01	11/08/2017	11/08/2018	4.60%	4,580,936	126,632	4,707,568	–
17 CITIC 02	12/09/2017	12/09/2018	4.84%	6,088,066	203,131	6,291,197	–
18 CITIC CP001	19/01/2018	20/04/2018	4.70%	–	2,048,078	2,048,078	–
18 CITIC CP002	07/02/2018	09/05/2018	4.60%	–	3,069,831	3,069,831	–
18 CITIC CP003	05/03/2018	04/06/2018	4.60%	–	4,047,704	4,047,704	–
18 CITIC CP004	04/04/2018	04/07/2018	4.11%	–	4,042,854	4,042,854	–
18 CITIC CP005BC	08/06/2018	07/09/2018	4.38%	–	4,045,035	4,045,035	–
18 CITIC CP006BC	12/07/2018	11/10/2018	3.50%	–	3,027,198	3,027,198	–
18 CITIC CP007BC	07/08/2018	06/11/2018	2.68%	–	4,028,081	4,028,081	–
18 CITIC CP008	13/09/2018	13/12/2018	2.83%	–	4,028,823	4,028,823	–
18 CITIC CP009	22/10/2018	18/01/2019	3.30%	–	5,032,690	737	5,031,953
18 CITIC CP010BC	13/11/2018	12/02/2019	3.20%	–	3,013,132	454	3,012,678
18 CITIC CP011	07/12/2018	08/03/2019	3.15%	–	2,004,398	302	2,004,096
18 CS 05	30/10/2018	18/04/2019	3.50%	–	1,509,104	114	1,508,990
18 CS 06	30/10/2018	27/07/2019	3.70%	–	1,509,599	87	1,509,512
Structured notes	04/01/2017 ~28/12/2018	02/01/2018 ~22/07/2019	2.15%~5.45%	22,868,837	34,987,510	52,864,231	4,992,116
Total				33,537,839	76,723,800	92,202,294	18,059,345

As at 31 December 2019, short-term financing instruments payable comprised of unsecured short-term corporate bonds and structured notes with an original tenor of less than one year.

As at 31 December 2019, there was no default related to any short-term financing instruments payable issued (31 December 2018: Nil).

(In RMB thousands, unless otherwise stated)

45 LEASE LIABILITIES

	31 December 2019	
	Current	**Non-current**
Lease liabilities	**463,904**	**1,102,999**

As at 31 December 2019, the cash flows of lease contracts signed by the Group but lease not yet commenced are shown as follows:

	31 December 2019
Lease term:	
Within one year	**32,160**
One to two years	**22,253**
Two to five years	**14,626**
More than five years	**—**
	69,039

46 OTHER CURRENT LIABILITIES

	31 December	
	2019	2018
Settlement deposits payable	**6,237,013**	8,500,252
Salaries, bonuses and allowances payable	**14,608,234**	12,093,994
Debt instruments issued due within one year and others (Notes 47 (a)(iii)(v)(vii)(ix)(xi)(xiii)(xiv)(xvii)(xviii))	**36,590,145**	29,071,008
Amounts due to brokers	**7,472,215**	7,207,833
Interest payable	**125,140**	19,999
Accrued liabilities	**22,738**	6,485
Fee and commissions payable	**332,080**	321,895
Funds payable to securities holders	**167,109**	166,720
Funds payable to securities issuers	**272,990**	147,507
Dividends payable	**2,049**	2,049
Contract liabilities	**938,146**	357,438
Client deposits payable	**26,774,447**	19,841,515
Others	**4,064,242**	4,276,747
Total	**97,606,548**	82,013,442

47 DEBT INSTRUMENTS ISSUED

By category	31 December 2019	2018
Bonds and medium term notes issued (a)	**88,599,822**	85,960,063
Structured notes issued (b)	**821,011**	2,097,307
	89,420,833	88,057,370

By maturity	31 December 2019	2018
Maturity within five years	**86,855,004**	85,491,624
Maturity over five years	**2,565,829**	2,565,746
	89,420,833	88,057,370

As at 31 December 2019, there was no default related to any issued debt instruments (31 December 2018: Nil).

(In RMB thousands, unless otherwise stated)

47 DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued

		31 December	
		2019	2018
Item			
06 CITICS Bond	(i)	**1,537,449**	1,537,551
13 CITICS 02	(ii)	**12,333,113**	12,329,935
15 CITICS 01	(iii)	**—**	5,631,152
15 CITICS 02	(iv)	**2,565,829**	2,565,746
CITIC SEC N2204	(v)	**3,496,051**	3,433,549
CITIC SEC N2004	(v)	**—**	2,064,771
CITIC SEC N2112	(v)	**2,090,043**	2,052,435
CITIC SEC N2410	(v)	**1,387,427**	—
CITIC SEC N2210	(v)	**3,478,227**	—
16 CITICS G2	(vi)	**2,510,351**	2,510,317
17 CITICS C1	(vii)	**—**	2,061,510
17 CITICS C2	(viii)	**2,373,727**	2,373,696
17 CITICS C3	(ix)	**—**	807,368
17 CITICS C4	(x)	**4,946,992**	4,946,919
17 CITICS G1	(xi)	**—**	10,365,438
17 CITICS G2	(xii)	**2,076,607**	2,076,580
17 CITICS G4	(xiii)	**—**	2,407,353
18 CITICS 01	(xiv)	**—**	4,972,303
18 CITICS 02	(xv)	**2,582,155**	2,582,070
18 CITICS G1	(xvi)	**1,766,481**	1,764,755
18 CS 03	(xvii)	**—**	3,083,239
18 CS 04	(xviii)	**—**	4,092,277
18 CS C1	(xix)	**5,039,265**	5,036,061
18 CS C2	(xx)	**4,021,546**	4,019,026
18 CS G1	(xxi)	**2,459,406**	2,457,000
18 CS G2	(xxii)	**616,076**	616,487
19 CS 01	(xxiii)	**2,788,068**	—
19 CS 02	(xxiv)	**3,093,375**	—
19 CS 03	(xxv)	**3,086,309**	—
19 CS 04	(xxvi)	**1,532,929**	—
19 CS C1	(xxvii)	**2,568,003**	—
19 CS C2	(xxviii)	**3,066,622**	—
19 CS 05	(xxix)	**5,017,983**	—
19 CS G2	(xxx)	**1,011,635**	—
19 CS G1	(xxxi)	**2,020,777**	—
19 CITICS Financial Bond 01	(xxxii)	**9,133,376**	—
KVBFG-Convertible Bond	(xxxiii)	**—**	172,525
Carrying amount		**88,599,822**	85,960,063

47 DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued (Continued)

(i) Pursuant to the approval by the CSRC, the Company issued a 15-year bond with a face value of RMB1.50 billion from 25 May to 2 June 2006, which was guaranteed by CITIC Corporation Limited. The coupon rate of the bond is 4.25% and the maturity date is 31 May 2021.

(ii) Pursuant to the approval by the CSRC, the Company issued a 10-year unguaranteed bond with a face value of RMB12.00 billion from 7 June 2013 to 14 June 2013. The coupon rate of the bond is 5.05% and the maturity date is 7 June 2023.

(iii) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB5.50 billion from 24 June 2015 to 25 June 2015. The coupon rate of the bond is 4.60% and the maturity date is 25 June 2020. As at 31 December 2019, the bonds were presented as debt instruments issued due within one year and others (Note 46).

(iv) Pursuant to the approval of the CSRC, the Company issued a 10-year unguaranteed bond with a face value of RMB2.50 billion from 24 June 2015 to 25 June 2015. The coupon rate of the bond is 5.10% and the maturity date is 25 June 2025.

(v) Pursuant to the resolution of re-Authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of the relevant regulators, CITIC Securities Finance MTN Co., Ltd. established a USD3.00 billion (or other equivalents) Medium Term Note Programme on 17 October 2014. During the year of 2014, CITIC Securities Finance MTN Co., Ltd. had its first drawdown under the Programme to issue notes with a face value of USD0.65 billion. During the year of 2015, CITIC Securities Finance MTN Co., Ltd. had eight drawdowns under the Programme to issue notes with an aggregate face value of USD439.68 million, which were at maturity and paid off in the year. CITIC Securities Finance MTN Co., Ltd. had two further drawdowns under the Programme to issue notes with a face value of USD0.50 billion and USD0.30 billion on 11 April 2017. From 18 April 2018 to 10 December 2018, CITIC Securities Finance MTN Co., Ltd. had five additional drawdowns under the Programme to issue notes with an aggregate face value of USD729.20 million, of which USD429 million were at maturity and paid off in the year. In 2019, CITIC Securities Finance MTN Co., Ltd. had two additional drawdowns under the Programme to issue notes with a face value of USD500 million and USD200 million, and settled USD850 million of notes in this period. These Medium Term Notes are guaranteed by the Company with no counter-guarantee arrangement. As at 31 December 2019, certain of the outstanding notes under this programme were presented as debt instruments issued due within one year and others (Note 46).

(vi) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB2.50 billion from 16 November 2016 to 17 November 2016. The coupon rate of the bond is 3.38% with the maturity date on 17 November 2021.

(vii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB2.00 billion on 24 May 2017. The coupon rate of the bond is 5.10% and the maturity date is 25 May 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

(viii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of the relevant regulators, the Company issued a 5-year unguaranteed subordinated redeemable bond with a face value of RMB2.30 billion on 24 May 2017. The coupon rate of the bond is 5.30% and the maturity date is 25 May 2022.

(ix) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB0.80 billion on 25 October 2017. The coupon rate of the bond is 5.05% and the maturity date is 26 October 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

(x) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of the relevant regulators, the Company issued a 5-year unguaranteed subordinated redeemable bond with a face value of RMB4.90 billion on 25 October 2017. The coupon rate of the bond is 5.25% and the maturity date is 26 October 2022.

(xi) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB10.00 billion from 16 February 2017 to 17 February 2017. The coupon rate of the bond is 4.20% and the maturity date is 17 February 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

(xii) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB2.00 billion from 16 February 2017 to 17 February 2017. The coupon rate of the bond is 4.40% and the maturity date is 17 February 2022.

(xiii) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB2.40 billion from 27 November 2017 to 28 November 2017. The coupon rate of the bond is 5.33% and the maturity date is 28 November 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

47 DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued (Continued)

(xiv) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB4.80 billion from 13 April 2018 to 16 April 2018. The coupon rate of the bond is 5.05% and the maturity date is 16 April 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

(xv) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB2.50 billion from 9 May 2018 to 10 May 2018. The coupon rate of the bond is 5.09% and the maturity date is 10 May 2021.

(xvi) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB1.70 billion from 16 March 2018 to 20 March 2018. The coupon rate of the bond is 5.14% and the maturity date is 20 March 2021.

(xvii) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB3.00 billion from 14 June 2018 to 15 June 2018. The coupon rate of the bond is 5.10% and the maturity date is 15 June 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

(xviii) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB4.00 billion from 6 July 2018 to 9 July 2018. The coupon rate of the bond is 4.80% and the maturity date is 9 July 2020. As at 31 December 2019, the bond was presented as debt instruments issued due within one year and others (Note 46).

(xix) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2016 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB5.00 billion from 17 October 2018 to 19 October 2018. The coupon rate of the bond is 4.48% and the maturity date is 19 October 2021.

(xx) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2016 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB4.00 billion from 5 November 2018 to 7 November 2018. The coupon rate of the bond is 4.40% and the maturity date is 7 November 2021.

(xxi) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB2.40 billion from 13 June 2018 to 15 June 2018. The coupon rate of the bond is 4.80% and the maturity date is 15 June 2021.

(xxii) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB0.60 billion from 13 June 2018 to 15 June 2018. The coupon rate of the bond is 4.90% and the maturity date is 15 June 2023.

(xxiii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2016 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB2.70 billion from 27 February 2019 to 28 February 2019. The coupon rate of the bond is 3.90% and the maturity date is 28 February 2022.

(xxiv) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2017 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB3.00 billion from 20 March 2019 to 21 March 2019. The coupon rate of the bond is 3.98% and the maturity date is 21 March 2022.

(xxv) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2017 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB3.00 billion from 25 April 2019 to 30 April 2019. The coupon rate of the bond is 4.28% and the maturity date is 30 April 2022.

(xxvi) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2017 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB1.50 billion from 11 June 2019 to 14 June 2019. The coupon rate of the bond is 4.00% and the maturity date is 14 June 2022.

(xxvii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2017 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB2.50 billion from 17 April 2019 to 23 April 2019. The coupon rate of the bond is 4.20% and the maturity date is 23 April 2022.

(xxviii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2017 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB3.00 billion from 28 May 2019 to 3 June 2019. The coupon rate of the bond is 4.10% and the maturity date is 3 June 2022.

47 DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued (Continued)

(xxix) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2017 and approval of the relevant regulators, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB5.00 billion from 21 November 2019 to 26 November 2019. The coupon rate of the bond is 3.75% and the maturity date is 26 November 2022.

(xxx) According to the "Application of CITIC Securities Co., Ltd. for the Public Issuance of Corporate Bonds to Qualified Investors" (CSRC License [2018] No. 1442), from 4 September 2019 to 10 September 2019, the Company issued 5-year unguaranteed bond, the corporate bonds with a total annual face value of RMB1.00 billion have a maturity date of 10 September 2024 and a coupon rate of 3.78%.

(xxxi) According to the "Application of CITIC Securities Co., Ltd. for the Public Issuance of Corporate Bonds to Qualified Investors" (CSRC License [2018] No. 1442), from 4 September 2019 to 10 September 2019. The Company issued 3-year unguaranteed bond, the corporate bonds with a total annual face value of RMB2.00 billion have a maturity date of 10 September 2022 and a coupon rate of 3.39%.

(xxxii) Pursuant to the People's Bank of China's Permission Approval" (Bank Market Licences [2019] No. 108), the company issued 3-year unguaranteed financial bond. The financial bond with a total face value of RMB9.00 billion, a maturity date of 25 July 2022 and a coupon rate of 3.58%.

(xxxiii) CLSA Premium Limited (formerly known as KVB Kunlun Financial Group Ltd., "KVBFG") redeemed all the bonds at par value up on the exercise of early redemption rights by the bond holders.

(b) Structured notes issued

As at 31 December 2019, the structured notes issued by the Group amounted to RMB821 million (31 December 2018: RMB2,097 million) were with maturity dates over one year and coupon rates ranging from 3.00% to 4.80% (31 December 2018: 2.90% to 4.80%).

48 LONG-TERM LOANS

	31 December	
	2019	2018
Analysed by nature:		
Credit loans	**–**	7,802
Collateralised loans	**383,334**	945,427
Total	**383,334**	953,229
Analysed by maturity:		
Maturity within five years	**383,334**	953,229

As at 31 December 2019, the interest rates on the long-term loans were in the range of 2.95% to 10.00% (31 December 2018: 2.00% to 10.00%). As at 31 December 2019, the book value of the collateral was RMB404 million (31 December 2018: RMB4,144 million).

49 OTHER NON-CURRENT LIABILITIES

	31 December	
	2019	2018
Regulatory risk provision payables	**895,544**	561,030
Others	**483,886**	443,860
Total	**1,379,430**	1,004,890

50 ISSUED SHARE CAPITAL

	31 December			
	2019		2018	
Ordinary Shares	**Number of shares (Thousand)**	**Nominal value**	Number of shares (Thousand)	Nominal value
Registered, issued and fully paid:				
A shares of RMB1 each	**9,838,580**	**9,838,580**	9,838,580	9,838,580
H shares of RMB1 each	**2,278,328**	**2,278,328**	2,278,328	2,278,328
Total	**12,116,908**	**12,116,908**	12,116,908	12,116,908

51 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(a) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserves

(i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalisation is not less than 25% of the registered capital immediately before capitalisation.

The Company did not appropriate any statutory surplus reserve for the year ended 31 December 2019, as such reserve balance has reached 50% of its registered capital.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve and other non-discretionary surplus reserves, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards, to its discretionary surplus reserve upon approval by the General Shareholders' Meeting. Subject to the approval of General Shareholders' Meeting, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

(c) General reserves

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. General reserves also include reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside of Mainland China in accordance with the regulatory requirements in their respective territories are also included herein. These regulatory reserves are not available for distribution.

(d) Investment revaluation reserve

Investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income.

(e) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(f) Distributable profits

The Company's distributable profits are based on the retained earnings of the Company as determined under China Accounting Standards and IFRSs, whichever is lower.

(In RMB thousands, unless otherwise stated)

52 CASH AND CASH EQUIVALENTS

	31 December	
	2019	2018
Cash and bank balances	**64,442,459**	52,226,605
Less: Restricted funds (Note 37)	**4,817,801**	4,310,403
Interest receivable	**203,176**	340,898
Cash and cash equivalents	**59,421,482**	47,575,304

53 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments and asset management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in these unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group:

Unconsolidated structured entities sponsored by the Group mainly include investment funds and asset management plans sponsored by the Group. The nature and objective of the structured entities is to manage investors' assets and collect management fees. Financing is sustained through investment products issued to investors. The interests held by the Group in these unconsolidated structured entities mainly involve management fees and performance fees collected from managed structured entities.

In addition, the Group also held certain interests in structured entities sponsored by the Group.

In 2019, the Group obtained management fee, commission and performance fee amounting to RMB3,805 million during the year ended 31 December 2019 from the unconsolidated structured entities sponsored by the Group, for which the Group held no investment as at 31 December 2019 (2018: RMB3,394 million).

The maximum exposure and the book value of relevant balance sheet items of the Group arising from these unconsolidated structured entities sponsored by the Group were set out as below:

	31 December 2019	
	Carrying amount	**Maximum exposure**
Financial assets at fair value through profit or loss (Mandatory)	**9,619,944**	**9,619,944**

	31 December 2018	
	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss (Mandatory)	8,528,951	8,528,951

53 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

Structured entities sponsored by third party financial institutions:

The maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities that are sponsored by third party financial institutions were set out as below:

	31 December 2019	
	Carrying amount	**Maximum exposure**
Financial assets at fair value through profit or loss (Mandatory)	**36,002,806**	**36,002,806**

	31 December 2018	
	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss (Mandatory)	13,772,597	13,772,597

54 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return a portion of the collateral or be required to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. A financial liability is recognised for cash received.

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances require customers to return a portion of the collateral or to place additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

(In RMB thousands, unless otherwise stated)

54 TRANSFERRED FINANCIAL ASSETS (Continued)

Securities lending arrangements (Continued)

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2019		31 December 2018	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	**1,362,163**	**1,297,034**	3,661,525	3,500,018
Securities lending	**798,791**	**—**	537,652	—
Total	**2,160,954**	**1,297,034**	4,199,177	3,500,018

55 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

	31 December	
	2019	2018
Contracted, but not provided for	**264,239**	217,721

The above-mentioned capital commitments are mainly in respect of the construction of properties and purchase of equipment of the Group.

55 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Operating lease commitments

(i) Operating lease commitments — as a lessor

At the end of the reporting year, the future minimum lease receivables of the Group as lessor under significant irrevocable operating lease arrangements are summarized below.

	31 December	
	2019	2018
Within one year	**331,919**	263,361
After one year but not more than two years	**291,071**	248,364
After two years but not more than three years	**276,909**	224,472
After three years but not more than four years	**268,101**	220,817
After four years but not more than five years	**263,592**	218,381
After five years	**442,545**	544,966
Total	**1,874,137**	1,720,361

(c) Legal proceedings

From time to time in the ordinary course of business, the Group is subject to claims and are parties to legal and regulatory proceedings. As at 31 December 2019, the Group was not involved in any material legal, or arbitration that if adversely determine, would materially and adversely affect the Group's financial position or results of operations.

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES

(1) Largest equity holder of the Company

Name of the shareholder	Relationship	Enterprise type	Place of registration and operations	Legal representative	Principal activities	Registered share capital	Voting rights	Uniform Social Credit Code
CITIC Corporation Limited	Largest equity holder	State-controlled	Beijing	Zhenming Chang	Financial, industrial and other services	RMB139 billion	16.50%	911100007178317092

The largest shareholder of the Company is CITIC Corporation Limited. As at 31 December 2019, it holds 16.50% equity interests in the Company. As at 11 March 2020, it holds 15.47% equity interests in the Company.

(2) Related party transactions

(a) **Largest equity holder of the Company — CITIC Corporation Limited**

Transactions during the year

	2019	2018
Income from providing services	**10,613**	1,672
Interest expense	**2,806**	—

Related party transactions

As of 31 December 2019, the Company's largest shareholder did not hold the income certificate issued by the Company (31 December 2018: RMB1 billion).

Guarantees between related parties

During the period from 25 May 2006 to 2 June 2006, the Company issued a 15-year bond with an aggregate face value of RMB1.5 billion which was guaranteed by CITIC Corporation Limited. As at 31 December 2019, the total guarantees provided by CITIC Corporation Limited amounted to RMB1.5 billion (31 December 2018: RMB1.5 billion).

56 RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(b) Subsidiaries

Transactions during the year

	2019	2018
Interest income	**634,175**	584,183
Investment income	**105,482**	(9,778)
Income from providing services	**17,319**	30,250
Leasing income	**3,521**	4,667
Interest expense	**360,232**	204,446
Expense from receiving services	**1,353**	3,508

Balances at the end of the year

	31 December	
	2019	2018
Other current assets	**23,916,845**	17,998,262
Financial assets at fair value through other comprehensive income	**8,790,776**	8,611,224
Reverse repurchase agreements	**—**	2,537,087
Deposits for investments — Stock index futures	**2,175,866**	1,286,579
Derivative financial assets	**3,508,423**	396,908
Refundable deposits	**1,871,471**	1,031,560
Financial assets at fair value through profit or loss (Mandatory)	**62,145**	18,010
Property, plant and equipment	**744**	744
Land use rights and intangible assets	**184**	184
Other current liabilities	**7,113,526**	9,529,725
Debt instruments issued	**980,361**	2,501,725
Derivative financial liabilities	**646,594**	2,496,232
Repurchase agreements	**—**	300,132
Due to banks and other financial institutions	**220,014**	—
Customer brokerage deposits	**78,530**	190,034
Short-term financing instruments payable	**140,684**	132,252

Significant balances and transactions between the Parent and subsidiaries set out above have been eliminated in the consolidated financial statements.

As at 31 December 2019, the collective assets management plans managed by the Company and held by the Company and its subsidiaries amounted to RMB603 million (31 December 2018: RMB593 million).

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(c) Subsidiaries and joint ventures of the largest equity holder of the Parent

Transactions during the year

	2019	2018
Interest income	**606,610**	508,849
Income from providing services	**142,674**	183,201
Leasing income	**27,916**	28,565
Investment income	**80,972**	(61,897)
Expense from receiving services	**151,850**	241,734
Interest expense	**55,068**	183,737

Balances at the end of the year

	31 December	
	2019	2018
Cash held on behalf of customers (i)	**19,175,149**	16,215,702
Cash and bank balances (i)	**1,935,786**	3,670,752
Other current assets	**69,703**	548,524
Other current liabilities	**18,125**	21,426

(i) Represented deposits placed with financial institution, subsidiaries of the largest equity holder of the Company.

As of 31 December 2019, the subsidiaries and joint ventures of the Company's largest shareholder held RMB15 million in income certificates issued by the Company (31 December 2018: RMB4,000 million).

As of 31 December 2019, the subsidiaries and joint ventures of the Company's largest shareholder have transferred shares of RMB451 million to the Company.

(d) Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries

Transactions during the year

	2019	2018
Income from providing services	**65,014**	19,978
Leasing income	**2,209**	1,529
Expense from receiving services	**3,803**	3,387
Interest expense	**1,197**	4

As of 31 December 2019, the controlling equity holder and ultimate parent of the largest equity holder of the company and its subsidiaries held RMB3.5 billion in structured notes issued by the Company (31 December 2018: Nil).

56 RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(d) **Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries** (Continued)

Balances at the end of the year

	31 December	
	2019	2018
Other current assets	**16,009**	1,157
Other current liabilities	**68**	425

(e) **Associates**

Transactions during the year

	2019	2018
Leasing income	**2,493**	4,432
Income from providing services	**1**	1
Interest expense	**—**	344
Income from accepting services	**1,028**	—

Balances at the end of the year

	31 December	
	2019	2018
Other current liabilities	**716**	994

(f) **Joint ventures**

Transactions during the year

	2019	2018
Leasing income	**35**	198

	2019	2018
Equity investment	**62,748**	—

	2019	2018
Other current liabilities	**—**	17

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES (Continued)

(3) The related transactions as a lessee are as follows

Incurred lease income

	31 December 2019	2018
Subsidiaries (i)	**373,826**	371,924
Subsidiaries and joint ventures of the largest equity holder of the Company	**16,033**	9,756
Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries	**37,094**	34,949

(i) Transactions between parent and subsidiaries have been offset in consolidated financial statements

(4) The impact of transactions by the Group as lessee

Interest expense

	2019
Subsidiaries and joint ventures of the largest equity holder of the Company	**1,218**
Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries	**359**
Total	**1,577**

Right-of-use assets depreciation

	2019
Subsidiaries and joint ventures of the largest equity holder of the Company	**6,643**
Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries	**4,925**
Total	**11,568**

Lease expense

	2019
Subsidiaries and joint ventures of the largest equity holder of the Company	**3,016**
Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries	**17,247**
Total	**20,263**

56 RELATED PARTY DISCLOSURES (Continued)

(4) The impact of transactions by the Group as lessee (Continued)

Right-of-use assets

	2019
Subsidiaries and joint ventures of the largest equity holder of the Company	**31,528**
Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries	**71,352**
Total	**102,880**

Lease liabilities

	2019
Subsidiaries and joint ventures of the largest equity holder of the Company	**28,580**
Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries	**70,065**
Total	**98,645**

57 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Quoted prices (unadjusted) in active markets, in which the Group principally trades, for identical financial assets or financial liabilities at the measurement date.

Level 2: Valuation techniques using inputs other than quoted prices included within level 1 that are observable for the financial asset or financial liability, either directly or indirectly.

Level 3: Valuation techniques using inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(a) Financial instruments recorded at fair value

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss (Mandatory)				
— Debt securities	66,361,963	148,395,345	272,223	215,029,531
— Equity investments	74,860,614	6,470,501	12,829,352	94,160,467
— Others	6,753,957	30,799,995	2,043,103	39,597,055
Subtotal	147,976,534	185,665,841	15,144,678	348,787,053
Financial assets at fair value through profit or loss (Designated)				
— Equity investments	—	5,818,687	742,567	6,561,254
Derivative financial assets	278,357	7,072,716	—	7,351,073
Financial assets at fair value through other comprehensive income				
— Debt securities	5,089,193	18,594,870	—	23,684,063
— Equity investments	—	16,074,056	205,313	16,279,369
Subtotal	5,089,193	34,668,926	205,313	39,963,432
Total	153,344,084	233,226,170	16,092,558	402,662,812
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
— Financial liabilities held for trading	8,701,593	3,421,281	4,269	12,127,143
— Financial liabilities designated as at fair value through profit or loss	—	38,636,507	6,953,349	45,589,856
Subtotal	8,701,593	42,057,788	6,957,618	57,716,999
Derivative financial liabilities	204,448	13,787,302	—	13,991,750
Total	8,906,041	55,845,090	6,957,618	71,708,749

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(a) Financial instruments recorded at fair value (Continued)

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss (Mandatory)				
— Debt securities	85,748,137	63,376,771	46,862	149,171,770
— Equity investments	41,108,163	4,316,967	17,211,704	62,636,834
— Others	22,083,786	10,905,166	1,448,324	34,437,276
Subtotal	148,940,086	78,598,904	18,706,890	246,245,880
Financial assets at fair value through profit or loss (Designated)				
— Equity investments	—	624,646	566,548	1,191,194
Derivative financial assets	1,409,844	9,978,258	—	11,388,102
Financial assets at fair value through other comprehensive income				
— Debt securities	6,495,577	29,832,251	—	36,327,828
— Equity investments	—	15,310,637	221,778	15,532,415
Subtotal	6,495,577	45,142,888	221,778	51,860,243
Total	156,845,507	134,344,696	19,495,216	310,685,419
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
— Financial liabilities held for trading	7,452,014	—	—	7,452,014
— Financial liabilities designated as at fair value through profit or loss	42,212	34,725,389	5,426,224	40,193,825
Subtotal	7,494,226	34,725,389	5,426,224	47,645,839
Derivative financial liabilities	515,420	8,796,479	—	9,311,899
Total	8,009,646	43,521,868	5,426,224	56,957,738

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(b) Valuation techniques used and the qualitative and quantitative information of key parameters for fair value measurement categorized within Level 2

For debt instruments at fair value through profit or loss and at fair value through other comprehensive income whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

For debt instruments at fair value through profit or loss and at fair value through other comprehensive income whose value is not available on China bond pricing system, equity instruments at fair value through profit or loss, listed equity instruments with disposal restriction in a specific period, the fair value is determined by valuation technique. The inputs of those valuation techniques include risk-free interest rate, implied volatility curve, RMB denominated swap yield curve, etc., which are all observable.

For equity instruments at fair value through other comprehensive income, the fair value is determined by the equity investment account report provided by third party.

For forward contracts in derivative financial instruments, the fair value is measured by discounting the differences between the contract prices and market prices of the underlying financial instruments. Fair value of swap contracts under derivative financial instruments is calculated based on the difference between the quoted prices or discounted cash flows of underlying financial instruments and the fixed income agreed in the contracts. For option contracts in derivative financial instruments, the fair value is calculated by using the option pricing model.

During the year ended 31 December 2019, there were no changes of valuation techniques for level 2.

(c) Valuation techniques used and the qualitative and quantitative information of key parameters for fair value measurements categorized within Level 3

For unlisted equity investments, stocks instruments without quoted prices in active markets, fund investments, trusts, financial liabilities, etc., the Group adopts significant judgements and applies counterparties' quotations and valuation techniques to determine the fair value. Valuation techniques include a discounted cash flow analysis, and the market comparison approach, etc. The fair value measurement of these financial instruments may involve unobservable inputs such as liquidity discounts, volatility and risk adjusted discount rate and price to book ratios, etc. The fair value of the financial instruments classified under level 3 is not significantly sensitive to a reasonable change in these unobservable inputs.

During the period ended 31 December 2019, there were no changes of valuation techniques for level 3.

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(d) Movements in Level 3 financial instruments measured at fair value

The reconciliations of the opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value are presented below:

	As at 1 January 2019	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Decreases	Transfers to Level 3 from Level 1	Transfers to Level 3 from Level 2	Transfers to Level 1 from Level 3	Transfers to Level 2 from Level 3	As at 31 December 2019
Financial assets:										
Financial assets at fair value through profit or loss (Mandatory)										
– Debt instruments	46,862	(6,894)	2,112	–	–	–	230,143	–	–	272,223
– Equity instruments	17,211,704	(382,336)	2,234	1,750,184	2,292,531	–	158,139	–	3,618,042	12,829,352
– Others	1,448,324	(62,128)	16,075	1,127,458	252,491	–	161,984	–	396,119	2,043,103
Financial assets at fair value through profit or loss (Designated)	566,548	60,296	–	116,479	756	–	–	–	–	742,567
Financial assets at fair value through other comprehensive income	221,778	–	(16,465)	–	–	–	–	–	–	205,313
Financial liabilities:										
Financial liabilities at fair value through profit or loss										
– Financial liabilities designated as at fair value through profit or loss	5,426,224	1,805,166	–	–	278,041	–	–	–	–	6,953,349
– Financial liabilities held for trading	–	–	–	4,269	–	–	–	–	–	4,269

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(d) Movements in Level 3 financial instruments measured at fair value (Continued)

	As at 1 January 2018	Total gains/ (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Decreases	Transfers to Level 3 from Level 1	Transfers to Level 3 from Level 2	Transfers to Level 1 from Level 3	Transfers to Level 2 from Level 3	As at 31 December 2018
Financial assets:										
Financial assets at fair value through profit or loss (Mandatory)										
– Debt instruments	169,059	26,602	–	6,635	155,434	–	–	–	–	46,862
– Equity instruments	19,947,871	953,071	4,935	1,843,502	3,867,359	–	99,595	632,933	1,136,978	17,211,704
– Others	–	–	–	3,651,607	2,599,402	396,119	–	–	–	1,448,324
Financial assets at fair value through profit or loss (Designated)	–	–	–	566,548	–	–	–	–	–	566,548
Financial assets at fair value through other comprehensive income	–	–	(109,754)	331,532	–	–	–	–	–	221,778
Financial liabilities:										
Financial liabilities at fair value through profit or loss										
– Financial liabilities designated as at fair value through profit or loss	5,143,392	466,695	–	40,000	223,863	–	–	–	–	5,426,224
– Financial liabilities held for trading	8,954	116	–	–	9,070	–	–	–	–	–

The amount of realized investment income recognized in profit or loss from Level 3 financial instruments held by the Group was RMB421 million in 2019 (2018: RMB270 million).

(e) Transfers between Level 1 and Level 2

In 2019, the amount of financial assets at fair value through profit or loss held by the Group transferred from Level 1 to Level 2 was RMB51 million (2018:RMB112 million)and the amount of financial assets at fair value through profit or loss from Level 2 to Level 1 was RMB806 million (2018: RMB25 million).

(f) Financial instruments not measured at fair value

At the end of the reporting year, the following financial assets and liabilities of the Group are not measured at fair value:

(i) For refundable deposits, reverse repurchase agreements, cash held on behalf of customers, cash and bank balances, fee and commission receivables, margin accounts, due from banks and other financial institutions, customer brokerage deposits, repurchase agreements, short-term loans, due to banks and other financial institutions, short-term financing instruments payable and lease liabilities, these financial instruments' fair values approximate to their carrying amounts.

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(f) Financial instruments not measured at fair value (Continued)

(ii) The recorded amounts and fair values of debt instruments issued are summarized below.

	Carrying amount		Fair value	
	31 December 2019	31 December 2018	**31 December 2019**	31 December 2018
Debt instruments issued	**89,420,833**	88,057,370	**91,052,004**	89,307,628

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The Company always believes that effective risk management and internal control are critical to its successful operation. The Company has implemented comprehensive risk management and internal control processes, through which it monitors, evaluates and manages the financial, operational, compliance and legal risks that it is exposed to in its business activities, and implements vertical risk management of its subsidiaries through different models including business guidance, operational support and decision-making management. The Company has established a complete and effective governance structure in accordance with relevant laws, regulations and regulatory requirements. The Company's general meeting, the Board and Supervisory Committee perform their duties to oversee and manage the operation of the Company based on the Company Law, Securities Law, and the Articles of Association of the Company. By strengthening the relevant internal control arrangements and improving the Company's internal control environment and internal control structures, the Board has now incorporated internal control and risk management as essential elements in the Company's decision-making processes.

The Company has established an overall risk management system led by the Chief Risk Officer, in the charge of the Risk Management Department and involving its departments/business lines, branches, subsidiaries and all the staff, and is committed to building risk management as its core competitiveness.

Structure of Risk Management

The major organizational framework of the risk management of the Company consists of the Risk Management Committee under the Board, the professional committees under the Operation Management, the relevant internal control departments and business departments/business lines. The relatively comprehensive three-level risk management system enables a network of collective decision making among the respective committees, and close cooperation between internal control departments and business departments/business lines, and manages risks through review, decision, execution and supervision. At the division and business line level, the Company has established three lines of defence in risk management, that is, business departments/business lines to assume the primary responsibility for risk management, internal control departments, including the Risk Management Department and the Compliance Department, to conduct professional management of all types of risks and the Audit Department to take charge of post-supervision and evaluation.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of Risk Management (Continued)

Level 1: The Board

The Risk Management Committee of the Board supervises the overall risk management of the Company with the aim of controlling risks within an acceptable scope and ensures smooth implementation of effective risk management schemes over risks related to operating activities; prepares overall risk management policies for the Board's review; formulates strategic structure and resources to be allocated for the Company's risk management purposes and keeps them in line with the internal risk management policies of the Company; sets boundaries for major risk indicators; performs supervision and review on the risk management policies and makes recommendation to the Board.

Level 2: Operation Management

The Company has established the Assets and Liabilities Management Committee. Within the authority delegated by the Board and the Operation Management of the Company, the committee makes decisions on and reviews major issues and related systems involving application of the Company's proprietary capital. For the purpose of ensuring the Company's capital security, the committee optimizes assets allocation and improves the efficiency of the capital application via a scientific, standardized and prudent approach under strict control and management over risk exposures.

The Company has established the Capital Commitment Committee. The committee performs final risk assessment and reviews on capital commitment of the underwriting business within the authority delegated by the Board and the Operation Management of the Company. All corporate finance business involving application of capital of the Company is subject to the approval by the Capital Commitment Committee to ensure an acceptable level of risk exposure of the corporate finance activities and security of capital of the Company.

The Company has established the Risk Management Committee. This committee reports to the Risk Management Committee of the Board and the Operation Management of the Company, and is responsible for monitoring and managing the daily risks of the Company within its designated authority, deciding on and approving material matters related to risk management and relevant system and setting limits for risk. The Risk Management Committee comprises a risk management sub-working group and a reputation risk management sub-working group. The risk management sub-working group is the main body responsible for the daily monitoring and management of the financial risks over the Company's proprietary investment business and facilitating the execution of the decisions made by the Risk Management Committee of the Company. With regular working meeting, the risk management sub-working group has set up specific working groups led by specific risk management control experts with the involvement of related business departments/business lines separately in accordance with market risks, credit risks, liquidity risks and operational risks to respond to pending matters from daily monitoring or decisions made by the higher authorities in a timely manner through the establishment of coordination on implementation level. The reputation risk management sub-working group is the daily management body of reputation risks and is responsible for establishing relevant rules and management mechanisms, preventing and identifying reputation risks, responding to and tackling reputation events in a proactive and effective manner and mitigating any negative effect to the largest extent.

The Company has appointed the Chief Risk Officer to be responsible for coordinating the overall risk management work.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of Risk Management (Continued)

Level 2: Operation Management (Continued)

The Company has established the Product Committee. Under the authority of the Board and the Operation Management of the Company, the Product Committee uniformly makes plans, preparation and decisions regarding the products and service business of the Company. It reviews the launch or sales of products and provides related service, and is the decision-making body of the appropriateness management for the launch of financial products of the Company. The Risk Evaluation Group and the Suitability Management Group were established under the Product Committee. The Risk Evaluation Group is responsible for reviewing the qualification of the principal which entrusted the Company to sell products, and is tasked with organizing the specific product evaluation, establishing the classification criteria and methods of risks associated with products or services of the Company, performing risk assessment and risk grading on products or services, as well as supervising the management of product terms. The Suitability Management Group is responsible for formulating the criteria for investor classification and principles and procedures for appropriate matching of investors, supervising departments to implement investor suitability management work, organizing suitability training and suitability self-examination and rectification at the company level, and supervising the establishment and improvement of investor appropriateness evaluation database and other work related to suitability management.

Level 3: Division/Business Units

At the division and business line level, the Company has segregated the roles and responsibilities of the front office, middle office and back office to ensure the establishment of a system of "checks and balances", forming three lines of defence in risk management jointly built by business departments/business lines, internal control departments including the Risk Management Department and the Compliance Department, as well as the Audit Department.

Being the Company's first line of defence in risk management, front-office business departments/business lines of the Company bear the first-line responsibility for risk management. These departments are responsible for the establishment of business management systems and risk management systems for various businesses and perform supervision, assessment and reporting on business risks and contain such risks within the approved limits.

Internal control departments such as Risk Management Department and Compliance Department of the Company are the second line of defence in risk management, of which:

The Risk Management Department of the Company performs risk identification, measurement, analysis, monitoring, reporting and management. The department analyzes and assesses the overall risks of the Company and each of its business lines and recommends on optimized allocation of risk resources; assists the Risk Management Committee of the Company in the preparation of risk management indicators such as risk limits, as well as supervision and reporting on the execution of the risk limits; establishes and improves the timely reporting and feedback mechanism among front office, the Risk Management Department and the Operation Management, and regularly discloses the general risk portfolio of the Company to the Operation Management and makes recommendations on risk management; establishes a comprehensive stress test mechanism as a basis for major decision making and daily operational adjustment and fulfillment of regulatory requirements; performs pre-risk assessment and control over new products and businesses.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of Risk Management (Continued)

Level 3: Division/Business Units (Continued)

The Compliance Department of the Company organizes the establishment and implementation of the basic compliance system of the Company, provides compliance advice and make inquiry to the Operation Management, departments/business lines and branches of the Company, monitors lawful compliance of management and operating activities; supervises and instructs the departments/business lines and branches of the Company to assess, develop, modify and improve internal management systems and business processes based on changes in laws, regulations and guidelines; performs compliance pre-reviews on internal management systems, important decisions, new products, new businesses and key business activities launched by the Company; fulfills the regular and non-regular obligations of reporting to regulatory authorities; organizes and performs money laundering risk control in accordance with the anti-money laundering system of the Company, etc.

The Legal Department of the Company is responsible for oversight of the legal risks of the Company and its relevant businesses.

The Office of the Board of the Company promotes the management over the reputation risk of the Company in conjunction with the General Manager's Office, Risk Management Department, Compliance Department, Human Resources Department, Legal Department, Information Technology Centre, Audit Department and other relevant departments.

The Information Technology Centre of the Company is responsible for managing the IT risks of the Company.

The Audit Department of the Company is the third line of defence in risk management and has the overall responsibility for internal audit, planning and implementing internal audit of all departments/business lines of the Company, its subsidiaries and branches, monitoring the implementation of internal control systems, preventing various moral and policy risks, and assisting the Company with the investigation of emergency events.

Other internal control departments exercise their respective risk management functions within the scope of their responsibilities.

(a) Credit risk

Credit risk refers to the risk of an economic loss caused by the failure of customers, counterparties or issuers of debt financing instruments (also referred to as financiers) to perform their contractual obligations.

Credit risks of the Group mostly arise from four aspects: firstly, the credit risks relating to the brokerage business in respect of securities trading and futures trading on behalf of clients are primarily attributed to no adequate trading deposit from clients, which is regulated to pay in advance, as the Group have the responsibility to settle on behalf of clients when the clients do not have sufficient funds to pay for transactions, or short of funds due to other factors on the settlement date; secondly, the credit risks relating to the financing businesses in respect of margin financing, securities lending, stock repo, and stock-pledged repo, are primarily attributed to operational misconducts including fraudulent credit information, failure to repay debts in full in a timely manner, violation of contracts and regulatory requirements, insufficient liquidity due to legal disputes over collateral assets; thirdly, credit risks relating to credit investment are primarily due to counter party defaults, or credit issuer defaults to pay principal and interest on due dates or a decline in the credit worthiness of issuers; and fourthly, the credit risks relating to the OTC derivative transactions in respect of interest rate swap, equity swap, OTC option and forwards, etc. are primarily attributed to the counterparties' failure to perform their payment obligations in accordance with contracts at maturity.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Company assesses the credit ratings of counterparties or issuers through its internal credit rating systems, assesses its credit risks by means of stress testing and sensitivity analysis, and manages credit risks based on the testing results through credit system. Meanwhile, the Company monitor its credit risks through information management systems in real time, keeps track of the credit risks of the business products and counterparties, provides analysis and warning reports, and adjust its credit exposure limits timely.

Securities brokerage transactions in Mainland China are required to be settled in full trading deposit, which helps to control the settlement risks associated with the brokerage business.

Control over credit risks for the financing businesses is managed primarily through risk management education programmes for clients, credit due diligence and verification of clients, credit limits, risk assessment on collateralized (pledged) securities, daily mark to market of exposure, issuing risk notification to clients, forced position liquidation and legal recourse.

For credit investment, in respect of private equity investment, the Company has established the product entrance level and investment caps, uses methods of risk assessment, risk notification and legal recourse to managed its credit risks, and in respect of public offering investments, the Company has developed certain investment restrictions based on the credit ratings of counterparties through the credit system.

The counterparties in OTC derivative transactions are mainly financial institutions and other professional institutions, the main credit risks are attributed to the counterparties' failure to perform payments obligation on time, their failure to make up the trading deposits timely when the losses occurred and discrepancy in valuation of products between the Company and the counterparties. The Company monitors and control credit risk exposure of counterparties with certain proportions for the trading deposits and within established limits by adopting mark-to-market practices of derivatives transactions, and margin call for related collateral as well as forced position liquidating procedures, and carries out legal recourse upon the remaining credit exposure after forced liquidation.

Expected credit loss (ECL) measurement

The measurement of the ECL allowance for debt instruments, including investments in financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about the future economic conditions and credit behavior of the clients (such as the likelihood of customers defaulting and the resulting losses).

The Company has applied a 'three-stage' impairment model for ECL measurement based on changes in credit quality since the initial recognition of financial assets as summarized below:

— A financial instrument that is not credit-impaired on initial recognition is classified as "Stage 1" and has its credit risk continuously monitored by the Company;

— If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired;

— If the financial instrument is credit-impaired, the financial instrument is moved to "Stage 3".

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Expected credit loss (ECL) measurement (Continued)

Stage 1: The Company measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL. Stage 2 and 3: The Company measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. The ECL is always measured on a lifetime basis.

For Stages 1 and 2, the ECL is measured on a 12-month (12M) and Lifetime basis, respectively, using the risk parameter modelling approach that incorporated key parameters, including Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Loss Ratio ("LR") taking into consideration of forward looking factors. For credit-impaired financial assets classified under Stage 3, the management assesses the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration of forward looking factors.

Based on the obligors' credit quality, contract maturity date, the related collateral securities information, which including the sector situation, liquidity discount factor, concentration, volatility and related information, the Company sets differentiated collateral to loan ratios (generally no less than 150%) as triggering margin calls and force liquidation thresholds (collateral to loan ratios generally no less than 130%) against different exposures related to these transactions.

— Stock-pledged repo exposures with collateral to loan ratios above the pre-determined margin call thresholds; or those with such ratios fell below the pre-determined margin call thresholds but above the force liquidation thresholds are considered to be with no significant increase in credit risks and are classified under Stage 1.

— Stock-pledged repo exposures with collateral to loan ratios fall below the pre-determined force liquidation thresholds but above 100%; or those past due for more than 30 days are considered to be with significant increase in credit risks and are classified under Stage 2.

— Stock-pledged repo exposures with collateral to loan ratios fall below 100%; or those past due for more than 90 days are considered to be credit-impaired and non-performing. These exposures are classified under Stage 3.

Measuring ECL — inputs, assumptions and estimation techniques

The measurement of ECL adopted by the management according to IFRS 9, involves judgements, assumptions and estimations, including:

- Selection of the appropriate models and assumptions;

- Determination of the criteria for significant increase in credit risk ("SICR"), definition of default and credit impairment;

- Establishment of the number and relative weightings of forward-looking scenarios for each type of product.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Expected credit loss (ECL) measurement (Continued)

Measuring ECL — inputs, assumptions and estimation techniques (Continued)

For debt securities investments, ECL is the discounted product of the PD, LGD and EAD after considering the forward-looking impact. For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements ("Financing Assets"), ECL are the discounted product of the LR and EAD after considering the forward-looking impact.

PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For debt securities investments, the appropriate external and internal credit ratings are taken into consideration.

— LGD represents the Company's expectation of the extent of loss on a defaulted exposure. For debt securities investments, LGD is determined based on assessed publicly available information.

— EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

— LR represents the Company's expectation of the likelihood of default and extent of loss on exposure. The Company uses historical loss rates and assesses their appropriateness. The Company determines LR based on factors including: the coverage ratio of related loan to underlying collateral value and the volatility of such collateral's valuation, the realized value of collateral upon forced liquidation taking account the estimated volatility over the realization period. LR applied by the Company on its Financing Assets under the 3 stages as at 31 December 2019 were as follows:

  Stage 1: 0.3% to 0.5% according to different collateral ratios

  Stage 2: No less than 10%

  Stage 3: Discounted cash flow on individual exposure

The criteria of significant increase in credit risk ("SICR")

The Company evaluates the financial instruments at each financial statement date after considering whether a SICR has occurred since initial recognition. An ECL allowance for financial assets is recognized according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking. The Company considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considers debt securities investments to have experienced a SICR if the latest internal ratings of issuers of debt securities or the debt securities themselves underwent two levels of downward migration or more, compared to their ratings on initial recognition; or if the latest external ratings of the debt securities or the issuers of the debt securities were under investment grade. As at 31 December 2019 and 31 December 2018, the majority of the debt securities investments of the Company have been rated as investment grade or above and there was no SICR.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Expected credit loss (ECL) measurement (Continued)

The criteria of significant increase in credit risk ("SICR") (Continued)

Taking into consideration of the obligors' credit quality, contract maturity date, the related collateral securities information, which including the sector situation, liquidity discount factor, concentration, volatility and related information, the Company set a force liquidation level for each obligor of Financing Assets. The Company considers Financing Assets to have experienced a SICR if margin calls are triggered when the threshold of relevant collateral to loan ratios are below a force liquidation level. As at 31 December 2019 and 31 December 2018, over 89.00% of the Financing Assets had loans to collateral ratios above the pre-determined force liquidation level, which did not experience any SICR.

A backstop is applied to all relevant financial assets and they are considered to have experienced a SICR if the borrower, the counterparty, the issuer or the debtor is more than 30 days past due on its contractual payments.

The financial instruments are considered to have a low risk when the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company has not used the low credit risk exemption as at 31 December 2019.

Definition of credit-impaired assets

The Company assesses whether a financial instrument is credit-impaired in accordance with IFRS 9, in a manner consistent with its internal credit risk policies for managing financial instruments. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of "in default", when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For Financing Assets, a forced liquidation of a client's position is triggered based on a pre-determined threshold of collateral to loan ratios and the collateral valuation falls short of the related loan or repo amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor, issuer, borrower or counterparty is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the Company relating to the debtor, issuer, borrower or counterparty's financial difficulty;
- It is becoming probable that the debtor, issuer, borrower, or counterparty will enter bankruptcy or undertake a financial restructuring.

When a financial asset is considered to be credit-impaired, it may be the result of multiple events, not due to a separately identifiable event.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Expected credit loss (ECL) measurement (Continued)

Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information.

For debt securities investments, the Company has performed historical data analysis and identified the key economic variables impacting credit risk and ECL. Key economic variables mainly include the growth rate of Domestic GDP, output growth of industries and the growth rate of fixed assets investment index. The impact of these economic variables on the PD, LGD and EAD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on default rates and on the components of PD, LGD and EAD.

For Financing Assets, based on the analysis of the characteristics of these products, the Company has identified the key economic variables impacting credit risk and ECL for these financial instrument portfolio include Volatility of Shanghai Composite Index and Shenzhen Composite Index. The Company makes forward looking adjustments to the ECL of Financing Assets by analyzing the impacts of these economic variables on the LR.

The growth rate of domestic GDP applied in its forward looking scenarios ranged from 5.4% to 6.6%.

In addition to the base economic scenario, the Company's expert team also provided other possible scenarios along with scenario weightings. The number of other scenarios used is set based on an analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

As at 31 December 2019 and 31 December 2018, the Company concluded that three scenarios appropriately captured the non-linearities of key economic variables for all portfolios. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weight of base scenario employed by the Company was more than the sum of that of optimistic scenario and pessimistic scenario.

The Company measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes as at the financial statement date.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Sensitivity analysis

The allowance for credit losses could be sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, weighting applied to economic scenarios and other factors considered when applying expert judgement. Changes in these inputs, assumptions and judgements are likely to have an impact on the assessment of significant increase in credit risk and the measurement of ECLs.

As mentioned above, the Company adopts three scenarios for all portfolios, being the optimistic scenario, base scenario and pessimistic scenario. A sensitivity analysis was applied to these scenarios as follows as at 31 December 2019 and the results were as follows:

(i) The incremental impact on the ECL allowance of applying the probability weighted scenarios was no more than a 5% deviation from the base ECL scenario;

(ii) The decremental impact of shifting 10% of the weighting from the base case scenario to the optimistic scenario was no more than 5% of the ECL allowance;

(iii) The incremental impact of shifting 10% of the weighting from the base case scenario to the pessimistic scenario was no more than 5% of the ECL allowance.

Meanwhile, the Company also uses sensitivity analysis to monitor the impact of changes to the credit risk classification of the financial assets on ECL. As at 31 December 2019 and 31 December 2018, assuming there was no significant increase in credit risk since initial recognition, and all the financial assets in Stage 2 were moved to Stage 1, the decremental impact on ECL recognized in financial statements would be less than 5.00% of the ECL allowance.

Collateral and other credit enhancements

The Company employs a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral through funds advanced or guarantees. The Company determines the type and amount of collaterals according to the credit risk evaluation of counterparties. The collaterals under margin accounts and reverse repurchase agreements are primarily stocks, debt securities, funds etc. Management tests the market value of collaterals periodically, and makes margin calls according to related agreements. It also monitors the market value fluctuation of collaterals when reviewing the measurement of the loss allowance.

Credit risk exposure analysis

The Company considered the credit risk of the Financing Assets was relatively low, as more than 89.00% of Financing Assets' ratio to underlying collateral value was over force liquidation level as at 31 December 2019 and 31 December 2018. High threshold of Financing Assets to collateral ratios indicates that probability of default is low. As at 31 December 2019 and 31 December 2018, all debt securities investments of the Company were rated at investment grade or above.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit risk exposure analysis (Continued)

The maximum credit risk exposure of the Group after impairment allowance without taking account of any collateral and other credit enhancements is presented below:

	31 December	
	2019	2018
Financial assets at fair value through other comprehensive income (debt instruments)	**23,684,063**	36,327,828
Refundable deposits	**1,459,937**	1,112,777
Margin accounts	**70,673,845**	57,197,814
Financial assets at fair value through profit or loss	**267,154,763**	198,554,732
Derivative financial assets	**7,351,073**	11,388,102
Reverse repurchase agreements	**58,830,053**	67,370,441
Cash held on behalf of customers	**118,401,385**	92,420,971
Bank balances	**64,442,153**	52,226,237
Others	**30,588,606**	31,406,920
Total maximum credit risk exposure	**642,585,878**	548,005,822

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations

The breakdown of the Group's maximum credit risk exposure, without taking account of any collateral or other credit enhancements, as categorised by geographical area are summarized below.

	By geographical area		
31 December 2019	**Mainland China**	**Outside Mainland China**	**Total**
Financial assets at fair value through other comprehensive income (debt instruments)	**23,621,708**	**62,355**	**23,684,063**
Refundable deposits	**1,175,482**	**284,455**	**1,459,937**
Margin accounts	**66,911,664**	**3,762,181**	**70,673,845**
Financial assets at fair value through profit or loss	**230,531,753**	**36,623,010**	**267,154,763**
Derivative financial assets	**4,786,262**	**2,564,811**	**7,351,073**
Reverse repurchase agreements	**54,412,054**	**4,417,999**	**58,830,053**
Cash held on behalf of customers	**108,064,121**	**10,337,264**	**118,401,385**
Bank balances	**53,144,202**	**11,297,951**	**64,442,153**
Others	**3,844,299**	**26,744,307**	**30,588,606**
Total maximum credit risk exposure	**546,491,545**	**96,094,333**	**642,585,878**

	By geographical area		
31 December 2018	Mainland China	Outside Mainland China	Total
Financial assets at fair value through other comprehensive income (debt instruments)	35,920,840	406,988	36,327,828
Refundable deposits	927,206	185,571	1,112,777
Margin accounts	53,784,988	3,412,826	57,197,814
Financial assets at fair value through profit or loss	167,236,233	31,318,499	198,554,732
Derivative financial assets	7,808,614	3,579,488	11,388,102
Reverse repurchase agreements	63,605,150	3,765,291	67,370,441
Cash held on behalf of customers	84,710,249	7,710,722	92,420,971
Bank balances	37,569,452	14,656,785	52,226,237
Others	5,622,522	25,784,398	31,406,920
Total maximum credit risk exposure	457,185,254	90,820,568	548,005,822

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

	31 December 2019			
	Stage of ECL			
	Stage I	Stage II	Stage III	Total
Loss allowance	12-month ECL	Lifetime ECL		
Reverse repurchase agreements				
Amortized cost	52,446,116	4,437,151	4,992,695	61,875,962
Loss allowance	102,601	385,210	2,558,098	3,045,909
Book value	52,343,515	4,051,941	2,434,597	58,830,053
Margin accounts				
Amortized cost	68,012,054	2,985,179	449,097	71,446,330
Loss allowance	198,450	303,772	270,263	772,485
Book value	67,813,604	2,681,407	178,834	70,673,845
Financial assets at fair value through other comprehensive income (debt instruments)				
Fair value	23,684,063	–	–	23,684,063
Loss allowance	218,920	–	44,000	262,920
Others				
Amortized cost	30,340,167	31,750	1,764,013	32,135,930
Loss allowance	119,702	5,596	1,646,217	1,771,515
Book value	30,220,465	26,154	117,796	30,364,415

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

	31 December 2018			
	Stage of ECL			
	Stage I	Stage II	Stage III	Total
Loss allowance	12-month ECL	Lifetime ECL		
Reverse repurchase agreements				
Amortized cost	57,212,408	6,978,908	5,144,971	69,336,287
Loss allowance	104,741	563,073	1,298,032	1,965,846
Book value	57,107,667	6,415,835	3,846,939	67,370,441
Margin accounts				
Amortized cost	56,815,700	220,530	478,219	57,514,449
Loss allowance	173,771	22,462	120,402	316,635
Book value	56,641,929	198,068	357,817	57,197,814
Financial assets at fair value through other comprehensive income (debt instruments)				
Fair value	36,327,828	—	—	36,327,828
Loss allowance	101,846	—	44,000	145,846
Others				
Amortized cost	25,508,720	4,682,353	2,453,625	32,644,698
Loss allowance	47,228	4,588	1,595,131	1,646,947
Book value	25,461,492	4,677,765	858,494	30,997,751

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

(i) Credit loss allowance for reverse repurchase agreements

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	104,741	563,073	1,298,032	1,965,846
Increases (i)	84,446	256,003	1,042,520	1,382,969
Reverses	(232,998)	(105,569)	(253,881)	(592,448)
Write-offs	—	—	—	—
Transfers between stages				
— Increase	146,412	—	181,885	328,297
— Decrease	—	(328,297)	—	(328,297)
Others changes	—	—	289,542	289,542
31 December 2019	102,601	385,210	2,558,098	3,045,909

(i) The significant changes affecting the repurchase of financial assets for resale agreements including the default of individual counterparties of reverse repurchase agreements and the decline in the value of collateral, resulting in the company's credit risk exposure cannot be fully covered, The credit loss allowance increased by RMB1,383 million (2018: RMB1,893 million).

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(i) Credit loss allowance for reverse repurchase agreements (Continued)

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	252,956	—	326,288	579,244
Increases	—	873,221	1,019,280	1,892,501
Reversals	(165,473)	(93,966)	(10,509)	(269,948)
Write-offs	—	—	—	—
Transfers between stages				
— Increase	51,682	18,717	243,386	313,785
— Decrease	(34,424)	(227,679)	(51,682)	(313,785)
Other changes	—	(7,220)	(228,731)	(235,951)
31 December 2018	104,741	563,073	1,298,032	1,965,846

Analyzed loss allowance for reverse repurchase agreements:

	31 December 2019			
	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Book value	**31,053,948**	**4,437,151**	**4,992,694**	**40,483,793**
Loss allowance	**102,586**	**385,210**	**2,558,097**	**3,045,893**
Collateral	**99,682,241**	**9,886,868**	**3,877,720**	**113,446,829**

	31 December 2018			
	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
Book value	26,365,688	6,967,769	5,144,969	38,478,426
Loss allowance	104,341	563,074	1,298,030	1,965,445
Collateral	62,863,002	9,867,088	5,631,431	78,361,521

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(ii) Credit loss allowance for margin accounts

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2019	173,771	22,462	120,402	316,635
Increases	35,652	298,782	132,813	467,247
Reversals	(23,866)	(4,115)	(79,538)	(107,519)
Write-offs	—	—	—	—
Transfers between stages				
— Increase	22,464	9,102	7	31,573
— Decrease	(9,109)	(22,459)	—	(31,568)
Other changes	(462)	—	96,579	96,117
31 December 2019	198,450	303,772	270,263	772,485

As in the year of 2019, the reason for the increase of the impairment of margin accounts is that a SICR has been witnessed in the counterparties, which resulted in an increase of RMB467 million impairment (2018: RMB265 million).

As of 31 December 2019, the fair value of the underlying collateral of the margin accounts exposure under stage 3 was RMB200 million (31 December 2018: RMB359 million).

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(ii) Credit loss allowance for margin accounts (Continued)

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	219,564	338	92,545	312,447
Increases	—	93,072	171,493	264,565
Reversals	(46,283)	(31,735)	(128,095)	(206,113)
Write-offs	—	—	—	—
Transfers between stages				
— Increase	1,949	15	1,472	3,436
— Decrease	(1,487)	(289)	(1,660)	(3,436)
Other changes	28	(38,939)	(15,353)	(54,264)
31 December 2018	173,771	22,462	120,402	316,635

(iii) Credit loss allowance for financial assets at fair value through other comprehensive income

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**101,846**	**—**	**44,000**	**145,846**
Increases	**281,457**	**—**	**—**	**281,457**
Reversals	**(56,644)**	**—**	**—**	**(56,644)**
Write-offs	**(107,739)**	**—**	**—**	**(107,739)**
Transfers between stages				
— Increase	**—**	**—**	**—**	**—**
— Decrease	**—**	**—**	**—**	**—**
31 December 2019	**218,920**	**—**	**44,000**	**262,920**

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(iii) Credit loss allowance for financial assets at fair value through other comprehensive income (Continued)

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	15,367	—	111,944	127,311
Increases	126,931	—	—	126,931
Reversals	(10,603)	—	—	(10,603)
Write-offs	(29,849)	—	(67,944)	(97,793)
Transfers between stages				
— Increase	—	—	—	—
— Decrease	—	—	—	—
31 December 2018	101,846	—	44,000	145,846

(iv) Credit loss allowance for other financial assets measured at amortized cost

	Stage of ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12-month ECL	**Lifetime ECL**	**Lifetime ECL (Credit-impaired)**	
1 January 2019	**47,228**	**4,588**	**1,595,131**	**1,646,947**
Increases	**87,034**	**1,650**	**701,376**	**790,060**
Reversals	**(1,672)**	**(642)**	**(271,228)**	**(273,542)**
Write-offs	**(14,498)**	**—**	**(86)**	**(14,584)**
Transfers between stages				
— Increase	**—**	**—**	**—**	**—**
— Decrease	**—**	**—**	**—**	**—**
Other changes	**1,610**	**—**	**(378,976)**	**(377,366)**
31 December 2019	**119,702**	**5,596**	**1,646,217**	**1,771,515**

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(iv) Credit loss allowance for other financial assets measured at amortized cost (Continued)

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018	73,040	3,472	836,678	913,190
Increases	11,383	1,690	438,347	451,420
Reversals	(39,945)	(402)	(21,633)	(61,980)
Write-offs	(39)	—	—	(39)
Transfers between stages				
— Increase	179	7	—	186
— Decrease	(7)	(179)	—	(186)
Other changes	2,617	—	341,739	344,356
31 December 2018	47,228	4,588	1,595,131	1,646,947

(b) Liquidity risk

Liquidity risk refers to the risk that the Company is not able to obtain sufficient capital with reasonable cost and in a timely manner to pay its overdue debts, perform other payment obligations and meet capital requirements for normal business operations. The Company has consistently adhered to the overall operation of capital. The responsibilities for centralized management of fund allocation lie within the Treasury Department. In respect of the domestic stock exchanges and interbank market, the Company has a relatively high credit rating, and has secured stable channels for short-term financing, such as borrowing and repurchases. At the same time, the Company has replenished its long term working capital through public or private offering of corporate bonds, subordinated bonds, income vouchers and the like to enable the Company to maintain its overall liquidity at a relatively secured level.

In addition, the Risk Management Department independently monitors and assesses the fund and debt positions of the Company over a future time span on a daily basis. It measures the solvency of the Company via analysis of matching between assets and liabilities within specified point in time and time period and indicators such as funding gap ratio. The Risk Management Department releases a liquidity risk report on a daily basis and reports on the status of the Company's assets and liabilities, quota management and other situations. The Company also sets threshold values for internal and external liquidity risk indicators, and once exceeded, the Risk Management Department will warn the Risk Management Committee, the management and relevant departments of such risks of the Company through relevant systems, and appropriate actions will be taken by the relevant competent departments to adjust the liquidity risks exposed to a level within the permitted ranges. The Company has also established a liquidity reserve pool system with sufficient high-liquidity assets to meet its emergency liquidity needs.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2019						
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative financial liabilities:							
Customer brokerage deposits	123,351,754	–	–	–	–	–	123,351,754
Financial liabilities at fair value through profit or loss	2,278,299	17,668,920	24,928,377	3,171,642	2,716,412	6,953,349	57,716,999
Repurchase agreements	–	156,678,477	16,346,125	1,616,693	–	–	174,641,295
Due to banks and other financial institutions	–	28,119,932	5,082,153	–	–	–	33,202,085
Short-term loans	12,453	7,402,171	7,431	–	–	–	7,422,055
Short-term financing instruments payable	–	19,404,896	797,555	–	–	–	20,202,451
Debt instruments issued	–	400,080	3,302,796	92,851,590	2,627,500	–	99,181,966
Long-term loans	–	4,547	13,640	401,521	–	–	419,708
Leases	5,116	143,044	511,017	1,029,808	91,602	–	1,780,587
Others	34,626,839	17,810,869	26,968,789	399,439	–	663,431	80,529,367
Total	160,274,461	247,692,936	77,957,883	99,470,693	5,435,514	7,616,780	598,448,267
Cash flows from derivative financial liabilities settled on a net basis	1,249	2,233,517	5,367,383	3,583,404	2,904,608	–	14,090,161
Gross-settled derivative financial liabilities:							
Contractual amounts receivable	–	–	–	–	–	–	–
Contractual amounts payable	–	–	–	–	–	–	–
	–	–	–	–	–	–	–

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	31 December 2018						
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative financial liabilities:							
Customer brokerage deposits	97,773,997	–	–	–	–	–	97,773,997
Financial liabilities at fair value through profit or loss	2,112,461	12,390,485	22,144,598	3,909,907	1,680,348	5,426,224	47,664,023
Repurchase agreements	–	115,941,168	5,004,961	895,743	–	–	121,841,872
Due to banks and other financial institutions	–	19,317,809	–	–	–	–	19,317,809
Short-term loans	15,498	5,643,888	7,311	–	–	–	5,666,697
Short-term financing instruments payable	–	14,292,170	3,870,171	–	–	–	18,162,341
Debt instruments issued	–	593,030	2,909,944	91,594,896	2,755,000	–	97,852,870
Long-term loans	–	–	–	1,016,862	–	–	1,016,862
Others	30,072,455	9,681,555	28,685,165	331,088	–	496,610	69,266,873
Total	129,974,411	177,860,105	62,622,150	97,748,496	4,435,348	5,922,834	478,563,344
Cash flows from derivative financial liabilities settled on a net basis	926	2,335,581	3,041,218	3,550,519	674,951	383,748	9,986,943
Gross-settled derivative financial liabilities:							
Contractual amounts receivable	–	(292,032)	–	–	–	–	(292,032)
Contractual amounts payable	–	293,910	–	–	–	68,922	362,832
	–	1,878	–	–	–	68,922	70,800

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk

Market risks represent potential losses due to movement in market prices of financial positions held. Financial positions held are derived from the proprietary investment, market-making business and other investment activities. Movements in the financial positions held primarily originated from instructions received from the customers and the relevant strategies of proprietary investment.

Market risks primarily include equity price risk, interest rate risk, commodity price risk and foreign exchange rate risk. Among which, equity price risk arises from fluctuation in the price and volatility of equities such as stocks, equity portfolio and stock index futures. Interest rate risk primarily arises from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads. Commodity price risk arises from adverse price movements of various commodities. Exchange rate risk represents exposures arising from changes in non-local currency rates.

The Company has established a top-down risk limit management system, which allocates the overall risk of the Company to different business departments/business lines, and through monitoring by the internal control department, and by timely assessment and reporting of significant risk matters, the overall market risk of the Company is controlled within an acceptable level.

The Company assesses, monitors and manages its overall market risks in a comprehensive manner through a risk management department, which is independent of the business departments/business lines, and its assessments and testing results are reported to the respective business departments/business lines, the Operation Management and the Risk Management Committee of the Company. In implementing market risk management, the front-office business departments/business lines, with direct responsibility for market risks and as the frontline risk management team, dynamically manage the market risks arising from its securities holdings, and actively take measures including reducing risk exposures or risk hedging when the exposures are relatively high. The relevant monitoring personnel from the Risk Management Department will continuously cooperate and communicate directly with the respective business departments/business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

The Risk Management Department estimates possible losses arising from market risks through a series of measurements, including possible losses under normal market volatility and extreme market conditions. Under normal volatilities, the Risk Management Department measures the possible losses of the Company in the short term mainly via VaR and sensitivity analysis. Meanwhile, in extreme situations, the department measures the possible losses of the Company via stress test. The risk report sets out the market risk portfolios and its changes in each of the business departments/business lines. The report will be delivered on a daily, weekly, monthly or quarterly basis to the responsible officers of the business departments/business lines and the Operation Management of the Company.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

VaR represents the potential losses of investment portfolios held due to movements in market prices over a specified time period and at a given level of confidence. The Company adopts VaR as a major indicator of its market risk measurement. The calculation is based on a holding period of one trading day and a confidence level of 95%. VaR detects exposures such as interest rate risk, equity price risk and exchange rate risk, and measures the movement of market risks such as those arising from changes in interest rate curves, prices of securities and exchange rates. The Risk Management Department constantly inspects the accuracy of VaR through backtesting and improves its calculation in line with the expansion of the Company. The Company also evaluates the possible losses in its proprietary positions arising from extreme situations through stress tests. The Risk Management Department has established a series of macro and market scenarios to calculate the possible losses to the Company with full position upon the concurrence of different events under a single or multiple scenarios. These scenarios include the occurrence of major setbacks in macro-economic conditions, significant and adverse changes in major markets and extraordinary risk events. Stress test constitutes an integral part of the market risk management of the Company. Through stress tests, the Company could focus more on the possible losses to the Company, analyze its risk return and compare its risk resistant capacities, and evaluate whether the overall market risk portfolio of the Company is within its expected limits.

The Company sets limits for its respective business departments/business lines to control fluctuations in profit or loss and market exposures. The risk limits are monitored by the Risk Management Department on a daily basis. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn the relevant management officers in advance, discuss with the respective business management officers, and in accordance with the opinion reached through discussions, the business departments/business lines will reduce the exposures to the risk limits, or may apply for a temporary or permanent upgrade in the limits, subject to approval by the corresponding authorized personnel or organization.

The Company continues to modify the risk limits system, defines a unified limit management measures and a hierarchical authorization mechanism, and on the basis of such authorization mechanism, reorganizes the measures for the management of the system with different levels of risk limit indicators for the Company, its respective business departments/business lines and investment accounts.

In respect of foreign assets, in order to ensure the availability of funds required for foreign business expansion, the Company implemented centralized management toward its exchange risk. The Company keeps track of the risk by closely monitoring the value of the assets in the account on a daily basis. It monitors the exchange risk from different angles, such as assets limit, VaR, sensibility analysis and stress test, and to manage exchange risk exposure through methods such as adjusting foreign currency position, using forward exchange contract/option hedging, currency swap contracts, etc.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) VaR

VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

The calculation is based on the historical data of the Group's VaR (confidence level of 95% and a holding period of one trading day).

The Group's VaR analysis by risk categories is summarised as follows:

	31 December	
	2019	2018
Stock price-sensitive financial instruments	**351,305**	112,832
Interest rate-sensitive financial instruments	**42,955**	67,718
Exchange rate-sensitive financial instruments	**76,617**	57,956
Total portfolio VaR	**340,650**	134,931

(ii) Interest rate risk

The Group's interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments arising from adverse movements in interest rates. The Group's interest rate risk mainly sources from the volatility of fair value of financial instruments held by the Group which are sensitive to the interest rate risk, resulting from market interest rate's negative fluctuation.

The Group uses interest rate sensitivity analysis as the principal tool to monitor interest rate risk. The use of interest rate sensitivity analysis assumes all other variables remain constant, but changes in the fair value of financial instruments held at the end of the measurement period may impact the Group's total income and total equity when interest rates fluctuate reasonably and possibly.

Assuming a parallel shift in the market interest rates and without taking into consideration of the management's activities to reduce interest rate risk, the impact of such a shift on revenue and shareholders' equity based on an interest rate sensitivity analysis of the Group is as follows:

Sensitivity of revenue

	2019	2018
Change in basis points		
+25 basis points	**(766,919)**	(384,536)
-25 basis points	**786,581**	399,489

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity of equity

	December 31 2019	2018
Change in basis points		
+25 basis points	**(38,371)**	(43,963)
-25 basis points	**38,732**	44,257

(iii) Currency risk

Currency risk is the risk of fluctuation in the fair value of financial instruments or future cash flows arising from adverse movements in foreign exchange rates. The Group's currency risk primarily relates to the Group's operating activities, whose settlements and payments are denominated in foreign currencies different from the Group's functional currency, and its net investment in foreign subsidiaries.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on revenue and equity. A negative amount in the table reflects a potential net reduction in revenue or equity, while a positive amount reflects a potential net increase.

Sensitivity of revenue

Currency	Change in currency rate	2019	2018
USD	-3%	**(137,942)**	371,041
HKD	-3%	**(135,605)**	(566,045)

Sensitivity of equity

Currency	Change in currency rate	December 31 2019	2018
USD	-3%	**(242,153)**	(263,404)
HKD	-3%	**4,494**	(15,323)

(c) Market risk (Continued)

(iii) Currency risk (Continued)

While the table above indicates the effect on revenue and equity of 3% depreciation of USD and HKD, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

The tables below summarize the Group's exposure to foreign currency exchange rate risk as at 31 December 2019 and 31 December 2018. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group in RMB equivalent, categorized by the original currencies.

		As at 31 December 2019			
	RMB	**USD in RMB equivalent**	**HKD in RMB equivalent**	**Other in RMB equivalent**	**Total**
Net on-balance sheet position	**141,648,226**	**10,162,233**	**5,951,937**	**7,687,396**	**165,449,792**

		As at 31 December 2018			
	RMB	USD in RMB equivalent	HKD in RMB equivalent	Other in RMB equivalent	Total
Net on-balance sheet position	132,905,115	(6,131,863)	20,670,185	9,388,059	156,831,496

(iv) Price risk

Price risk is the risk that the fair value of equity instruments decreases due to the variance between the stock index level and individual share values. If this occurs, market price fluctuations of equity instruments at fair value through profit or loss will impact the Group's profit; and market price fluctuations of equity instruments classified as financial assets at fair value through other comprehensive income will impact shareholders' equity for the Group.

As at 31 December 2019, the equity investment accounted for approximately 14.77% of the total assets (as at 31 December 2018: 12.15%).

(In RMB thousands, unless otherwise stated)

59 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2019	2018
Non-current assets			
Property, plant and equipment		**645,567**	707,818
Investment properties		**93,080**	62,602
Goodwill		**43,500**	43,500
Land-use rights and intangible assets		**2,132,649**	2,189,249
Investments in subsidiaries	24	**33,943,279**	32,045,836
Investments in associates		**4,182,089**	4,250,177
Financial assets at fair value through other comprehensive income		**16,074,056**	15,310,637
Financial assets at fair value through profit or loss (Mandatory)		**899,176**	1,369,064
Refundable deposits		**3,003,340**	1,857,724
Deferred income tax assets		**3,788,660**	2,858,718
Right-of-use assets		**664,421**	
Other non-current assets		**158,350**	192,090
Total non-current assets		**65,628,167**	60,887,415
Current assets			
Fee and commission receivables		**763,291**	651,408
Margin accounts		**61,454,455**	49,999,921
Financial assets at fair value through other comprehensive income		**32,372,611**	44,826,556
Financial assets as at fair value through profit or loss (Mandatory)		**247,559,516**	160,298,222
Derivative financial assets		**8,274,928**	8,131,769
Reverse repurchase agreements		**54,405,254**	65,975,750
Other current assets		**25,037,080**	20,722,071
Cash held on behalf of customers		**63,782,093**	51,493,673
Cash and bank balances		**43,938,922**	30,201,951
Total current assets		**537,588,150**	432,301,321

59 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Notes	31 December 2019	2018
Current liabilities			
Customer brokerage deposits		**62,930,349**	49,397,670
Derivative financial liabilities		**11,172,070**	9,065,465
Financial liabilities at fair value through profit or loss		**10,672,620**	6,159,079
Repurchase agreements		**156,570,217**	108,219,463
Due to banks and other financial institutions		**33,356,210**	20,025,301
Tax payable		**2,312,425**	1,988,388
Short-term financing instrument payables		**19,587,250**	18,191,597
Lease liabilities		**197,640**	
Other current liabilities		**83,984,645**	67,874,191
Total current liabilities		**380,783,426**	280,921,154
Net current assets		**156,804,724**	151,380,167
Total assets less current liabilities		**222,432,891**	212,267,582
Non-current liabilities			
Debt instruments issued		**79,949,446**	82,835,816
Deferred income tax liabilities		**2,101,916**	1,673,992
Financial liabilities at fair value through profit or loss		**6,445,859**	2,281,912
Lease liabilities		**378,064**	
Total non-current liabilities		**88,875,285**	86,791,720
Net assets		**133,557,606**	125,475,862
Equity			
Issued share capital	50	**12,116,908**	12,116,908
Reserves		**84,596,312**	81,513,819
Retained earnings		**36,844,386**	31,845,135
Total equity		**133,557,606**	125,475,862

(In RMB thousands, unless otherwise stated)

60 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

		Reserves							
	Notes	Share Capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Sub-total	Retained earnings	Total
At 1 January 2019		12,116,908	54,411,316	6,263,770	20,401,816	436,917	81,513,819	31,845,135	125,475,862
Profit for the year		–	–	–	–	–	–	11,701,200	11,701,200
Other comprehensive income		–	–	–	–	621,462	621,462	–	621,462
Total comprehensive income		–	–	–	–	621,462	621,462	11,701,200	12,322,662
Dividend – 2018	18	–	–	–	–	–	–	(4,240,918)	(4,240,918)
Appropriation to surplus reserves		–	–	–	–	–	–	–	–
Appropriation to general reserves		–	–	–	2,461,031	–	2,461,031	(2,461,031)	–
Capital increase by equity holders – Others		–	–	–	–	–	–	–	–
At 31 December 2019		12,116,908	54,411,316	6,263,770	22,862,847	1,058,379	84,596,312	36,844,386	133,557,606

60 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

	Notes	Reserves						Retained earnings	Total
		Share Capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Sub-total		
At 31 December 2017		12,116,908	54,435,353	6,263,770	18,744,385	1,313,673	80,757,181	30,342,490	123,216,579
Changes in accounting policy		–	–	–	–	237,324	237,324	(207,554)	29,770
At 1 January 2018		12,116,908	54,435,353	6,263,770	18,744,385	1,550,997	80,994,505	30,134,936	123,246,349
Profit for the year		–	–	–	–	–	–	8,214,393	8,214,393
Other comprehensive income		–	–	–	–	(1,114,080)	(1,114,080)	–	(1,114,080)
Total comprehensive income		–	–	–	–	(1,114,080)	(1,114,080)	8,214,393	7,100,313
Dividend – 2017	18	–	–	–	–	–	–	(4,846,763)	(4,846,763)
Appropriation to surplus reserves		–	–	–	–	–	–	–	–
Appropriation to general reserves		–	–	–	1,657,431	–	1,657,431	(1,657,431)	–
Capital increase by equity holders – Others		–	(24,037)	–	–	–	(24,037)	–	(24,037)
At 31 December 2018		12,116,908	54,411,316	6,263,770	20,401,816	436,917	81,513,819	31,845,135	125,475,862

61 EVENTS AFTER THE REPORTING PERIOD

Issuance of short-term Financing Bond

From January to March 2020, the Company adopted the resolutions of the 22nd meeting of the 6th Board of Directors, the resolutions of the Shareholders' General Meeting of 2017 and relevant authorizations, "Notice of the People's Bank of China's Financial Market Department on CITIC Securities Co., Ltd.'s Relevant Matters Regarding the Maximum Outstanding Repayment Balance of Short-term Financing Bonds" (Yinshichang [2019] No. 126), issued the first five tranches of short-term financing bonds in 2020 in the aggregate amount of RMB21 billion, all with maturity days of 90 days and bear interest in the range of 2.16% to 2.78% per annum.

61 EVENTS AFTER THE REPORTING PERIOD (Continued)

Issuance of corporate bonds

In accordance with the resolutions of the 22nd meeting of the 6th Board of Directors, the resolutions of the 2017 Annual Shareholders' General Meeting; and the related regulatory approvals including the "CSRC License [2020] No. 64" issued by the CSRC on 8 January 2020, the Company was approved to publicly issue corporate bonds in China that do not exceed RMB15 billion in total in face value to qualified investors. The Company completed the first public issuance of such corporate bonds on 21 February 2020 in the amount of RMB5 billion in two tranches with maturity terms and coupon rates of 3 years and 5 years; and 3.02% and 3.31%, respectively. The Company completed the public issuance of the second tranche of such corporate bonds on 10 March 2020 in the amount of 4.2 billion in two tranches with maturity terms and coupon rates of 3 years and 5 years; and 2.95% and 3.20%, respectively.

Profit distribution

According to the board resolution passed in the Board of Directors' meeting of the Company held on 19 March 2020, the Company made the following resolution based on the profit for the year ended 31 December 2019: appropriation of a total of RMB1,170.12 million to the general risk reserve; appropriation of a total of RMB1,170.12 million to the transaction risk reserve; appropriation of a total of RMB3.49 million to the provisions of risk for custody business; appropriation of RMB117.297 million to the provisions of risk for collective asset management business No statutory surplus reserve to be appropriated because the accumulated amount had reached 50% of the registered capital of the Company; proposed cash dividend for the year ended 31 December 2019 of RMB5.00 yuan for every 10 shares (pre-tax), totaled approximately RMB6,463.39 million (pre-tax). This proposed dividend is subject to the approval of the General Meeting of Shareholders of the Company.

Issuance of shares for the acquisition of 100% equity share of Guangzhou Securities Co., Ltd. ("Guangzhou Securities" or the "target company")

Pursuant to the resolutions of the 34th meeting of the 6th Board of Directors held on 9 January 2019 and the first extraordinary general meeting of shareholders held on 27 May 2019, the Company planned to issue 809,867,629 ordinary A shares to Guangzhou Yuexiu Financial Holding Group Co., Ltd. ("Yuexiu Financial Holdings") and its wholly-owned subsidiary Guangzhou Yuexiu Financial Holding Limited ("Financial Holding Co., Ltd.") to acquire 100% equity share in Guangzhou Securities with the 99.03% equity share in Guangzhou Futures and 24.01% equity share in Golden Eagle Fund held by Guangzhou Securities crafted out from this acquisition.

Business registration for the transfer of the shares in Guangzhou Securities to the Group has been completed on 10 January 2020 and Guangzhou Securities changed its name to CITIC Securities South China Company Limited.

As at 31 January 2020, the Company has obtained all the necessary approvals for this acquisition, including the "Approval for CITIC Securities Co., Ltd. to issue shares to Guangzhou Yuexiu Financial Holding Group Co., Ltd. for asset acquisition (zjxk [2019] No. 2871)" issued by CSRC and the related acquisition cost was the fair value of the issued shares of Company of RMB12.17 billion with the goodwill recoginized of RMB968 million.

61 EVENTS AFTER THE REPORTING PERIOD (Continued)

Private placement of the Company's ordinary A shares

The Company issued in total 809,867,629 ordinary A shares to Yuexiu Financial Holding and Financial Holding Co., Ltd. for the acquisition of Guangzhou Securities. The total share capital of the Company increased to RMB12,926,776,029.00 after such issuance. The increase in capital has been verified by PricewaterhouseCoopers Zhong Tian LLP with the capital verification report (PwC Zhong Tian YZ (2020) No. 0134).

On 11 March 2020, the Company has completed the registration and listing procedures in China Securities Depository and Clearing Co., Ltd. Shanghai Branch for the placement of ordinary A shares. The newly placed ordinary A shares is subject to a sales restriction period of 48 months from the date of the issuance. After the issuance, the total share capital of the Company was increased to 12,926,776,029 shares, still meeting the listing conditions of the Company Law, the Securities Law, the listing rules and other laws and regulations. The largest shareholder of the Company is still CITIC Group, and there is no controlling shareholder or actual controlling person.

Impact assessment on epidemic situation of COVID-19

Since the outbreak of pandemic COVID-19 in January 2020, the Company effectively implements the requirements of the "Notice on Further Strengthening Financial Support for Prevention and Control of New Coronavirus Infectious Pneumonia" issued by the People's Bank of China, the Ministry of Finance, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange, and strengthens the financial support and control for epidemic prevention.

COVID-19 will affect the global economy outlook and the operations of enterprises. The degree of impact will depend on the situation, duration of the pandemic virus as well as implementation of related prevention and controls and various regulatory policies. The Company will continue to pay close attention to the development of the situation, evaluate and actively respond to its impact on the Company's financial position and operating results.

62 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 March 2020.

Independent Auditor's Report

To the Shareholders of CITIC Securities Company Limited
(Incorporated in People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of CITIC Securities Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 190 to 333, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Goodwill impairment assessment
- Valuation of financial instruments held at fair value classified under Level 3 financial instruments
- Expected credit impairment allowance of Financing Assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment	
Refer to note 3 (20), 4 (1) and 23 to the consolidated financial statements. As at 31 December 2018, the carrying amount of goodwill was RMB10,507 million, primarily resulting from the acquisition of China Asset Management Co., Ltd. ("China AMC") (RMB7,419 million) and CITIC Securities International Company Limited's acquisition of CLSA B.V. ("CLSA") (RMB2,020 million). As at 31 December 2018, the Group's accumulated impairment of goodwill was RMB377 million. Goodwill impairment assessment is performed annually. The impairment assessment relies upon the calculation of the recoverable amount for each of the Group's cash generating units ("CGUs"). Management considers China AMC and CLSA as separate CGUs.	We compared the key assumptions used by Management in preparing the cash flow forecasts of China AMC and CLSA under the VIU approach against the historical figures, the approved budgets and the operation plans. We involved our internal valuation specialist to assess the reasonableness of the DCF model, including the growth rate in the forecast period, terminal growth rate and the discount rate used. Our assessment was based on our knowledge of the business and industry. We also tested the mathematical accuracy of calculations used in the cash flow forecast. Based on the results of our procedures, we found that management's judgements and assumptions used in the estimation of China AMC and CLSA's recoverable amounts to be acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Goodwill impairment assessment (Continued) Management used the value in use approach ("VIU") to assess the recoverable amount by applying a discounted cash flow ("DCF") model based on key assumptions including revenue growth rate, terminal growth rate and discount rate. Goodwill impairment assessment was a key area of audit focus due to the significant management judgement involved in selecting the appropriate key assumptions and inputs used in the estimation of each CGU's recoverable amount, and the amount of any goodwill impairment that may be required.	
Valuation of financial instruments held at fair value classified under Level 3 Financial Instruments Refer to note 3 (3) (c), 4 (4) and 59 to the consolidated financial statements. As at 31 December 2018, the Group's financial instruments included those classified under Level 3 in the fair value hierarchy ("Level 3 Financial Instruments"), which were measured using valuation techniques that involve significant inputs that were not based on observable market data ("unobservable inputs"). Such inputs included liquidity discounts, volatility, risk adjusted discount rate and price to book ratios, etc. The amounts of Level 3 financial assets and financial liabilities as at 31 December 2018 were RMB19,495 million and RMB5,426 million, respectively. Valuation of the Level 3 Financial Instruments was a key area of audit focus due to the size of their amounts and the selection of unobservable inputs used in the valuation process which involved significant judgement.	We evaluated the design and tested the operating effectiveness of the Group's controls over data inputs to the valuation models and the ongoing monitoring and optimization of the model. We evaluated the appropriateness of the models used by Management for the valuation of Level 3 Financial Instruments by using our knowledge of those used in current industry practice. We also evaluated on a sample basis the reasonableness and appropriateness of the unobservable and observable inputs used for measuring the fair value of Level 3 Financial Instruments with reference to relevant market data. We performed an independent valuation of the Level 3 Financial Instruments on a sample basis. Based on the results of our procedures performed above, we found the models used and inputs adopted by Management acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of Financing Assets	
Refer to note 3 (3) (e), 4 (6), 15, 33, 37 and 60 (a) to the consolidated financial statements. As at 31 December 2018, the Group's financial assets arising from financing businesses included margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements ("Financing Assets") totalled RMB96,133 million with credit impairment loss allowances of RMB2,283 million. This comprised margin accounts and repo of RMB57,514 million and RMB38,619 million; with credit impairment loss allowances of RMB317 million and RMB1,966 million, respectively. The credit loss allowances as at 31 December 2018 for Financing Assets represented Management's best estimates of the expected credit losses ("ECL") in accordance with International Financial Reporting Standard 9: "Financial Instruments". Management applied a three-stage impairment model to calculate the ECL. For Financing Assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including exposure at default and loss rate after taking into consideration forward looking factors. For credit-impaired Financing Assets classified under Stage 3, Management assessed the credit loss allowance by estimating the future cash flows after taking into consideration forward looking factors.	We evaluated and tested the Group's internal controls relating to the measurement of ECL for Financing Assets which included: (1) Governance over ECL models, including the selection, approval of methodologies and model; and the ongoing monitoring and optimization of the model; (2) Review and approval of significant management judgements and assumptions, including: i) the criteria for SICR; ii) the definition of default and credit-impairment; and iii) the use of economic variables and relative weighting for forward-looking scenarios; (3) Internal controls over the accuracy and completeness of key inputs used by the model. In addition, we also performed the following procedures: (1) We examined the ECL modelling methodologies and assessed their reasonableness. We also evaluated whether the underlying coding for the models reflected the methodologies established by Management; (2) We examined the application of the SICR criteria and credit impairment definition by testing the collateral to Financing Assets ratio and the backstop past due days defined by Management;

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of Financing Assets (Continued)	
Management assesses whether objective evidence of impairment existed for Financing Assets at each reporting date. The measurement model for ECL involves significant management judgments and assumptions, primarily including: (1) Selection of the appropriate model and assumptions; (2) Determination of the criteria for significant increase in credit risk ("**SICR**"), definition of default and credit impairment; (3) Projection of macroeconomic variables for forward-looking scenarios. The Group has established governance processes and controls over the measurement of ECL. ECL assessment of Financing Assets was considered to be a key area of audit focus due to the size of the balance and the significant management judgements involved.	(3) For forward-looking scenarios, we examined the basis of determining of the economic indicators, number of scenarios and relative weightings; assessed the reasonableness of the economic indicators forecasted under the different scenarios; and performed sensitivity analysis on economic indicators and relative weightings; (4) We examined major data inputs to the ECL model for selected samples, including exposure at default and loss rate after taking into consideration forward looking factors; (5) For credit-impaired assets under Stage 3, we tested, on a sample basis, the credit loss allowance computed by Management with reference to financial information of borrowers and guarantors, and the latest collateral valuations, as appropriate. Based on the audit procedures performed, in the context of the inherent uncertainties associated with the measurement of ECL, we considered the models, key parameters, significant judgements and assumptions adopted by Management and the measurement results to be acceptable.

Other Information

The Directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ho Shuk Ching, Margarita.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Notes	**2018**	2017
Revenue			
Fee and commission income		**20,294,821**	22,664,650
Interest income	8	**13,654,422**	12,806,665
Investment income	9	**8,045,850**	12,713,196
		41,995,093	48,184,511
Other income	10	**9,065,926**	8,775,208
Total revenue and other income		**51,061,019**	56,959,719
Fee and commission expenses	11	**2,868,013**	3,707,615
Interest expenses	11	**11,232,013**	10,402,063
Staff costs	11	**10,524,690**	12,141,247
Depreciation		**420,114**	502,895
Tax and surcharges		**255,151**	256,035
Other operating expenses and costs	11	**11,816,544**	12,659,372
Impairment losses on assets	14		1,720,760
Expected credit losses	15	**2,186,773**	
Impairment losses on other assets	16	**23,805**	
Total operating expenses		**39,327,103**	41,389,987
Operating profit		**11,733,916**	15,569,732
Share of profits and losses of:			
Associates		**742,865**	602,957
Joint ventures		**(11,210)**	1,092
Profit before income tax		**12,465,571**	16,173,781
Income tax expense	17	**2,589,143**	4,196,311
Profit for the year		**9,876,428**	11,977,470
Attributable to:			
Owners of the Parent		**9,389,896**	11,433,265
Non-controlling interests		**486,532**	544,205
		9,876,428	11,977,470
Earnings per share attributable to Owners of the Parent (in RMB yuan)			
— Basic	20	**0.77**	0.94
— Diluted	20	**0.77**	0.94

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	2018	2017
Profit for the year	**9,876,428**	11,977,470
Other comprehensive income		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods		
Available-for-sale financial assets:		
Changes in fair value		905,011
Income tax effect on changes in fair value		(237,376)
Gains transferred included in the consolidated statement of profit or loss, net		168,626
		836,261
Net gains on investments in debt instruments measured at fair value through other comprehensive income	**143,191**	
Net gains on debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	**21,438**	
Income tax relating to these items	**(35,797)**	
	128,832	
Share of other comprehensive income of associates and joint ventures	**40,171**	(13,997)
Exchange differences on translation of foreign operations	**571,760**	(1,040,830)
Other	**(4,211)**	(1,900)
	736,552	(220,466)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	2018	2017
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods		
Net losses on investments in equity instruments designated as at fair value through other comprehensive income	**(2,202,092)**	
Income tax relating to these items	**520,401**	
	(1,681,691)	
Share of other comprehensive income of associates and joint ventures	**(18,951)**	
	(1,700,642)	
Other comprehensive income for the year, net of tax	**(964,090)**	(220,466)
Total comprehensive income for the year	**8,912,338**	11,757,004
Attributable to:		
Owners of the Parent	**8,372,396**	11,352,579
Non-controlling interests	**539,942**	404,425
	8,912,338	11,757,004

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

At 31 December 2018

(In RMB thousands, unless otherwise stated)

	Notes	31 December 2018	2017
Non-current assets			
Property, plant and equipment	21	**8,046,233**	8,264,559
Investment properties	22	**1,332,508**	871,554
Goodwill	23	**10,507,495**	10,280,937
Land-use rights and intangible assets	24	**3,269,423**	3,447,332
Investments in associates	26	**8,638,309**	8,580,336
Investments in joint ventures	26	**399,986**	5,212
Available-for-sale financial assets	27		28,194,717
Financial assets at fair value through other comprehensive income	28	**15,532,415**	
Financial assets designated as at fair value through profit or loss	29		8,503,392
Financial assets at fair value through profit or loss	35	**22,561,994**	
Refundable deposits	30	**1,112,777**	972,410
Deferred income tax assets	31	**4,223,026**	3,384,952
Other non-current assets	32	**4,049,183**	3,570,271
Total non-current assets		**79,673,349**	76,075,672
Current assets			
Fee and commission receivables		**1,397,133**	1,487,197
Margin accounts	33	**57,197,814**	73,982,611
Available-for-sale financial assets	27		31,032,215
Financial assets at fair value through other comprehensive income	28	**36,327,828**	
Financial assets held for trading	34		158,448,546
Financial assets designated as at fair value through profit or loss	29		11,201,565
Financial assets at fair value through profit or loss	35	**224,875,080**	
Derivative financial assets	36	**11,388,102**	5,900,795
Reverse repurchase agreements	37	**67,370,441**	114,592,030
Other current assets	38	**30,255,394**	26,164,534
Cash held on behalf of customers	39	**92,420,971**	92,386,338
Cash and bank balances	40	**52,226,605**	34,303,141
Total current assets		**573,459,368**	549,498,972
Current liabilities			
Customer brokerage deposits	41	**97,773,997**	99,854,891
Derivative financial liabilities	36	**9,311,899**	13,301,231
Financial liabilities at fair value through profit or loss	42	**38,880,234**	45,990,353
Repurchase agreements	43	**121,669,027**	111,619,927
Due to banks and other financial institutions	44	**19,314,867**	9,835,000
Taxes payable	45	**2,872,998**	1,793,376
Short-term loans	46	**5,656,710**	5,991,451
Short-term financing instruments payable	47	**18,059,345**	33,537,839
Other current liabilities	48	**82,013,442**	67,770,364
Total current liabilities		**395,552,519**	389,694,432
Net current assets		**177,906,849**	159,804,540
Total assets less current liabilities		**257,580,198**	235,880,212

Consolidated Statement of Financial Position

At 31 December 2018

(In RMB thousands, unless otherwise stated)

	Notes	31 December **2018**	2017
Non-current liabilities			
Debt instruments issued	49	**88,057,370**	77,641,633
Deferred income tax liabilities	31	**1,967,608**	2,632,211
Long-term loans	50	**953,229**	1,084,900
Financial liabilities at fair value through profit or loss	42	**8,765,605**	461,417
Other non-current liabilities	51	**1,004,890**	917,492
Total non-current liabilities		**100,748,702**	82,737,653
Net assets		**156,831,496**	153,142,559
Equity			
Equity attributable to Owners of the Parent			
Issued Share capital	52	**12,116,908**	12,116,908
Reserves	53	**85,826,084**	85,675,151
Retained earnings		**55,197,777**	52,006,987
		153,140,769	149,799,046
Non-controlling interests		**3,690,727**	3,343,513
Total equity		**156,831,496**	153,142,559

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 21 March 2019.

ZHANG Youjun
Chairman

YANG Minghui
Executive Director and President

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

		Attributable to owners of the Parent									
			Reserves								
	Notes	Share capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 31 December 2017		12,116,908	54,449,057	8,164,570	20,826,927	2,131,888	102,709	52,006,987	149,799,046	3,343,513	153,142,559
Changes in accounting policy		—	—	88,986	143	(1,048,577)	9,719	782,076	(167,653)	—	(167,653)
At 1 January 2018 (Restated)		12,116,908	54,449,057	8,253,556	20,827,070	1,083,311	112,428	52,789,063	149,631,393	3,343,513	152,974,906
Profit for the year		—	—	—	—	—	—	9,389,896	9,389,896	486,532	9,876,428
Other comprehensive income for the year		—	—	—	—	(1,537,935)	520,435	—	(1,017,500)	53,410	(964,090)
Total comprehensive income for the year		—	—	—	—	(1,537,935)	520,435	9,389,896	8,372,396	539,942	8,912,338
Dividend — 2017	19	—	—	—	—	—	—	(4,846,763)	(4,846,763)	—	(4,846,763)
Appropriation to surplus reserves		—	—	156,895	—	—	—	(156,895)	—	—	—
Appropriation to general reserves		—	—	—	1,984,337	—	—	(1,984,337)	—	—	—
Capital increase/(decrease) by equity holders — Others		—	(22,824)	(246)	—	—	—	6,813	(16,257)	535	(15,722)
Dividends to non-controlling interests		—	—	—	—	—	—	—	—	(193,263)	(193,263)
At 31 December 2018		12,116,908	54,426,233	8,410,205	22,811,407	(454,624)	632,863	55,197,777	153,140,769	3,690,727	156,831,496

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Attributable to owners of the Parent								Non-controlling interests	Total
		Reserves								
	Share capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal		
At 1 January 2017	12,116,908	54,462,051	7,812,711	18,796,701	1,215,190	1,100,093	47,192,292	142,695,946	3,092,724	145,788,670
Profit for the year	—	—	—	—	—	—	11,433,265	11,433,265	544,205	11,977,470
Other comprehensive income for the year	—	—	—	—	916,698	(997,384)	—	(80,686)	(139,780)	(220,466)
Total comprehensive income for the year	—	—	—	—	916,698	(997,384)	11,433,265	11,352,579	404,425	11,757,004
Dividend — 2016	—	—	—	—	—	—	(4,240,918)	(4,240,918)	—	(4,240,918)
Appropriation to surplus reserves	—	—	351,859	—	—	—	(351,859)	—	—	—
Appropriation to general reserves	—	—	—	2,030,226	—	—	(2,030,226)	—	—	—
Capital increase/(decrease) by equity holders — Others	—	(12,994)	—	—	—	—	4,433	(8,561)	9,431	870
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	(163,067)	(163,067)
At 31 December 2017	12,116,908	54,449,057	8,164,570	20,826,927	2,131,888	102,709	52,006,987	149,799,046	3,343,513	153,142,559

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Profit before income tax	**12,465,571**	16,173,781
Adjustments for:		
Financing interest expense	**6,516,019**	5,744,497
Share of profits and losses of associates and joint ventures	**(731,655)**	(604,049)
Dividend income and interest income from available-for-sale financial assets		(2,399,041)
Interest income from financial assets at fair value through other comprehensive income	**(2,193,926)**	
Net gains on disposal of available-for-sale financial assets		(4,855,536)
Net gains on disposal of financial assets at fair value through other comprehensive income	**(55,211)**	
Net gains on disposal of property, plant and equipment and other assets	**28,377**	(737)
Gains on disposal of subsidiaries	**—**	(564,034)
Gains on disposal of associates and joint ventures	**(18,495)**	(192,971)
Fair value gains on financial instruments measured at fair value through profit or loss		(842,716)
Fair value gains on financial assets and liabilities measured at fair value through profit or loss	**(1,706,195)**	
Depreciation	**532,567**	521,992
Amortisation	**432,503**	478,202
Impairment on assets		1,720,760
Expected credit losses	**2,186,773**	
Impairment on other assets	**23,805**	
	17,480,133	15,180,148
Net decrease/(increase) in operating assets		
Financial assets held for trading		(7,269,065)
Financial assets at fair value through profit or loss	**(56,837,870)**	
Cash held on behalf of customers	**(34,634)**	37,490,441
Other assets	**69,016,900**	(59,043,614)
	12,144,396	(28,822,238)
Net increase/(decrease) in operating liabilities		
Customer brokerage deposits	**(2,617,679)**	(34,487,173)
Repurchase agreements	**10,049,100**	(9,794,316)
Other liabilities	**23,032,742**	(4,884,342)
	30,464,163	(49,165,831)
Net cash inflow/(outflow) from operating activities before tax	**60,088,692**	(62,807,921)
Income tax paid	**(2,469,822)**	(3,894,692)
Net cash inflow/(outflow) from operating activities	**57,618,870**	(66,702,613)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Notes	2018	2017
Cash flows from investing activities			
Dividend income and interest income received from available-for-sale financial assets			2,431,849
Dividend income and interest income received from financial assets at fair value through other comprehensive income		**2,193,926**	
Net cash flow from purchases, leases and sales of items of property, plant and equipment and other assets		**(449,868)**	(391,818)
Net cash flow from disposal of subsidiaries		**—**	1,476,492
Net cash flow from acquisition of subsidiaries	25(c)	**(97,391)**	(373,657)
Net cash flow from investments in associates and joint ventures		**(244,394)**	(372,937)
Net cash flow from disposal or purchase of financial assets at fair value through other comprehensive income		**(22,196,936)**	
Net cash flow from disposal or purchase of available-for-sale financial assets			25,502,793
Net cash inflow/(outflow) from investing activities		**(20,794,663)**	28,272,722
Cash flows from financing activities			
Cash inflows from financing activities		**1,000**	9,025
Cash inflows from borrowing activities		**20,355,184**	7,516,209
Cash inflows from issuing bonds		**119,587,234**	153,136,691
Payment of debts		**(148,877,939)**	(111,752,066)
Dividends and interest expense		**(11,740,466)**	(8,494,473)
Other cash outflows from financing activities		**(1,076,302)**	(2,930,203)
Net cash inflow/(outflow) from financing activities		**(21,751,289)**	37,485,183
Net increase/(decrease) in cash and cash equivalents		**15,072,918**	(944,708)
Cash and cash equivalents at the beginning of the year		**30,938,954**	33,230,355
Effect of exchange rate changes on cash and cash equivalents		**1,563,432**	(1,346,692)
Cash and cash equivalents at the end of the year	54	**47,575,304**	30,938,955

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

CITIC Securities Company Limited (the "**Company**") was established in Beijing, the People's Republic of China (the "**PRC**" or "**Mainland China**", which excludes for the purpose of these consolidated financial statements, the Hong Kong Special Administrative Region of the PRC or "Hong Kong", the Macau Special Administrative Region of the PRC or "Macau", and Taiwan) on 25 October 1995. Pursuant to approval by the China Securities Regulatory Commission (the "**CSRC**"), the Company was restructured as a joint stock limited company in 1999. The Company's common stock was listed on the PRC domestic A-share market in 2003. The registered office of the Company is located at North Tower, Excellence Times Plaza II, No. 8 Zhongxin San Road, Futian District, Shenzhen, Guangdong Province, PRC.

According to a resolution relating to the issue and listing of H Shares in Hong Kong passed in the first extraordinary general meeting of shareholders in 2011, along with the "Approval of Issue of Overseas-Listed Foreign Shares of CITIC Securities" (CSRC [2011] No.1366) issued by the CSRC, the Company conducted its initial public offering of Overseas-Listed Foreign Shares ("**H shares**") from September to October 2011. Under this offering, the Company offered a total of 1,071,207,000 H shares (including over-allotment of 75,907,000 H shares) with a nominal value of RMB1.00 per share. As at 31 December 2011, the total share capital of the Company increased to RMB11,016,908,400.00. The capital increase has been verified by Ernst & Young Hua Ming according to the capital verification report of Ernst & Young Hua Ming Yan Zi (2011) 60469435_A09.

According to a resolution relating to the additional issuance and listing of H shares in Hong Kong passed in the first extraordinary general meeting of the shareholders in 2015, along with the "Approval of Issue of Overseas-Listed Foreign Shares of CITIC Securities the Approval relating to Additional Issuance of Overseas-Listed Foreign Shares of CITIC Securities Company Limited (CSRC [2015] No. 936)" issued by the CSRC, on 23 June 2015, the Company completed its additional issuance and listing of H shares in Hong Kong. Under this offering, the Company offered a total of 1,100,000,000 H shares with offering price of HKD 24.60 per share. As at 31 December 2015, the total share capital of the Company increased to RMB12,116,908,400.00. The capital increase has been verified by PricewaterhouseCoopers Zhong Tian Yan Zi (2015) No. 748.

The Company (also referred to as the "**Parent**") and its subsidiaries (collectively referred to as the "**Group**") were involved in the following principal activities:

- Securities and futures brokerage;
- Securities investment fund distribution;
- Agency sale of financial products;
- Securities underwriting and sponsorship;
- Investment advisory and consultancy services;
- Proprietary securities activities;
- Asset management and fund management;
- Margin financing and securities lending; and
- Stock option market-making.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), as issued by the International Accounting Standards Board ("**IASB**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance (Cap.622) for this financial year and the comparative period.

These consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which have been measured at fair value, as further explained in the respective accounting policies below. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Relevant standards and amendments effective in 2018 and adopted by the Group:

(1)	IFRS 9	Financial Instruments
(2)	IFRS 15	Revenue from Contracts with Customers
(3)	Amendments to IAS 28	Investments in Associates and Joint Ventures — included in the Annual Improvements to IFRSs 2014–2016 Cycle
(4)	Amendments to IAS 40	Transfer of Investment Property
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration

(1) IFRS 9: Financial Instruments

"IFRS 9 Financial Instruments" introduces new rules for the classification, measurement and derecognition of financial assets and financial liabilities; the main impact for the Group includes the classification, measurement for financial assets and financial liabilities also the impairment for financial assets.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit or loss, fair value through other comprehensive income (FVOCI) or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

2. BASIS OF PREPARATION (Continued)

(2) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalisation of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

(3) Amendments to IAS 28: Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014–2016 cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

(4) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 — Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

(5) IFRIC 22: Foreign Currency Transactions And Advance Consideration

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

The new accounting standard IFRS 9 Financial Instruments and their impacts are disclosed in Note 3 Significant Accounting Policies and Note 5 The Impact of Changes in Significant Accounting Policies respectively. The adoption of the other standards and amendments did not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

(In RMB thousands, unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRS 16	Leases	1 January 2019
(2)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(3)	Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
(5)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
(6)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
(7)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(8)	Amendments to IFRS 3	The Definition of A Business	1 January 2020

(1) IFRS 16: Leases

IFRS 16 — Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability in the consolidated income statement, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

2. BASIS OF PREPARATION (Continued)

(1) **IFRS 16: Leases** (Continued)

For operating lease existed before the commencement day, the lease liability is initially recognized at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. The lessee uses as the discount rate the incremental borrowing rate. The measurement of right-of-use asset would be the amount of lease liability (adjusted by the amount of any previously recognized prepaid lease payments relating to that lease). The cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings at the date of initial application, and it does not restate comparative information. The right-of-use asset is depreciated in subsequent periods. The lease liability is measured in subsequent periods using the effective interest rate method.

The adoption of IFRS 16 does not have a significant impact on the net assets of the Group as at 1 January 2019.

(2) **IFRIC 23: Uncertainty Over Income Tax Treatments**

In December 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The adoption of this interpretation does not have a significant impact on the Group's consolidated financial statements.

(3) **Amendments to IFRS 9: Prepayment Features with Negative Compensation**

In October 2017, the IASB amended IFRS 9 by issuing Prepayment Features with Negative Compensation, which confirmed with modifications the proposals in the 2017 Negative Compensation Exposure Draft. As a result of those amendments, particular financial assets with prepayment features that may result in reasonable negative compensation for the early termination of the contract are eligible to be measured at amortised cost or at FVOCI. The adoption of this new standard does not have a significant impact on the Group's consolidated financial statements.

(4) **Amendments to IFRSs and IASs: Annual Improvements to IFRSs 2015–2017 Cycle**

The Annual Improvements to IFRSs 2015–2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 — Business combinations, the amendments to IFRS 11 — Joint arrangements, the amendments to IAS 12 — Income taxes, the amendments to IAS 23 — Borrowing costs. The adoption of these amendments does not have a significant impact on the Group's consolidated financial statements.

(5) **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**

The IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture-to which the equity method is not applied should be accounting for using IFRS 9. The adoption of the amendments does not have a significant impact on the Group's consolidated financial statements.

2. BASIS OF PREPARATION (Continued)

(6) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(7) Amendments to IAS 1 and IAS 8: The Definition of Material

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2. BASIS OF PREPARATION (Continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries for the year ended 31 December 2018. The financial statements of the subsidiaries are prepared for the same reporting period as the Company (also referred to as the "**Parent**"), using consistent accounting policies.

The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) derecognises the cumulative translation differences recorded in equity;

(d) recognises the fair value of the consideration received;

(e) recognises the fair value of any investment retained;

(f) recognises any resulting surplus or deficit in profit or loss; and

(g) reclassifies the Group's share of components previously recognised in other comprehensive income (OCI) to profit or loss or retained profits.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position separately from the Equity attributable to Owners of the Parent. An acquisition of non-controlling interests is accounted for as an equity transaction.

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Cash and cash equivalents

Cash and cash equivalents are short term, highly liquid assets, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash and assets with original maturity of three months or less under cash and bank balances.

(2) Foreign currency transactions and foreign currency translation

The financial statements are presented in RMB, which is the Company's functional and presentation currency. The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. The financial statements are presented in RMB.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. All differences are taken to the statement of profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's overseas operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at exchange rates that approximate the exchange rates of the date of the transaction. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognised in OCI and accumulated in the foreign exchange translation reserve. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows.

The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(3) Financial instruments

(a) Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the asset and the cash flow characteristics of the assets:

(i) Amortized cost;

(ii) Fair value through other comprehensive income ("**FVOCI**"); or

(iii) Fair value through profit or loss ("**FVPL**").

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest ("**SPPI**"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determine whether their cash flows are SPPI.

The classification requirements for debt instruments and equity instruments are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

***Debt Instruments* (Continued)**

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortized cost.

(ii) FVOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVPL, are measured at FVOCI.

(iii) FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at FVPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(b) Reclassification of financial assets

When the Group changes the business model for managing its financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

(c) Fair value of financial instruments

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. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on quoted market prices. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, the Group uses observable inputs. Unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(d) Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount; and (iii) for financial assets, adjusted for any loss allowance. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("**ECL**") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("**POCI**") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in "Interest income", except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses and interest revenue on the instrument's amortized cost which are recognized in profit or loss. Interest income from these financial assets is included in "interest income" using the effective interest rate method. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "investment income".

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(d) Subsequent measurement of financial instruments (Continued)

Fair value through other comprehensive income (Continued)

Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Investment income" in the period in which it arises.

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Investment income" line in the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

When financial liabilities designated as at FVPL are derecognized, fair value gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(e) Impairment of financial instruments

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, which are all cash shortfalls, discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures the ECL of a financial instrument reflects:

(i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

(ii) the time value of money; and

(iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

— Stage I: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition.

— Stage II: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired.

— Stage III: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

The Group applies the impairment requirements for the recognition and measurement of some loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

(e) Impairment of financial instruments (Continued)

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss.

(f) Derecognition of financial instruments

A financial instrument (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised, which means to derecognise a financial asset or financial liability from the account and statement of financial position of the Group when:

(i) the rights to receive cash flows from the assets have expired; or

(ii) the Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognised, while the financial liability under modified terms is recognised as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognised in profit or loss.

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognised and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognised shall be recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018

(a) Classification and measurement of financial instruments

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss, which are recognised initially at fair value.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or other financial liabilities. Financial liabilities at fair value through profit or loss are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

Subsequent measurement of financial instruments depends on their classification as follows:

(i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading, and financial assets and financial liabilities designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is acquired for the purpose of sale or repurchase in the near term. Derivatives are also classified as held for trading except for the derivative that is a financial guarantee contract or a designated effective hedging instrument.

Such financial instruments are subsequently measured at fair value. Gains or losses arising from the difference between fair value and previous carrying amount are recognised in profit or loss as investment income or losses. Realised gains or losses upon disposal of held-for-trading financial assets are recognised as investment income or losses. Dividends and interest accrued during the holding period from financial assets measured at fair value through profit or loss are recognised as investment income.

Financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the following criteria are satisfied:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on different bases;

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(a) Classification and measurement of financial instruments (Continued)

(i) Financial assets and financial liabilities at fair value through profit or loss (Continued)

- Hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;

- Hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent balance sheet date.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, quoted in active markets, with fixed or determinable payments and a fixed maturity, which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method. If there are no significant differences between the contractual interest rates or coupon rates and effective interest rates, held-to-maturity investments are measured at amortised cost using the contractual interest rates or coupon rates.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. If there are no significant differences between the contractual interest rates and effective interest rates, loans and receivables are measured at amortised cost using the contractual interest rates. When loans and receivables are collected, differences between the amount received and the carrying amount are recognised as profit or loss in the consolidated statement of profit or loss.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are subsequently measured at fair value. When the fair value of an equity investment classified as available-for-sale financial assets cannot be reliably measured, they are carried at cost. When available-for-sale financial assets are disposed of, the difference between the consideration received plus cumulative gains or losses previously recorded in OCI and accumulated in equity arising from changes of fair value and the carrying amount are recognised as investment income.

(v) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss. Other liabilities are subsequently measured at amortised cost using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(a) Classification and measurement of financial instruments (Continued)

(vi) Reclassification of financial assets

When the Group changes its intention over the held-to-maturity investments, they are reclassified as available-for-sale financial assets. If the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, it shall reclassify any remaining held-to-maturity investments as available-for-sale financial assets, and shall not classify any financial assets as held to maturity during the current and the two subsequent financial years.

(b) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired and impairment allowance shall be made. The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of financial assets and has an impact on the estimated future cash flows of the financial assets that can be reliably measured.

(i) Financial assets carried at amortised cost

The amount of any impairment loss identified 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 yet been incurred). The loss is recognised in profit or loss. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition), and the value of collaterals should be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the profit or loss. The Group performs a collective assessment for impairment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account and recognising the decrease in impairment loss in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(b) Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets

If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss recognised in OCI is reclassified from OCI to profit or loss and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Generally, a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer, upon which circumstances impairment loss is recognised.

For the Company's specific investment managed by China Securities Finance Corporation Limited, considering the purpose and special features of this investment, including the investment and divestment decision-making processes, and with reference to the industry practice, the decline is considered significant or prolonged when a decline in the fair value of such investment is below its initial cost by 50% or more; or fair value is below cost for 36 months or longer, upon which circumstances an impairment loss is recognized.

Impairment losses of available-for-sale equity instruments are not reversed through profit or loss. Increases of their fair value after the impairment are recognised directly in OCI.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed through profit or loss.

If there is objective evidence that an available-for-sale equity investment which is measured at cost is impaired, the difference between the carrying amount of a financial asset and the present value of the future cash flows discounted at the prevailing market rate of return for a similar financial asset, is recognised as an impairment loss through profit or loss. Such impairment losses are not reversed once recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Derivative financial instruments

The Group uses derivatives, such as foreign currency contracts, interest rate swaps, contracts of stock index and contracts for difference to economically hedge its foreign currency risk, interest rate risk and stock price risk, respectively. Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including the discounted cash flow analysis and option pricing models, as appropriate. Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA) are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group itself, respectively.

(5) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(6) Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The Group recognises margin accounts at initial recognition, and recognises interest income accordingly. Securities lent are not derecognised, but still accounted for as the original financial assets, and interest income is recognised accordingly.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

For impairment of financial assets arising from margin financing and securities lending, refer to Note 3 (3) (b) (i).

(7) Reverse repurchase agreements and repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognised through profit or loss.

For impairment of reverse repurchase agreements, refer to Note 3 (3) (b) (i). Stock repo and stock-pledge repo under reverse purchase agreements are assets arising from financing business.

(8) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

(9) Associates

Associates are all entities 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.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates.

(10) Joint ventures

Joint ventures are all entities over which the Group has joint control. Joint control, is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities the unanimous consent of the parties sharing control.

The Group's investments in joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of post-acquisition results and reserves of joint ventures is included in the consolidated statement of profit or loss and reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's investments in the joint ventures.

(11) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased out. Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

The Group's investment properties are accounted for using cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment. The land use rights are accounted for using amortization method over their expected useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Investment properties (Continued)

When an investment property is transferred to owner-occupied property, it is reclassified to property, plant and equipment with the carrying amount determined at the carrying amount of the investment property at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the property, plant and equipment is transferred to investment properties with the carrying amount determined at the carrying amount at the date of the transfer.

An investment property shall be derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal, net of the carrying amount and related expenses, in the consolidated statement of profit or loss.

(12) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment comprise buildings, transportation vehicles and electronic devices that the Group expects to use for more than one year and other tangible assets that are expected to be used for more than one year and the unit costs of which are greater than RMB2,000.

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees. The cost of a self-constructed asset comprises all costs incurred before the asset is ready for its intended use.

Subsequent expenditure incurred for the property, plant and equipment is included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditure can be measured reliably, while the carrying amount of the replaced part is derecognized. Other subsequent expenditure is recognized in the consolidated income statement in the period in which they are incurred.

Depreciation of property, plant and equipment is calculated on the straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Property, plant and equipment (Continued)

(b) Property, plant and equipment initially measured at cost (Continued)

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the Group are as follows:

Types of property, plant and equipment	Estimated useful lives	Monthly depreciation rate	Estimated residual value rate
Properties and buildings	35 years	0.2262%	5%
Electronic devices	2–5 years	1.667%–4.167%	—
Transportation vehicles			
— Leased out	(i)	(i)	(i)
— Others	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	—
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

(i) Transportation vehicles that are leased out under operating lease represent aircraft and cargo vessel. The Group determines the useful lives and depreciation method according to conditions of aircraft and cargo vessel. Among transportation vehicles, the estimated useful lives of cargo vessel is 20 years, and the estimated residual value is determined based on the expected residual value; the estimated useful lives of aircraft is 25 years with a monthly depreciation rate of 0.283%, and the estimated residual value rate is 15% of its original cost.

The years that property, plant and equipment were already in use upon purchase were excluded when determining the estimated useful lives of these types of property, plant and equipment. The estimated useful lives, the estimated residual value rate and the depreciation method of each type of property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value rate.

(c) Impairment of property, plant and equipment

The Group assesses whether there is any indication that assets are impaired at each financial reporting date. When any such indication exists, the Group estimates the recoverable amount. When recoverable amounts of assets are lower than carrying amounts, the Group decreases the carrying amount to recoverable amount, the decreased amount recognized in the consolidated income statement.

An impairment loss recognized for property, plant and equipment is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Property, plant and equipment (Continued)

(d) Disposal of property, plant and equipment

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from its continued use. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized through profit or loss.

(e) Construction in progress

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(13) Land-use rights and intangible assets

(a) Land-use rights

Land-use rights acquired by the Group are amortised over the period that is confirmed by the land use permit.

(b) Intangible assets

Intangible assets are recognised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item shall be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognised as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortised on a straight-line basis over the useful period. The useful lives and amortisation method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

(b) Intangible assets (Continued)

Software acquired from third party shall be amortised over 5 years. The self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets shall be amortised over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed each reporting date. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

The internal research and development expenses are classified as research phase expense and development phase expense. Expenditure on research phase of an internal project shall be recognised as an expense when it is incurred. Development phase expense can be capitalised only an entity can demonstrate all of the following:

(i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;

(ii) its intention to complete the intangible asset and use or sell it;

(iii) its ability to use or sell the intangible asset;

(iv) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

(v) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

(vi) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The development phase expenses that do not meet above conditions shall be recognised in profit or loss when incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Revenue

Revenue from underwriting services is recognized when the outcome of the underwriting services provided can be reliably estimated and reasonably recognized. The revenue is usually recognized upon completion of the offering;

Revenue from the securities brokerage services is recognised on the date of the securities transaction;

Revenue from asset management services is recognised when management services are provided in accordance with the asset management contract;

Dividend income is recognised when the Group's right to receive payment has been established;

Other business revenue mainly comes from the bulk commodities sales of the group's commodities trading subsidiaries.

The Group recognizes sales revenue from bulk commodity goods when fulfills the Group's performance obligations in the contract, that is, the revenue is recognized when the customer obtains control of the relevant bulk commodity goods.

In the process of selling goods, the Group, as the primary obligor, has the primary responsibility of providing goods and performing orders to customers; The Group exposure inventory risk before or after the bulk commodity goods have been ordered by a customer; the Group has discretion in establishing prices of bulk commodity goods and exposed to credit risk for the amount receivable from customers in exchange for the other party's goods and commodity risk for inventory. The Group satisfies the performance obligation above and recognized revenue in the gross amount.

When the Group recognises revenue in accordance with the progress of completed services, the part of unconditional receivables that the Group has acquired will be recognised as accounts receivables, and the rest will be recognised as contract assets. The Group identifies loss allowance on the basis of expected credit losses for accounts receivable and contractual assets; if the Group's received consideration or receivable consideration exceed the completed services, the excess part will be recognised as contractual liabilities. The Group's contractual assets and liabilities under the same contract are shown in net.

Interest income of debt investments at amortized costs and FVOCI, is measured by carrying amount and effective interest rate; excluding financial assets credit impaired are measured by amortized cost and effective interest rate. The net gains of holding period from financial investments at FVTPL is measured as "Investment income".

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using balance sheet liability method according to the temporary difference between the carrying amount of an asset or liability at the end of the reporting period and its tax base, and the temporary difference between the carrying amount of an item not recognised as an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognised as deferred income tax liabilities, except:

The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, unused tax credits carried forward and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax credits carried forward and unused tax losses can be utilised, except that deferred income tax asset relating to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income 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 income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered the services to the Group.

In accordance with the applicable laws and regulations, Mainland China employees of the Group participate in various social insurance schemes including basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. Contributions to these schemes are recognised in profit or loss as incurred.

All eligible employees outside Mainland China participate in the respective local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

(17) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all the attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognised at nominal amount.

Government grants for purchasing, building or other development of long-term assets regulated in government documents are recognised as government grants related to assets. Judgments should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or other development of long-term assets as basic condition are recognised as government grants related to assets, and the remaining type of grants are recognised as related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released to profit or loss during the period when the expense is incurred. Government grants that are to compensate the incurred expenses or losses are recognised into profit or loss directly. Government grants related to assets are recognised as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded into profit or loss directly.

(18) Operating leases

Lease income from operating leases is recognised in income on a straight-line basis over the period of the lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Inventories

Inventories are recognised at cost for initial recognition. The cost of inventories comprises all costs of purchase, costs of conversion and other costs.

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. When net realisable value is lower than the carrying amount, the Group decreases the carrying amount to net realisable value. The decreased amount is recognised in profit or loss and corresponding allowance is made.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and related taxes.

(20) Impairment of assets other than deferred tax assets and financial assets

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is objective evidence that assets are impaired. Where there is objective evidence, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units to which the asset belongs will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group decreases their carrying amount to recoverable amount. The decreased amounts are recognised in profit or loss and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognises relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on a pro rata basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close family member of that person and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(22) Provisions and contingencies

The obligation pertinent to contingencies shall be recognised as provisions when the following conditions are satisfied concurrently:

(i) the obligation is a present obligation of the Group;

(ii) the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and

(iii) the amount of the obligation can be reliably measured.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(22) Provisions and contingencies (Continued)

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot actually reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

(23) Profit distribution

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory reserve under surplus reserves, 10% of after-tax profit for a general risk reserve under general reserves and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve under general reserves. In addition, with the approval from the Annual General Meeting, the Company may set aside 5%-10% of after-tax profit for a discretionary reserve after setting aside the funds for the various statutory reserves. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General reserves set aside by the Company are used to make up for any losses arising from securities transactions. The Company's surplus reserves are used to make up for any losses of the Company or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve are converted to capital, the balance of the statutory reserve cannot be less than 25% of the Company's registered capital.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these judgements assumptions and estimates could result in outcomes that could require an adjustment to the carrying amounts of the assets or liabilities.

(1) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, which requires significant judgement. This involves an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated. The recoverable amount is the higher of a cash-generating unit's fair value less costs to sell and its value in use.

(2) Impairment of non-current assets other than financial assets and goodwill

The Group assesses at each financial reporting date whether there is objective evidence that non-current financial assets other than financial assets, margin financing businesses, and goodwill are impaired. Impairment occurred if the carrying amount of an asset or asset group exceeds its recoverable amount as recognized from impairment testing. When estimating the value in use, management should estimate the expected future cash flows and choose a suitable discount rate in order to calculate the present value of those cash flows.

(3) Income tax

Determining provisions for income tax requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and provides for taxes accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement of the tax treatments of certain transactions and also significant estimation of the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(4) Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of observable market inputs. However, where observable market inputs are not available, management needs to make estimates and use alternatives on such unobservable market inputs.

(5) Consolidation of structured entities

The management makes significant judgment on whether the Group controls and therefore is required to consolidate its structured entities. The decision outcome impacts the financial and operational results of the Group.

When assessing control, the Group considers: 1) the level of power of the Group over the investee; 2) variable returns gained through participation of relevant activities of the investee; and 3) the ability of the Group in using its power over the investee to affect its return.

When assessing the level of power over the structured entities, the Group considers the following four aspects:

(a) the degree of participation when establishing the structured entities;

(b) contractual arrangements;

(c) activities that take place only at special occasions or events;

(d) commitments made to the investee from the Group.

When assessing whether there is control over the structured entities, the Group also considers whether it's acting as a principal or as an agent. Aspects of considerations normally include the decision making scope over the structured entities, substantive rights of third parties, reward of the Group, and exposure to variable risks and returns from owning other benefits of the structured entities.

(6) Measurement of the expected credit loss allowance

Expected credit loss measurement

The measurement of the expected credit loss allowance for debt instruments measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

— Determining criteria for significant increase in credit risk;

— Choosing appropriate models and assumptions for the measurement of ECL;

— Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(6) Measurement of the expected credit loss allowance (Continued)

Inputs, assumptions and estimation techniques

The ECL of different financial portfolios is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined above. For debt securities investments, ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements, ECL are the discounted product of the EAD and Loss Ratio (LR).

Forward-looking information incorporated in the ECL model

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the PD vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 60(a).

(7) Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are prepayments); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

The following significant accounting judgements and estimates apply to 2017

(1) Classification of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group is required to reclassify any remaining held-to-maturity investments as available-for-sale financial assets and cannot classify any financial assets as held to maturity during the current and two subsequent financial years.

(2) Impairment losses of available-for-sale financial assets

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale financial assets, the Group assesses periodically whether objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, price volatility as well as operating and financing cash flows. A significant or prolonged decline in the fair value of the equity investments below its cost is also an objective evidence of impairment for available-for-sale equity investments. This requires a significant level of management judgement which would affect the amount of impairment losses.

(3) Impairment of financial assets arising from financing business

Based on the clients' credit standing, collateral securities, collateral ratio, solvency ability and willingness and other factors, the Group determines whether there is any indication of impairment of financial assets arising from financing business.

(In RMB thousands, unless otherwise stated)

5. THE IMPACT OF CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies and adjustments to the relevant amounts previously recognized in the consolidated financial statements. The Group elected not to restate the comparative figures. The adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other components of reserves. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

(1) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

IAS 39			IFRS 9		
Items	**Measurement categories**	**Carrying amount**	**Items**	**Measurement categories**	**Carrying amount**
Cash and bank balances	Amortized cost (Loans and receivables)	34,303,141	Cash and bank balances	Amortized cost	34,303,141
Cash held on behalf of customers	Amortized cost (Loans and receivables)	92,386,338	Cash held on behalf of customers	Amortized cost	92,386,338
Margin accounts	Amortized cost (Loans and receivables)	73,982,611	Margin accounts	Amortized cost	73,973,779
Derivative financial assets	FVPL	5,900,795	Derivative financial assets	FVPL (Mandatory)	5,900,795
Reverse repurchase agreements	Amortized cost (Loans and receivables)	114,592,030	Reverse repurchase agreements	Amortized cost	114,569,371
Refundable deposits	Amortized cost (Loans and receivables)	972,410	Refundable deposits	Amortized cost	972,410
Financial assets held for trading	FVPL	158,448,546	Financial assets at fair value through profit or loss	FVPL (Mandatory)	206,074,885
Financial assets designated as at fair value through profit or loss	FVPL	19,704,957			
Available-for-sale financial assets	FVOCI	59,226,932	Financial assets at fair value through other comprehensive income (Debt instruments)	FVOCI	14,080,770
			Financial assets at fair value through other comprehensive income (Equity instruments)	FVOCI	17,392,241
Others	Amortized cost (Loans and receivables)	26,461,322	Others	Amortized cost	26,448,466

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at FVPL that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income. Such changes have no impact to the Group.

5. THE IMPACT OF CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements expected credit loss allowance	IFRS 9 Carrying amount 1 January 2018
Loans and receivables (IAS39)/(IFRS9)				
Financial assets measured at amortized cost				
Cash and bank balances	34,303,141	—	—	34,303,141
Cash held on behalf of customers	92,386,338	—	—	92,386,338
Margin accounts	73,982,611	—	(8,832)	73,973,779
Reverse repurchase agreements	114,592,030	—	(22,659)	114,569,371
Refundable Deposits	972,410	—	—	972,410
Other assets	26,461,322	677	(13,533)	26,448,466
	342,697,852	677	(45,024)	342,653,505
Financial assets at fair value through profit or loss				
Derivative financial assets	5,900,795	—	—	5,900,795

(In RMB thousands, unless otherwise stated)

5. THE IMPACT OF CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements changes in fair value	IFRS 9 Carrying amount 1 January 2018
Financial assets held for trading	158,448,546			
Financial assets designated as at fair value through profit or loss	19,704,957			
Reclassification: From available-for-sale financial assets (IAS 39)		27,753,244	168,138	
Financial assets at fair value through profit or loss (Mandatory)				206,074,885
Available-for-sale financial assets (Debt instruments)	22,051,458			
Reclassification: To financial assets at fair value through profit or loss (Mandatory) (IFRS 9)		(7,970,011)		
To others		(677)		
Financial assets at fair value through other comprehensive income (Debt instruments)				14,080,770
Available-for-sale financial assets (Equity instruments)	37,175,474			
Reclassification: To financial assets at fair value through profit or loss (Mandatory) (IFRS 9)		(19,783,233)		
Financial assets at fair value through other comprehensive income (Equity instruments)				17,392,241

5. THE IMPACT OF CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Impairment allowance under IAS 39 31 December 2017	Reclassifications	Remeasurements expected credit loss allowance	Impairment allowance under IFRS 9 1 January 2018
Financial assets measured at amortized cost				
Margin accounts	303,615	—	8,832	312,447
Reverse repurchase agreements	556,585	—	22,659	579,244
Other assets	899,657	—	13,533	913,190
Total	1,759,857	—	45,024	1,804,881
Available-for-sale financial assets	1,371,201			
Reclassification: To financial assets at fair value through profit or loss (Mandatory) (IFRS 9)		(1,259,578)		
Financial assets at fair value through other comprehensive income (Debt instruments)			15,688	127,311

6. TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Company is currently subject are as follows:

(1) Income tax

From 1 January 2008, the "Enterprise Income Tax Law of the PRC" and the "Regulations on the Implementation of Enterprise Income Tax Law of the PRC" became effective for the Company. Income tax computation and payment are governed by the "Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations" (Public Notice of the State Administration of Taxation [2012] No.57). The income tax rate applicable to the Company is 25%.

6. TAXATION (Continued)

(2) Value added tax

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No.36), the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the "Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions" (Cai Shui [2016] No.70) issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%, instead of business tax at 5% prior to 1 May 2016.

In accordance with the "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No.140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No.2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No.56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

(3) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

(4) Urban maintenance and construction taxes, education surcharges and local education surcharges are levied at 7%, 3% and 2%, respectively, of the payable amount of relevant turnover taxes.

7. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities, which are subject to risks and returns that are different from the other operating segments.

Investment Banking — Securities placement and underwriting activities, and financial advisory services;

Brokerage — Securities and futures dealing and brokerage, as well as the sale of financial products as agent;

Trading — Equity, fixed income and derivatives trading and market-making, margin financing and securities lending and alternative investment activities;

Asset Management — Asset management services to collective assets management, directive assets management, special assets management, fund management and other investment account management; and

Others — Private equity investment, principal investment and other financial activities.

Management monitors the results of the Group's operating segments for the purposes of resource allocation and operating decision-making. Operating segment performance is measured consistently, and on the same basis as, operating profit or loss in the Group's consolidated financial statements.

Income taxes are managed as a whole and are not allocated to operating segments.

(In RMB thousands, unless otherwise stated)

7. OPERATING SEGMENT INFORMATION (Continued)

2018	Investment banking	Brokerage	Trading	Asset management	Others	Total
Segment revenue and other income						
Fee and commission income	**2,968,251**	**10,382,464**	**160,151**	**6,146,006**	**637,949**	**20,294,821**
Interest income	**4,975**	**2,666,466**	**10,433,629**	**188,672**	**360,680**	**13,654,422**
Investment income	**—**	**64,093**	**7,520,481**	**164,558**	**296,718**	**8,045,850**
Other income	**39,105**	**103,705**	**878,358**	**37,026**	**8,007,732**	**9,065,926**
Subtotal	**3,012,331**	**13,216,728**	**18,992,619**	**6,536,262**	**9,303,079**	**51,061,019**
Operating expenses	**1,805,215**	**10,157,320**	**15,200,053**	**3,671,596**	**8,492,919**	**39,327,103**
Including: Interest expenses	**41**	**782,321**	**9,723,546**	**51,551**	**674,554**	**11,232,013**
Expected credit losses	**—**	**7,760**	**2,092,231**	**310**	**86,472**	**2,186,773**
Impairment losses on other assets	**—**	**2,605**	**—**	**—**	**21,200**	**23,805**
Operating profit	**1,207,116**	**3,059,408**	**3,792,566**	**2,864,666**	**810,160**	**11,733,916**
Share of profits and losses of associates and joint ventures	**—**	**—**	**—**	**—**	**731,655**	**731,655**
Profit before income tax	**1,207,116**	**3,059,408**	**3,792,566**	**2,864,666**	**1,541,815**	**12,465,571**
Income tax expenses						**2,589,143**
Net profit for the period						**9,876,428**
Other segment information:						
Depreciation and amortisation	**3,178**	**290,823**	**17,315**	**61,418**	**592,336**	**965,070**
Capital expenditure	**95,828**	**238,294**	**40,772**	**64,836**	**18,830**	**458,560**

7. OPERATING SEGMENT INFORMATION (Continued)

2017	Investment banking	Brokerage	Trading	Asset management	Others	Total
Segment revenue and other income						
Fee and commission income	4,320,427	11,523,441	150,314	6,327,008	343,460	22,664,650
Interest income	2,368	2,588,724	9,415,277	214,626	585,670	12,806,665
Investment income	—	61,403	7,539,013	1,381,822	3,730,958	12,713,196
Other income	1,465	(27,388)	93,547	91,692	8,615,892	8,775,208
Subtotal	4,324,260	14,146,180	17,198,151	8,015,148	13,275,980	56,959,719
Operating expenses	2,508,082	9,426,618	13,500,921	4,465,737	11,488,629	41,389,987
Including: Finance costs	51	397,288	9,263,518	93,774	647,432	10,402,063
Impairment losses	—	32,809	685,099	435,677	567,175	1,720,760
Operating profit	1,816,178	4,719,562	3,697,230	3,549,411	1,787,351	15,569,732
Share of profits and losses of associates and joint ventures	—	—	—	—	604,049	604,049
Profit before income tax	1,816,178	4,719,562	3,697,230	3,549,411	2,391,400	16,173,781
Income tax expenses						4,196,311
Net profit for the period						11,977,470
Other segment information:						
Depreciation and amortisation	2,990	321,337	17,434	55,246	603,187	1,000,194
Capital expenditure	45,052	291,378	20,271	41,684	44,624	443,009

(In RMB thousands, unless otherwise stated)

8. INTEREST INCOME

	2018	2017
Interest income on margin and other financing	**8,771,357**	8,832,772
Bank interest income	**3,867,374**	3,910,822
Financial assets at fair value through other comprehensive income	**854,755**	
Others	**160,936**	63,071
Total	**13,654,422**	12,806,665

9. INVESTMENT INCOME

	2018	2017
Net gains from financial assets held for trading		8,141,505
Net gains from financial instruments designated as at fair value through profit or loss		1,047,715
Net losses from financial assets at fair value through profit or loss (Mandatory)	**(5,221,853)**	
Net gains from financial assets at fair value through profit or loss (Designated)	**1,167,400**	
Net gains from disposal of available-for-sale financial assets		4,855,536
Net gains from disposal of debt instruments at fair value through other comprehensive income	**55,211**	
Dividend and interest income from available-for-sale financial assets		2,399,041
Dividend income from financial assets at fair value through other comprehensive income	**1,339,171**	
Net gains from financial liabilities at fair value through profit or loss	**1,867,081**	78,324
Net gains/(losses) from derivatives and others	**8,838,840**	(3,808,925)
Total	**8,045,850**	12,713,196

10. OTHER INCOME

	2018	2017
Income from bulk commodity trading	**7,180,012**	8,126,887
Gains/(Losses) on disposal of property, plant and equipment	**(1,683)**	737
Others	**1,887,597**	647,584
Total	**9,065,926**	8,775,208

11. OPERATING EXPENSES

		2018	2017
Fee and commission expenses:			
— Commission expenses		**2,638,537**	3,579,657
— Others		**229,476**	127,958
Total		**2,868,013**	3,707,615

		2018	2017
Interest expenses:			
— Due to banks and other financial institutions		**3,896,667**	3,659,077
— Debt instruments issued and short-term financing instruments payable		**6,028,064**	5,364,737
— Customer brokerage deposits		**339,558**	337,664
— Others		**967,724**	1,040,585
Total		**11,232,013**	10,402,063

		2018	2017
Staff costs (including directors', supervisors' and senior executives' remuneration):			
— Salaries and bonuses		**8,891,221**	10,494,163
— Staff benefits		**1,008,933**	1,048,755
— Contributions to defined contribution schemes	(i)	**624,536**	598,329
Total		**10,524,690**	12,141,247

(In RMB thousands, unless otherwise stated)

11. OPERATING EXPENSES (Continued)

(i) Retirement benefits are included herein and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to the government related to these government-sponsored retirement plans for active employees. The Group has no obligation for post-retirement benefits beyond these contributions, which are expensed as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

		2018	2017
Other operating expenses and costs:			
— Cost of bulk commodity trading		**7,146,338**	7,987,312
— Leasing expenses		**838,347**	949,271
— Fund distribution and administration expenses		**613,250**	404,826
— Electronic device operating costs		**555,920**	572,929
— Business travel expenses		**362,136**	330,496
— Amortisation of intangible assets		**338,479**	380,182
— Postal and communication expenses		**270,721**	297,583
— Business publicity expenses		**208,151**	212,456
— Consulting expense		**191,598**	155,462
— Business entertainment expenses		**161,857**	191,497
— Auditors' remuneration	(i)	**34,558**	35,197
— Others		**1,095,189**	1,142,161
Total		**11,816,544**	12,659,372

(i) Which include audit service fees of RMB30 million (2017: RMB27 million).

12. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION

Details of the directors', supervisors' and senior executives' remuneration before tax, as disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance, are as follows:

		2018				
Name	Position	Salaries and allowances (1)	Discretionary bonuses (2)	Fees (3)	Contribution to retirement benefit schemes (4)	Total remuneration before tax (5)=(1)+(2)+(3)+(4)
ZHANG Youjun	Executive Director, Chairman and Member of the Executive Committee	2,379	2,400	–	169	4,948
YANG Minghui	Executive Director, President and Member of the Executive Committee	2,138	7,500	–	157	9,795
KUANG Tao	Non-executive Director	–	–	–	–	–
HE Jia	Independent Non-executive Director	–	–	156	–	156
LIU Ke	Independent Non-executive Director	–	–	156	–	156
CHAN, Charles Sheung Wai	Independent Non-executive Director	–	–	153	–	153
Li Fang	Former Supervisor and Chairman of the Supervisory Committee	258	–	–	21	279
RAO Geping	Supervisor	–	–	100	–	100
GUO Zhao	Supervisor	–	–	100	–	100
LEI Yong	Supervisor representing Employees	1,041	3,104	–	102	4,247
YANG Zhenyu	Supervisor representing Employees	865	1,262	–	94	2,221
GE Xiaobo	Person-in-charge of Accounting Affairs and Member of the Executive Committee, Chief Risk Management Officer	1,539	14,002	–	127	15,668
TANG Zhenyi	Former Member of the Executive Committee	2,864	2,831	–	143	5,838
MA Yao	Member of the Executive Committee	1,298	10,490	–	127	11,915
XUE Jirui	Member of the Executive Committee	1,539	9,100	–	127	10,766
YANG Bing	Member of the Executive Committee	1,538	7,574	–	127	9,239
LI Chunbo	Member of the Executive Committee	1,539	6,780	–	127	8,446
ZOU Yingguang	Member of the Executive Committee	1,539	2,500	–	127	4,166
LI Yongjin	Member of the Executive Committee	1,421	5,550	–	116	7,087
LI Jiong	Treasurer	1,535	5,208	–	127	6,870
SONG Qunli	Chief Engineer	1,419	2,100	–	118	3,637
ZHANG Hao	Chief Marketing Officer	1,587	6,160	–	50	7,797
CAI Jian	Former Chief Risk Management Officer	1,385	1,750	–	56	3,191
ZHANG Guoming	Compliance Officer	1,419	3,929	–	118	5,466
ZHENG Jing	Secretary to the Board, Company Secretary	1,061	2,436	–	103	3,600
SUN Yi	Senior Management Members	743	–	–	54	797
YE Xinjiang	Senior Management Members	255	–	–	16	271
		29,362	94,676	665	2,206	126,909

Note: Certain of these independent non-executive directors act as representative directors of the Company in the board of certain subsidiaries and they do not receive any directors' remuneration from these subsidiaries. Related amounts were received by the Company.

(In RMB thousands, unless otherwise stated)

12. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

During the year ended 31 December 2018, the Group's Non-executive Director Mr. KUANG Tao waived his remuneration arrangements. During the year ended December 2017, the Group's Non-executive Director Mr. CHEN Zhong waived his remuneration arrangements.

During the years ended 31 December 2018 and 2017, no special emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. There were no other retirement benefits for directors or supervisors.

During the years ended 31 December 2018 and 2017, there were no consideration provided to third parties for making available directors' or supervisor's services.

During the years ended 31 December 2018 and 2017, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year. In addition, the Group did not provide any the guarantees or securities to certain controlled body corporates and connected entities of the Directors or Supervisors in respect of their loan, quasi-loans or credit transactions.

				2017		
Name	Position	Salaries and allowances (1)	Discretionary bonuses (2)	Fees (3)	Contribution to retirement benefit schemes (4)	Total remuneration before tax (5)=(1)+(2)+(3)+(4)
ZHANG Youjun	Executive Director, Chairman and Member of the Executive Committee	2,374	3,000	–	157	5,531
YANG Minghui	Executive Director, President and Member of the Executive Committee	2,133	4,287	–	486	6,906
CHEN Zhong	Non-executive Director	–	–	–	–	–
LIU Ke	Independent Non-executive Director	–	–	162	–	162
HE Jia	Independent Non-executive Director	–	–	162	–	162
CHAN, Charles Sheung Wai	Independent Non-executive Director	–	–	159	–	159
LEI Yong	Supervisor representing Employees	1,031	2,367	–	97	3,495
GUO Zhao	Supervisor	–	–	100	–	100
RAO Geping	Supervisor	–	–	100	–	100
YANG Zhenyu	Supervisor representing Employees	851	899	–	89	1,839
GE Xiaobo	Person-in-charge of Accounting Affairs and Member of the Executive Committee	1,276	2,750	–	99	4,125
MA Yao	Member of the Executive Committee	255	–	–	21	276
XUE Jirui	Member of the Executive Committee	384	–	–	31	415
YANG Bing	Member of the Executive Committee	384	–	–	31	415
LI Chunbo	Member of the Executive Committee	255	–	–	21	276
ZOU Yingguang	Member of the Executive Committee	512	–	–	42	554
LI Yongjin	Member of the Executive Committee	308	–	–	33	341
LI Jiong	Treasurer	384	–	–	31	415
SONG Qunli	Chief Engineer	431	–	–	38	469
ZHANG Hao	Chief Marketing Officer	395	–	–	12	407

12. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' REMUNERATION (Continued)

		2017				
Name	Position	Salaries and allowances (1)	Discretionary bonuses (2)	Fees (3)	Contribution to retirement benefit schemes (4)	Total remuneration before tax (5)=(1)+(2)+(3)+(4)
ZHANG Guoming	Compliance Officer	1,293	1,975	–	104	3,372
CAI Jian	Chief Risk Management Officer	1,341	1,650	–	47	3,038
ZHENG Jing	Secretary to the Board, Company Secretary	988	1,924	–	92	3,004
YIN Ke	Former Executive Director	671	–	–	67	738
LI Fang	Former Supervisor and Chairman of the Supervisory Committee	1,533	3,300	–	110	4,943
		16,799	22,152	683	1,608	41,242

13. FIVE HIGHEST PAID EMPLOYEES

The Group's five highest paid employees during the year did not include directors and supervisors (2017: none). Details of the remuneration of the five (2017: five) non-director and non-supervisor highest paid employees for the year are as follows:

	2018	2017
Salaries, allowances and other benefits	**27,956**	101,248
Discretionary bonuses	**73,283**	69,541
Termination compensation	**–**	–
Total	**101,239**	170,789

The number of these individuals whose remuneration fell within the following bands is set out below:

	Number of employees	
	2018	2017
RMB17,000,001 to RMB18,000,000	**1**	–
RMB18,000,001 to RMB20,000,000	**2**	1
RMB20,000,001 to RMB25,000,000	**2**	–
RMB25,000,001 to RMB30,000,000	**–**	2
RMB40,000,001 to RMB50,000,000	**–**	2
Total	**5**	5

During the year of 2018, the emoluments paid by the Group to these non-director and non-supervisor individuals were based on the services provided to the Group by these individuals.

(In RMB thousands, unless otherwise stated)

14. IMPAIRMENT LOSSES ON ASSETS

	2017
Available-for-sale financial assets	478,162
Impairment losses of receivables and others	265,416
Margin accounts	103,597
Reverse repurchase agreements	437,460
Investments in associates and joint ventures	434,652
Others	1,473
Total	1,720,760

15. EXPECTED CREDIT LOSSES

	2018
Reverse repurchase agreements	**1,622,553**
Margin accounts	**58,452**
Financial assets at fair value through other comprehensive income (debt instruments)	**116,328**
Other assets	**389,440**
Total	**2,186,773**

16. IMPAIRMENT LOSSES ON OTHER ASSETS

	2018
Impairment losses on intangible assets	**2,605**
Others	**21,200**
Total	**23,805**

17. INCOME TAX EXPENSE

(a) Income tax

	2018	2017
Current income tax expense		
Mainland China	**3,401,646**	3,469,279
Outside Mainland China	**204,536**	143,566
Deferred income tax expense	**(1,017,039)**	583,466
Total	**2,589,143**	4,196,311

17. INCOME TAX EXPENSE (Continued)

(b) Reconciliation between income tax and accounting profit

The PRC income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries/regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	2018	2017
Profit before income tax	**12,465,571**	16,173,781
Tax at the PRC statutory income tax rate	**3,116,393**	4,043,445
Effects of different applicable rates of tax prevailing in various regions	**76,517**	(31,942)
Non-deductible expenses	**197,666**	125,844
Non-taxable income	**(689,394)**	(426,524)
Adjustments in respect of current and deferred income tax of prior years	**(109,290)**	(3,919)
Others	**(2,749)**	489,407
Tax expense at the Group's effective income tax rate	**2,589,143**	4,196,311

18. PROFIT ATTRIBUTABLE TO THE COMPANY

The consolidated profit attributable to the company for the year ended 31 December 2018 amounted to RMB8,214 million (2017: RMB8,624 million), which has been dealt with in the financial statements of the Company (Note 61).

19. DIVIDENDS

	2018	2017
Dividends on ordinary shares proposed but not paid	**4,240,918**	4,846,763
Dividends on ordinary shares paid	**4,846,763**	4,240,918

Dividends on ordinary shares proposed for approval were RMB0.35 yuan per share for the year ended 31 December 2018 (2017: RMB0.40 yuan per share).

Dividends proposed by the directors are not deducted from equity, until they have been approved by the shareholders in the general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

20. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT

The calculations of basic and diluted earnings per share are based on:

	2018	2017
Earnings:		
Profit attributable to Owners of the Parent	**9,389,896**	11,433,265
Shares:		
Weighted average number of ordinary shares in issue (thousand)	**12,116,908**	12,116,908
Basic and diluted earnings per share (in RMB yuan)	**0.77**	0.94

Basic earnings per share was calculated by dividing profit for the year attributable to Owners of the Parent by the weighted average number of ordinary shares outstanding.

There were no dilutive shares during the year ended 31 December 2018 (2017: None).

21. PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Communication equipment	Office equipment	Transportation vehicles	Security equipment	Electronic devices	Others	Subtotal	Construction in progress	Total
31 December 2018										
Cost										
31 December 2017	6,099,997	71,944	290,326	2,392,744	6,355	2,307,822	83,338	11,252,526	361,592	11,614,118
Increases	50,605	3,644	20,222	313	879	155,799	3,449	234,911	104,101	339,012
Decreases	(7,338)	(3,644)	(22,163)	(2,315)	(377)	(138,756)	(48,330)	(222,923)	(149,082)	(372,005)
Effect of exchange rate changes	3,839	1,752	1,650	112,116	—	47,971	2,324	169,652	—	169,652
31 December 2018	6,147,103	73,696	290,035	2,502,858	6,857	2,372,836	40,781	11,434,166	316,611	11,750,777
Accumulated depreciation										
31 December 2017	774,961	59,616	250,177	224,981	3,796	1,967,590	68,438	3,349,559	—	3,349,559
Increases	178,961	7,964	26,310	87,426	767	196,891	7,183	505,502	—	505,502
Decreases	(6,896)	(2,968)	(20,667)	(2,270)	(366)	(133,619)	(47,788)	(214,574)	—	(214,574)
Effect of exchange rate changes	3,381	1,716	1,458	11,426	—	43,887	2,189	64,057	—	64,057
31 December 2018	950,407	66,328	257,278	321,563	4,197	2,074,749	30,022	3,704,544	—	3,704,544
Allowances for impairment										
31 December 2017	—	—	—	—	—	—	—	—	—	—
Increases	—	—	—	—	—	—	—	—	—	—
Decreases	—	—	—	—	—	—	—	—	—	—
Effect of exchange rate changes	—	—	—	—	—	—	—	—	—	—
31 December 2018	—	—	—	—	—	—	—	—	—	—
Net carrying amount										
31 December 2018	5,196,696	7,368	32,757	2,181,295	2,660	298,087	10,759	7,729,622	316,611	8,046,233
31 December 2017	5,325,036	12,328	40,149	2,167,763	2,559	340,232	14,900	7,902,967	361,592	8,264,559

(In RMB thousands, unless otherwise stated)

21. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Properties and buildings	Communication equipment	Office equipment	Transportation vehicles	Security equipment	Electronic devices	Others	Subtotal	Construction in progress	Total
31 December 2017										
Cost										
31 December 2016	964,317	73,699	286,299	2,528,080	7,054	2,364,209	92,245	6,315,903	263,791	6,579,694
Increases	5,143,192	3,574	24,081	5,400	179	258,596	207	5,435,229	138,837	5,574,066
Decreases	(3,640)	(2,946)	(17,859)	(3,438)	(878)	(258,625)	(5,561)	(292,947)	(41,036)	(333,983)
Effect of exchange rate changes	(3,872)	(2,383)	(2,195)	(137,298)	–	(56,358)	(3,553)	(205,659)	–	(205,659)
31 December 2017	6,099,997	71,944	290,326	2,392,744	6,355	2,307,822	83,338	11,252,526	361,592	11,614,118
Accumulated depreciation										
31 December 2016	294,482	52,920	237,626	146,828	3,918	1,853,915	65,999	2,655,688	–	2,655,688
Increases	487,367	10,707	30,310	88,980	683	237,098	10,528	865,673	–	865,673
Decreases	(3,587)	(2,156)	(15,736)	(2,485)	(805)	(73,924)	(4,654)	(103,347)	–	(103,347)
Effect of exchange rate changes	(3,301)	(1,855)	(2,023)	(8,342)	–	(49,499)	(3,435)	(68,455)	–	(68,455)
31 December 2017	774,961	59,616	250,177	224,981	3,796	1,967,590	68,438	3,349,559	–	3,349,559
Allowances for impairment										
31 December 2016	–	–	239	–	–	506	–	745	–	745
Increases	–	–	–	–	–	–	–	–	–	–
Decreases	–	–	(239)	–	–	(506)	–	(745)	–	(745)
Effect of exchange rate changes	–	–	–	–	–	–	–	–	–	–
31 December 2017	–	–	–	–	–	–	–	–	–	–
Net carrying amount										
31 December 2017	5,325,036	12,328	40,149	2,167,763	2,559	340,232	14,900	7,902,967	361,592	8,264,559
31 December 2016	669,835	20,779	48,434	2,381,252	3,136	509,788	26,246	3,659,470	263,791	3,923,261

22. INVESTMENT PROPERTIES

31 December 2018	Properties and Buildings
Cost	
31 December 2017	**1,018,050**
Increases	**488,212**
Decreases	**–**
31 December 2018	**1,506,262**
Accumulated depreciation and amortisation	
31 December 2017	**146,496**
Increases	**27,258**
Decreases	**–**
31 December 2018	**173,754**
Allowances for impairment	
31 December 2017	**–**
Increases	**–**
Decreases	**–**
31 December 2018	**–**
Net carrying amount	
31 December 2018	**1,332,508**
31 December 2017	**871,554**

(In RMB thousands, unless otherwise stated)

22. INVESTMENT PROPERTIES (Continued)

31 December 2017	Properties and Buildings
Cost	
31 December 2016	115,972
Increases	902,078
Decreases	—
31 December 2017	1,018,050
Accumulated depreciation and amortisation	
31 December 2016	47,824
Increases	98,672
Decreases	—
31 December 2017	146,496
Allowances for impairment	
31 December 2016	—
Increases	—
Decreases	—
31 December 2017	—
Net carrying amount	
31 December 2017	871,554
31 December 2016	68,148

23. GOODWILL

	31 December 2018	2017
Carrying amount at the beginning of the year:		
Cost	**10,640,172**	10,787,650
Accumulated impairment	**359,235**	381,481
Net carrying amount	**10,280,937**	10,406,169
Movements during the year:		
Additions and effect of exchange rate changes	**244,750**	(147,478)
Impairment and effect of exchange rate changes	**18,192**	(22,246)
Carrying amount at the end of the year:		
Cost	**10,884,922**	10,640,172
Accumulated impairment	**377,427**	359,235
Net carrying amount	**10,507,495**	10,280,937

	31 December 2018	2017
China Asset Management Co., Ltd.	**7,418,587**	7,418,587
CITIC Securities International Co., Ltd.	**2,275,795**	2,097,112
CITIC Securities Overseas Investment Company Limited	**482,570**	434,695
CITIC Futures Co., Ltd.	**193,826**	193,826
CITIC Securities (Shandong) Co., Ltd.	**88,675**	88,675
CITIC Securities Company Limited	**43,500**	43,500
Xin Jiang Equity Exchange Centre Limited	**4,542**	4,542
Total	**10,507,495**	10,280,937

As at 31 December 2018, the net carrying amount of the goodwill arising from CITIC Securities International Co., Ltd's acquisition of CLSA was RMB2,020 million. (2017: RMB1,923 million).

As at 31 December 2018, the Management used the value in use approach ("VIU") to assess the recoverable amount by applying a discounted cash flow ("DCF") model. The primary valuation technique used in cash flow projections for China AMC and CLSA are based on operation plans of the Management and a risk adjusted discount rate. Cash flows beyond the forecast period have been extrapolated using a sustainable growth rate. Discount rates used by the Group range from 11.00% to 12.00% and growth rates, where applicable, range from 4.50% to 25.93%.

As at 31 December 2017, the Management used fair value less costs of disposal approach to calculate the recoverable amount of China AMC, The recoverable amount of CLSA was calculated base on the DCF model, discount rates used by Management was 12.00% and growth rates, where applicable, range from 2.60% to 14.20%.

Based on the estimated recoverable amounts, the Management believes that no provision for impairment of goodwill is required this year.

(In RMB thousands, unless otherwise stated)

24. LAND-USE RIGHTS AND INTANGIBLE ASSETS

	Seats on stock exchanges	Software development	Customer relationships	Trademarks	Land-use rights	Total
31 December 2018						
Cost						
31 December 2017	127,522	1,280,764	1,271,237	277,976	2,261,433	5,218,932
Increases	2,715	93,289	44,389	—	—	140,393
Decreases	—	(1,023)	—	—	—	(1,023)
Effect of exchange rate changes	2,289	28,549	57,949	14,057	—	102,844
31 December 2018	132,526	1,401,579	1,373,575	292,033	2,261,433	5,461,146
Accumulated amortisation						
31 December 2017	98,347	964,750	557,658	—	149,339	1,770,094
Increases	120	153,170	147,620	—	58,679	359,589
Decreases	—	(819)	—	—	—	(819)
Effect of exchange rate changes	1,419	26,485	30,988	—	—	58,892
31 December 2018	99,886	1,143,586	736,266	—	208,018	2,187,756
Allowance for impairment						
31 December 2017	1,506	—	—	—	—	1,506
Increases	—	2,606	—	—	—	2,606
Decreases	—	—	—	—	—	—
Effect of exchange rate changes	(10)	(135)	—	—	—	(145)
31 December 2018	1,496	2,471	—	—	—	3,967
Net carrying amount						
31 December 2018	31,144	255,522	637,309	292,033	2,053,415	3,269,423
31 December 2017	27,669	316,014	713,579	277,976	2,112,094	3,447,332

24. LAND-USE RIGHTS AND INTANGIBLE ASSETS (Continued)

	Seats on stock exchanges	Software development	Customer relationships	Trademarks	Land-use rights	Total
31 December 2017						
Cost						
31 December 2016	128,010	1,241,171	1,320,600	295,168	2,261,433	5,246,382
Increases	12	78,043	20,248	—	—	98,303
Decreases	(288)	(2,313)	—	(2)	—	(2,603)
Effect of exchange rate changes	(212)	(36,137)	(69,611)	(17,190)	—	(123,150)
31 December 2017	127,522	1,280,764	1,271,237	277,976	2,261,433	5,218,932
Accumulated amortisation						
31 December 2016	98,979	798,557	438,422	—	90,661	1,426,619
Increases	127	195,279	147,536	—	58,678	401,620
Decreases	(60)	(1,793)	—	—	—	(1,853)
Effect of exchange rate changes	(699)	(27,293)	(28,300)	—	—	(56,292)
31 December 2017	98,347	964,750	557,658	—	149,339	1,770,094
Allowance for impairment						
31 December 2016	—	184	—	—	—	184
Increases	1,473	—	—	—	—	1,473
Decreases	—	(184)	—	—	—	(184)
Effect of exchange rate changes	33	—	—	—	—	33
31 December 2017	1,506	—	—	—	—	1,506
Net carrying amount						
31 December 2017	27,669	316,014	713,579	277,976	2,112,094	3,447,332
31 December 2016	29,031	442,430	882,178	295,168	2,170,772	3,819,579

(In RMB thousands, unless otherwise stated)

24. LAND-USE RIGHTS AND INTANGIBLE ASSETS (Continued)

The Company and its wholly owned subsidiary GoldStone ZeXin Investment Management Co., Ltd. (hereinafter referred to as "GoldStone ZeXin") jointly bid for a piece of land-use right in Shenzhen in January 2014. GoldStone ZeXin is engaged in, among other business activities, real estate development. The Company and GoldStone ZeXin obtained the land-use right certificate in August 2015. GoldStone ZeXin obtained a bank loan in September 2015, which is secured over the land-use right held by the Company and GoldStone ZeXin and guaranteed by GoldStone Investment Co., Ltd., the holding company of GoldStone ZeXin.

The portion of the land-use right attributable to GoldStone ZeXin for real estate development is classified under Other Non-Current Assets (Note 32), and the portion attributable to the Company is classified under land-use rights.

25. INVESTMENTS IN SUBSIDIARIES

Company

	31 December 2018	2017
Unlisted shares, at cost	**32,045,836**	30,630,220

Particulars of the Company's principal subsidiaries are as follows:

(a) Principal subsidiaries acquired through establishment or investment

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
GoldStone Investment Co., Ltd. (金石投資有限公司)	Mainland China	RMB3 billion	Direct investment, investment advisory and management	RMB1.7 billion	100%	—
Qingdao GoldStone Storm Investment Consulting Company Limited (青島金石暴風投資諮詢有限公司)	Mainland China	RMB50.1 million	Investment management, advisory services	RMB50.1 million	—	100%
Shanghai CITIC GoldStone Equity Investment Management Company Limited (上海中信金石股權投資管理有限公司)	Mainland China	RMB15 million	Equity investment, advisory services	RMB15 million	—	100%
CITIC Buyout Fund Management Company Limited (中信併購基金管理有限公司)	Mainland China	RMB100 million	Investment management, advisory services	RMB100 million	—	100%
CITIC Buyout Investment Fund (Shenzhen) (Limited Partnership) (中信併購投資基金(深圳)合夥企業(有限合夥))	Mainland China	Not applicable	Investment, advisory services	RMB950.36 million	—	25.24% (i)
Qingdao GoldStone Runhui Investment Management Company Limited (青島金石潤匯投資管理有限公司)	Mainland China	RMB10.1 million	Investment management, advisory services, investment with self-owned capital	RMB10.1 million	—	100%

(i) According to the investment contract, the Company considers it has control over this entity.

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Principal subsidiaries acquired through establishment or investment (Continued)

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
Qingdao GoldStone Haorui Investment Company Limited (青島金石灝汭投資有限公司)	Mainland China	RMB805 million	Investment management, advisory services, investment with self-owned capital	RMB2,000 million	—	100%
Jinjin Investment (Tianjin) Co., Ltd. (金津投資(天津)有限公司)	Mainland China	RMB100 million	Investment	RMB500 million	—	100%
CITIC GoldStone Fund Management Company Limited (中信金石基金管理有限公司)	Mainland China	RMB100 million	Investment	RMB100 million	—	100%
GoldStone ZeXin Investment Management Co., Ltd. (金石澤信投資管理有限公司)	Mainland China	RMB1,000 million	Investment management, investment advisory, investment consultancy, fiduciary management, equity investment, fund, real estate.	RMB1,000 million	—	100%
Qingdao GoldStone Blue Ocean Investment Management Co., Ltd. (青島金石藍海投資管理有限公司)	Mainland China	RMB5 million	Investment	RMB0.3 million	—	100%
GoldStone Boxin Investment Management Co., Ltd. (金石博信投資管理有限公司)	Mainland China	RMB500 million	Investment	—	—	100%
Jinfeng (Shenzhen) Investment Co., Ltd. (金灃(深圳)投資有限公司)	Mainland China	RMB15 million	Investment management	RMB7.5 million	—	100%
Three Gorges GoldStone Investment Management Co., Ltd. (三峽金石投資管理有限公司)	Mainland China	RMB100 million	Investment management	RMB60 million	—	60%
Jinshi Fengrui Investment Management (Hangzhou) Co., Ltd (金石灃汭投資管理(杭州)有限公司)	Mainland China	RMB30 million	Investment management	—	—	100%
GoldStone Wutong (Hangzhou) Investment Management Co., Ltd (金石伍通(杭州)投資管理有限公司)	Mainland China	RMB100 million	Investment management	RMB10 million	—	100%

(In RMB thousands, unless otherwise stated)

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Principal subsidiaries acquired through establishment or investment (Continued)

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
GoldStone Biology Entrepreneurship (Suzhou) Co., Ltd (金石生物創業投資 (蘇州) 有限公司)	Mainland China	RMB10 million	Investment management	RMB6 million	—	60%
Shenzhen Jinshi Rongzhi Holding Investment Co., Ltd (深圳金石戎智股權投資管理有限公司)	Mainland China	RMB10 million	Investment management	RMB6 million	—	60%
Anhui Transport Control Jinshi Fund Management Co., Ltd (安徽交控金石基金管理有限公司)	Mainland China	RMB30 million	Investment fund management	RMB10.5 million	—	70%
Anhui Xinan M&A Fund Management Co., Ltd (安徽信安併購基金管理有限公司)	Mainland China	RMB120 million	Investment management	RMB4 million	—	80%
CITIC Securities Qingdao Training Centre (青島中信証券培訓中心)	Mainland China	RMB1 million	Business training	RMB1 million	70%	30%
CITIC Securities Investment Ltd. (中信証券投資有限公司)	Mainland China	RMB14 billion	Financial product investment, securities investment, equity investment	RMB14 billion	100%	—
CITIC Global Trade (Shanghai) Co., Ltd. (中信寰球商貿(上海)有限公司)	Mainland China	RMB500 million	Trade and trade agents, storage and their own equipment leasing	RMB400 million	—	100%
CITIC Securities (Qingdao) Training Centre Hotel Management Co., Ltd. (中信証券(青島)培訓中心酒店管理有限公司)	Mainland China	RMB10 million	Catering, accommodation, convention, exhibition	RMB2 million	—	100%
CITIC Securities Capital Management Co., Ltd (中信中證資本管理有限公司)	Mainland China	RMB500 million	Investment and asset management	RMB500 million	—	93.47%
CITIC Wings Asset Management Co., Ltd. (中信盈時資產管理有限公司)	Mainland China	RMB200 million	Asset management	RMB100 million	—	93.47%
CITIC Futures International Co., Ltd. (中信期貨國際有限公司)	Hong Kong	RMB300 million	Futures brokerage	RMB300 million	—	93.47%
Qingdao Jindingxin Micro Financing Co., Ltd. (青島金鼎信小額貸款股份有限公司)	Mainland China	RMB300 million	Micro financing	RMB300 million	—	100%
CITIC Securities Information and Quantitative Service (Shenzhen) Co., Ltd. (中信証券信息與量化服務(深圳)有限責任公司)	Mainland China	RMB10 million	Computer hardware and software technology development, technical consulting, technical services, system integration and sales, data processing (excluding restricted items)	RMB10 million	100%	—

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Principal subsidiaries acquired through establishment or investment (Continued)

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Indirect
Jintong Securities Co., Ltd. (金通證券有限責任公司)	Mainland China	RMB135 million	Securities brokerage	RMB35 million	100%	—
CITICS Investment Services Company Limited (中信中證投資服務有限責任公司)	Mainland China	RMB100 million	Investment management, advisory service, finance outsourcing service	RMB100 million	100%	—
China Wealth Investment management Limited Company (上海華夏財富投資管理有限公司)	Mainland China	RMB20 million	Asset management	RMB20 million	—	62.20%
CITIC Securities Overseas Investment Company Limited (中信証券海外投資有限公司)	Hong Kong	HK$0.01 million	Holding, investment	HK$0.01 million	100%	—
CITIC Securities International Co., Ltd. (中信証券國際有限公司)	Hong Kong	Not applicable	Holding, investment	HK$6,516.05 million	100%	—
Xin Jiang Equity Exchange Limited (新疆股權交易中心有限公司)	Mainland China	RMB110 million	Finance	RMB60 million	54.545%	—
Xin Jiang Micro-Financing Service Centre Co., Ltd. (新疆小微金融服務中心有限公司)	Mainland China	RMB1.82 million	Research development and consulting of financial products	RMB0.91 million	—	54.545%
CSIAMC Company Limited	Hong Kong	Not applicable	Investment service	HK$1	—	100%
CITIC Securities Finance 2013 Co., Ltd.	The British Virgin Islands	Not applicable	Bond issuance	US$1	—	100%
CITICS Global Absolute Return Fund	Cayman Islands	Not applicable	Offshore portfolio hedge fund, investment fund	US$97.09 million	94.77%	4.97%
CITICS Pan-Asian Multi-Strategy Fund	Cayman Islands	Not applicable	Offshore portfolio hedge fund, investment fund	US$1.34 million	100%	—
CITIC Securities Finance MTN Co., Ltd.	The British Virgin Islands	Not applicable	Bond issuance	US$1	—	100%
CITIC Securities Corporate Finance (HK) Limited	Hong Kong	Not applicable	Investment banking	HK$380 million	—	100%
CITIC Securities Regal Holding Limited	The British Virgin Islands	Not applicable	Holding company	US$1	—	100%
CSI Principal Investment Holding Limited	The British Virgin Islands	US$50 thousand	Holding company	US$1	—	100%
CLSA Europe B.V.	Netherlands	EUR750 thousand	Investment banking	US$6.82 million	—	100%

(In RMB thousands, unless otherwise stated)

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(b) Principal subsidiaries acquired from business combination

Name of subsidiaries	Place of incorporation/ registration and operations	Registered share capital	Principal activities	Amount invested by the company	Attributable equity interest Direct	Attributable equity interest Indirect
CITIC Securities (Shandong) Co., Ltd. (中信証券(山東)有限責任公司)	Mainland China	RMB2,500 million	Securities business	RMB1,151.94 million	100%	–
CITIC Futures Co., Ltd. (中信期貨有限公司)	Mainland China	RMB1,604.79 million	Futures brokerage, asset management, fund distribution	RMB1,503.03 million	93.47%	–
Jinshang (Tianjin) Investment Management Co., Ltd. (金尚(天津)投資管理有限公司)	Mainland China	RMB12.5 million	Investment management, advisory service	RMB18.59 million	–	100%
China Asset Management Co., Ltd. (華夏基金管理有限公司)	Mainland China	RMB238 million	Fund investment	RMB2,663.95 million	62.20%	–
China Asset Management (Hong Kong) Limited (華夏基金(香港)有限公司)	Hong Kong	HK$200 million	Asset management	HK$200 million	–	62.20%
China AMC Capital Management Limited (華夏資本管理有限公司)	Mainland China	RMB350 million	Asset management, financial advisory	RMB350 million	–	62.20%
CLSA B.V.(里昂證券)	Netherlands	Not applicable	Investment, holding	US$1,090.30 million	–	100%
KVB Kunlun Financial Group Limited (昆侖國際金融集團有限公司)	Cayman Island	Not applicable	Leveraged foreign exchange transactions and other transactions, cash transactions, other services	HK$780.2 million	–	59.03%
Tianjin Jingzheng Property Services Co., Limited (天津京證物業服務有限公司)	Mainland China	RMB0.3 million	Property management and leasing service	RMB336.86 million	100%	–
Tianjin Shenzheng Property Services Co., Limited (天津深證物業服務有限公司)	Mainland China	RMB0.3 million	Property management and leasing service	RMB244.87 million	100%	–
CSI Capricornus Limited	The British Virgin Islands	Not applicable	Investment, holding	–	–	100%

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(c) Net cash flows from acquisition of subsidiaries

	2018	2017
Total consideration	**(107,664)**	(581,729)
Cash and cash equivalents paid	**(107,664)**	(581,729)
Cash and cash equivalents in the subsidiaries acquired	**(10,273)**	208,072
Net cash (outflow)/inflow from acquisition of subsidiaries	**(97,391)**	(373,657)

(d) Non-cash financing activities

The Group had no significant non-cash financing activities, during the year ended 31 December 2018.

(e) Structured entities included in the consolidated financial statement

The Group acts as asset manager for or invested in a number of structured entities. Management makes significant judgment on whether the Group controls and therefore should consolidate these structured entities.

Management has determined that the Group had control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. 16 of the controlled structured entities have been consolidated as at 31 December 2018, of which 5 were consolidated by the Company and 11 were consolidated by the Company's wholly owned subsidiary CITIC Futures Co., Ltd. (22 structured entities were consolidated as at 31 December 2017, of which 6 were consolidated by the Company and 16 were consolidated by CITIC Futures Co., Ltd).

(In RMB thousands, unless otherwise stated)

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(e) Structured entities included in the consolidated financial statement (Continued)

The fair value and book value of identifiable assets and liabilities of the consolidated structured entities were as follows:

	Fair value as at 31 December 2018	**Book value as at 31 December 2018**
Current assets	**3,863,294**	**3,863,294**
Non-current assets	**36,045**	**36,045**
Total asset	**3,899,339**	**3,899,339**
Current liabilities	**132,303**	**132,303**
Non-current liabilities	**—**	**—**
Total liabilities	**132,303**	**132,303**

	Fair value as at 31 December 2017	Book value as at 31 December 2017
Current assets	2,900,100	2,900,100
Non-current assets	26,713	26,713
Total asset	2,926,813	2,926,813
Current liabilities	184,303	184,303
Non-current liabilities	—	—
Total liabilities	184,303	184,303

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(e) Structured entities included in the consolidated financial statement (Continued)

The operating results and cash flows of the consolidated structured entities for the year ended 31 December 2018 and 2017 included in the consolidated financial statements are as follows:

	2018	2017
Revenue	**46,093**	200,667
Profit for the year	**26,940**	27,275
Net (decrease)/increase in cash and cash equivalents	**(515,746)**	327,710

(f) Details of the Group's subsidiary with material non-controlling interests is set out below:

China Asset Management Co., Ltd.

	31 December	
	2018	2017
Percentage of equity interest held by non-controlling interests	**37.80%**	37.80%
Dividends paid to non-controlling interests	**165,880**	153,331
Accumulated balances of non-controlling interests	**3,061,515**	2,784,784
Profit for the year attributable to non-controlling interests	**430,928**	516,857

The following tables illustrate the summarised financial information of the above subsidiary:

	2018	2017
Revenue	**3,754,771**	4,260,726
Profit for the year	**1,140,022**	1,367,346
Total comprehensive income for the year	**1,170,929**	1,076,957
Net cash flows from operating activities	**438,550**	(161,726)
Net cash flows from investing activities	**(17,575)**	676,313
Net cash flows used in financing activities	**(438,836)**	(405,636)
Net increase in cash and cash equivalents	**8,361**	84,089

(In RMB thousands, unless otherwise stated)

25. INVESTMENTS IN SUBSIDIARIES (Continued)

(f) Details of the Group's subsidiary with material non-controlling interests is set out below: (Continued)

	31 December 2018	2017
Current assets	**9,470,685**	8,678,955
Non-current assets	**871,033**	785,281
Current liabilities	**1,678,386**	1,620,363
Non-current liabilities	**564,087**	476,720

As at 31 December 2018, there were no significant restrictions on the ability of the Group to access or use the assets and settle the liabilities of the Group's subsidiaries (2017: Nil).

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2018	2017
Associates	**8,638,309**	8,580,336
Joint ventures	**399,986**	5,212
Total	**9,038,295**	8,585,548

(a) Particulars of the Group's principal associates and joint ventures are as follows

Name	Place of incorporation/ registration	Registered share capital	Principal activities	Percentage of equity interest	Percentage of voting rights
Associates:					
CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司)	Mainland China	RMB1.8 billion	Investment fund management	35%	35%
Qingdao Blue Ocean Equity Exchange Limited (青島藍海股權交易中心有限責任公司)	Mainland China	RMB50 million	Equity trading	40%	40%
CSC Financial Co., Ltd. (中信建投證券股份有限公司)	Mainland China	RMB7,246.38 million	Securities brokerage, securities investment consulting	5.58%	5.58%
Beijing Agricultural Investment Fund (Limited Partnership) (北京農業產業投資基金(有限合夥))	Mainland China	RMB620 million	Investment	32.26%	32.26%

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(a) Particulars of the Group's principal associates and joint ventures are as follows (Continued)

Name	Place of incorporation/ registration	Registered share capital	Principal activities	Percentage of equity interest	Percentage of voting rights
Beijing GoldStone Agricultural Investment Fund Management Center (Limited Partnership) (北京金石農業投資基金管理中心(有限合夥))	Mainland China	RMB30 million	Fund management	33%	33%
Shenzhen Qianhai Zhongzheng Urban Development And Management Co., Ltd (深圳市前海中證城市發展管理有限公司)	Mainland China	RMB50 million	Investment management	35%	35%
Zhongzheng Fund Management Co., Ltd (中證基金管理有限公司)	Mainland China	RMB110 million	Investment management	29%	29%
Xinrong Customer Services Club Co., Ltd. (深圳市信融客戶服務俱樂部有限公司)	Mainland China	RMB10 million	Financial services	25%	25%
Qianhai Infrastructure Investments Fund Management Co., Ltd. (深圳前海基礎設施投資基金管理有限公司)	Mainland China	RMB300 million	Fund management	11.67%	11.67%(i)
Taifu GoldStone (Tianjin) Fund Management Co., Ltd. (泰富金石(天津)基金管理有限公司)	Mainland China	RMB50 million	Entrusted management of equity investment entities, investment management and relevant consulting services	40%	40%
Suning GoldStone (Tianjin) Fund Management Co., Ltd. (蘇寧金石(天津)基金管理有限公司)	Mainland China	RMB50 million	Entrusted management of equity investment entities, investment management and relevant consulting services	40%	40%
Xi'an Future Aerospace Industry Co., Ltd. (西安明日宇航工業有限責任公司)	Mainland China	RMB50 million	Aerospace components and ground equipment manufacturing, sheet metal components manufacturing	35%	35%
Sailing Capital International (Shanghai) Co., Ltd (賽領國際投資基金(上海)有限公司)	Mainland China	RMB9,010 million	RMB investment and loan fund	11.10%	11.10%(i)
Sailing Capital Management (Shanghai) Co., Ltd (賽領資本管理有限公司)	Mainland China	RMB280.5 million	Equity investment management	9.09%	9.09%(i)
CITIC POLY (Tianjin) Private Equity Fund Management Co., Ltd. (信保(天津)股權投資基金管理有限公司)	Mainland China	RMB100 million	Entrusted management of equity investment	40%	40%

(In RMB thousands, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(a) Particulars of the Group's principal associates and joint ventures are as follows (Continued)

Name	Place of incorporation/ registration	Registered share capital	Principal activities	Percentage of equity interest	Percentage of voting rights
CITIC PE Holdings Limited	The British Virgin Islands	HKD171.6 million	Investment holding	35%	Not applicable
Aria Investment Partners III, L.P.	Cayman Islands	Not applicable	Direct investment fund	15.35%	11.39%(i)
Aria Investment Partners IV, L.P.	Cayman Islands	Not applicable	Direct investment fund	39.24%	39.14%
Aria Investment Partners V, L.P.	Cayman Islands	Not applicable	Direct investment fund	45.53%	31.25%
Clean Resources Asia Growth Fund L.P.	Cayman Islands	Not applicable	Direct investment fund	17.59%	17.59%(i)
Fudo Capital L.P. II	Cayman Islands	Not applicable	Direct investment fund	6.13%	6.13%(i)
Fudo Capital L.P. III	Cayman Islands	Not applicable	Direct investment fund	5%	5%(i)
Sunrise Capital L.P. II	Cayman Islands	Not applicable	Direct investment fund	23.99%	23.99%
Sunrise Capital L.P. III	Cayman Islands	Not applicable	Direct investment fund	6.25%	6.25%(i)
CLSA Aviation Private Equity Fund I	Korea	US$58.28 thousand	Direct investment fund	6.86%	6.86%(i)
CLSA Aviation Private Equity Fund II	Korea	US$60.24 thousand	Direct investment fund	0.1%	0.08%(i)
CLSA Aviation II Investments (Cayman) Limited	Cayman Islands	US$50 thousand	Direct investment fund	12%	12.39%(i)
CT CLSA Holdings Limited	Sri Lanka	LKR500 Million	Investment holding	25%	25%
Pan Asia Realty Ltd.	Cayman Islands	US$1.7 million	Asset management	20%	20%
Holisol Logistics Private Ltd.	Cayman Islands	US$1	Asset management	20.31%	20.31%
CLSA Infrastructure Private Equity Fund	Korea	Not applicable	Asset management	0.2%	0.14%(i)
CSOBOR Fund, L.P.	Cayman Islands	US$52 million	Private equity	29.03%	33.33%
Kingvest Limited	Cayman Islands	JPY5 billion	Asset management	44.85%	45%
First Eastern CLSA Capital Limited	Dubai	US$10 million	Asset management	20%	20%
Joint ventures:					
CITIC Standard and Poor's Information Service (Beijing) Co., Ltd. (中信標普指數信息服務(北京)有限公司)	Mainland China	RMB8.027 million	Financial services	50%	50%
China Tourism Industry Fund Management Co., Ltd. (中國旅遊產業基金管理有限公司)	Mainland China	RMB100 million	Entrusted management of equity investment entities, investment management and relevant consulting services	50%	50%
Lending Ark Asia Secured Private Debt Fund I (Non-US).LP	Cayman Islands	Not applicable	Asset management	100%	100%
Double Nitrogen Fund GP Limited	Cayman Islands	US$100	Investment management	48%	50%(ii)
Lending Ark Asia Secured Private Debt	Cayman Islands	US$4	Asset management	50%	50%
Sino-Ocean Land Logistics Investment Management Limited	Cayman Islands	US$0.05 million	Investment management	50%	33.33%
CSOBOR Fund GP, Limited	Cayman Islands	US$52 million	Investment management	49%	33.33%
Platinum Property Management Limited	United Kingdom	GBP 100	Asset management	50%	Not applicable
Merchant Property Limited	Guernsey	Not applicable	Property investment	50%	50%

(i) The Group has a significant influence over these funds as it holds non-voting shares and also acts as the fund manager of these funds.

(ii) The Group has joint control over this entity with other parties through contractual arrangement.

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(b) The following table illustrates the summarised financial information of the Group's material associates

(i) CITIC Private Equity Funds Management Co., Ltd., as a major associate of the Group, is primarily engaged in investment fund management, and is accounted for using the equity method. The unaudited financial information is as follows:

	31 December 2018	31 December 2017
Current assets	**4,971,620**	7,103,766
Non-current assets	**15,646**	156,552
Current liabilities	**409,984**	1,214,543
Non-current liabilities	**179,357**	955,499

	2018	2017
Revenue	**700,689**	1,651,950
Profit from continuing operations	**343,875**	533,643
Total comprehensive income	**343,875**	533,643

(ii) CSC Financial Co., Ltd, as a major associate of the Group, is primarily engaged in securities brokerage and investment consulting, and is accounted for using the equity method. The financial information is as follows:

	31 December 2018	31 December 2017
Current assets	**181,704,480**	190,704,007
Non-current assets	**13,377,833**	15,179,385
Current liabilities	**109,221,546**	137,933,204
Non-current liabilities	**37,997,370**	23,951,410

	2018	2017
Revenue	**16,491,842**	16,421,395
Profit from continuing operations	**3,103,428**	4,061,647
Total comprehensive income	**3,432,288**	3,921,264

(In RMB thousands, unless otherwise stated)

26. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (Continued)

(b) The following table illustrates the summarised financial information of the Group's material associates (Continued)

(iii) Sailing Capital International (Shanghai) Co., Ltd, as a major associate of the Group, is primarily engaged in investment, investment management and consulting, and is accounted for using the equity method. The unaudited financial information is as follows:

	31 December 2018	31 December 2017
Current assets	**10,458,827**	9,722,916
Current liabilities	**4,406**	18,379
Non-current liabilities	**306,637**	277,360

	2018	2017
Revenue	**496,595**	393,956
Profit from continuing operations	**340,167**	280,313
Total comprehensive income	**340,167**	280,313

(c) The following table illustrates the aggregate unaudited financial information of the Group's associates and joint ventures that are not individually material.

	31 December 2018	31 December 2017
Profit from continuing operations	**409,297**	520,181
Other comprehensive income	**(282)**	—
Total comprehensive income	**409,015**	520,181

(d) As at 31 December 2018, there was no capital commitment to the associates and joint ventures (31 December 2017: Nil).

(e) There were no significant restrictions on the ability of the Group's associates and joint ventures to transfer funds to the Group in form of cash dividends or to repay any liability owed to the Group as at 31 December 2018 and 31 December 2017.

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-current

	31 December 2017
At fair value:	
Equity investments	892,472
Others (i)	17,392,240
At cost:	
Equity investments	10,838,149
	29,122,861
Less: loss allowance	928,144
Total	28,194,717
Analysed into:	
Listed	18,284,713
Unlisted	9,910,004
	28,194,717

(In RMB thousands, unless otherwise stated)

27. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Current

	31 December 2017
At fair value:	
Debt securities	14,192,714
Equity investments	10,122,252
Others	7,160,305
	31,475,271
Less: loss allowance	443,056
Total	31,032,215
Analysed into:	
Listed	23,121,939
Unlisted	7,910,276
	31,032,215

(i) As at 31 December 2017, others mainly included the investment portfolio, operated by China Securities Finance Corporation Limited ("**CSF**"), which was jointly invested by the Company and other securities companies. Under the investment agreement, the Company and other joint investors share the income/loss based on contribution proportion. The balances were reclassified to financial assets at fair value through other comprehensive income upon the adoption of IFRS 9 (see Note 28).

As at 31 December 2017, based on the investment report provided by CSF, the cost and fair value of the Company's investment managed by CSF was RMB15,675 million and RMB17,392 million, respectively.

See Note 5 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

28. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Non-current

	31 December 2018
Equity instruments (Designated)	
CSF No.1 investment(i)	15,310,637
Others	221,778
	15,532,415
Analyzed into:	
Listed	—
Unlisted	15,532,415
	15,532,415

Current

	31 December 2018
Debt instruments (Mandatory)	36,327,828
Analyzed into:	
Listed	36,327,828
Unlisted	—
	36,327,828
Loss allowance	145,846

(i) As at 31 December 2018, the balance represented the investment portfolio, operating by China Securities Finance Corporation Limited ("**CSF**"), reclassified from available-for-sale investment upon the adoption of IFRS 9 (see Note 27).

As at 31 December 2018, based on the investment report provided by CSF, the cost of the Company's investment managed by CSF was RMB15,675 million, while the fair value was RMB15,311 million.

(In RMB thousands, unless otherwise stated)

29. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017
Non-current	
Equity investments	8,133,723
Debt securities	50,776
Others	318,893
	8,503,392
Analysed into:	
Listed	1,764,874
Unlisted	6,738,518
	8,503,392
Current	
Equity investments	11,200,555
Others	1,010
	11,201,565
Analysed into:	
Listed	11,201,565
Unlisted	—
	11,201,565

See Note 5 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

30. REFUNDABLE DEPOSITS

	31 December	
	2018	2017
Trading deposits	**930,376**	838,330
Credit deposits	**157,765**	103,963
Performance bonds	**24,636**	30,117
Total	**1,112,777**	972,410

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets:	**Depreciation allowance**	**Fair value changes of financial instruments**	**Allowance for impairment losses**	**Salaries, bonuses, and allowances payable**	**Others**	**Total**
At 31 December 2017	**28,421**	**30,301**	**633,116**	**2,531,678**	**161,436**	**3,384,952**
Changes in accounting policy	**—**	**288,289**	**(237,824)**	**79,184**	**—**	**129,649**
At 1 January 2018	**28,421**	**318,590**	**395,292**	**2,610,862**	**161,436**	**3,514,601**
Credited/(debited) to the statement of profit or loss	**1,584**	**(115,602)**	**498,725**	**205,877**	**27,404**	**617,988**
Credited/(debited) to other comprehensive income	**(11,664)**	**90,704**	**—**	**(9,301)**	**20,698**	**90,437**
At 31 December 2018	**18,341**	**293,692**	**894,017**	**2,807,438**	**209,538**	**4,223,026**

Deferred income tax assets:	Depreciation allowance	Fair value changes of financial instruments	Allowance for impairment losses	Salaries, bonuses, and allowances payable	Others	Total
At 31 December 2016	40,560	1,567	706,049	1,907,088	155,589	2,810,853
Credited/(debited) to the statement of profit or loss	8,296	26,086	(72,933)	558,818	52,259	572,526
Credited/(debited) to other comprehensive income	(20,435)	2,648	—	65,772	(46,412)	1,573
At 31 December 2017	28,421	30,301	633,116	2,531,678	161,436	3,384,952

(In RMB thousands, unless otherwise stated)

31. DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

Deferred income tax liabilities:	**Amortisation allowance**	**Fair value changes of financial instruments**	**Others**	**Total**
At 31 December 2017	**353,036**	**1,454,756**	**824,419**	**2,632,211**
Changes in accounting policy	**—**	**103,677**	**—**	**103,677**
At 1 January 2018	**353,036**	**1,558,433**	**824,419**	**2,735,888**
Debited/(credited) to the statement of profit or loss	**(63,569)**	**(199,271)**	**(136,211)**	**(399,051)**
Debited/(credited) to other comprehensive income	**13,570**	**(384,896)**	**2,097**	**(369,229)**
At 31 December 2018	**303,037**	**974,266**	**690,305**	**1,967,608**

Deferred income tax liabilities:	Amortisation allowance	Fair value changes of financial instruments	Others	Total
At 31 December 2016	461,766	1,063,677	40,301	1,565,744
Debited/(credited) to the statement of profit or loss	(82,862)	461,026	777,828	1,155,992
Debited/(credited) to other comprehensive income	(25,868)	(69,947)	6,290	(89,525)
At 31 December 2017	353,036	1,454,756	824,419	2,632,211

32. OTHER NON-CURRENT ASSETS

	31 December	
	2018	2017
Project investment (Note 24)	**1,715,612**	1,681,981
Receivables and others	**2,333,571**	1,888,290
Total	**4,049,183**	3,570,271

33. MARGIN ACCOUNTS

	31 December 2018	2017
Margin accounts	**57,514,449**	74,286,226
Less: loss allowance	**316,635**	303,615
Total	**57,197,814**	73,982,611

Margin accounts are funds that the Group lends to its customers for margin financing business.

As at 31 December 2018, the Group received collateral with fair value amounted to RMB169,406 million (31 December 2017: RMB265,615 million), in connection with its margin financing business.

34. FINANCIAL ASSETS HELD FOR TRADING

	31 December 2017
Debt securities	88,149,340
Equity investments(i)	62,594,705
Others	7,704,501
Total	158,448,546
Analysed into:	
Listed	117,160,176
Unlisted	41,288,370
	158,448,546

(i) Included RMB72 million of securities lent to clients under securities lending arrangements as at 31 December 2017.

See Note 5 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	
	Current	Non-current
Mandatory		
Debt instruments	149,131,770	40,000
Equity instruments[(i)]	44,351,654	18,285,180
Others	30,743,767	3,693,509
Subtotal	224,227,191	22,018,689
Designated		
Equity instruments	647,889	543,305
Total	224,875,080	22,561,994
Mandatory		
Analyzed into:		
Listed	179,862,349	1,170,684
Unlisted	44,364,842	20,848,005
	224,227,191	22,018,689
Designated		
Analyzed into:		
Listed	81,341	543,305
Unlisted	566,548	—
	647,889	543,305
Total	224,875,080	22,561,994

(i) Included RMB538 million of securities lent to clients under securities lending arrangements in current equity instruments as at 31 December 2018.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	31 December 2018		31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	4,891,535	4,989,224	746,452	781,057
Currency derivatives	439,709	366,690	1,047,267	872,325
Equity derivatives	5,632,099	3,384,686	3,646,258	9,020,173
Credit derivatives	292,442	312,918	257,402	30,796
Others	132,317	258,381	203,416	2,596,880
Total	11,388,102	9,311,899	5,900,795	13,301,231

36. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Under the "Daily Mark-to-Market and Settlement Arrangement", the Group's future contracts were settled daily and the amount of mark-to-market gain or loss of those unexpired future contracts is reflected in profit or loss and not included in derivative financial instruments above. The corresponding payments or receipts are reflected in "cash and bank balances. As at 31 December 2018, the fair value of those unexpired daily settled future contracts was a loss of RMB143 million (31 December 2017: gain of RMB13 million).

37. REVERSE REPURCHASE AGREEMENTS

	31 December	
	2018	2017
Analysed by collateral:		
Stocks	**38,599,288**	78,391,278
Debts	**30,633,645**	36,725,179
Others	**103,354**	32,158
Less: loss allowance	**1,965,846**	556,585
Total	**67,370,441**	114,592,030
Analysed by business		
Stock repo	**140,882**	357,027
Pledged repo(i)	**56,140,512**	81,457,069
Outright repo	**12,951,539**	33,302,361
Others	**103,354**	32,158
Less: loss allowance	**1,965,846**	556,585
Total	**67,370,441**	114,592,030
Analysed by counterparty:		
Banks	**6,548,276**	11,440,867
Non-bank financial institutions	**5,845,492**	5,176,568
Others	**56,942,519**	98,531,180
Less: loss allowance	**1,965,846**	556,585
Total	**67,370,441**	114,592,030

(i) As at 31 December 2018, included stock-pledged repo amounted to RMB38,478 million (31 December 2017: RMB78,034 million).

As at 31 December 2018, the Group received collateral amounted to RMB108,898 million (31 December 2017: RMB222,734 million), in connection with its reverse repurchase agreements.

As part of the reverse repurchase agreements, the Group received securities allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

As at 31 December 2018, the amount of the above collateral allowed to be re-pledged was RMB9,501 million (31 December 2017: RMB31,668 million), and the amount of the collateral re-pledged was RMB9,170 million (31 December 2017: RMB21,661 million).

(In RMB thousands, unless otherwise stated)

38. OTHER CURRENT ASSETS

	31 December 2018	2017
Brokerage accounts due from clients	**13,932,585**	10,207,169
Accounts due from brokers	**4,769,314**	3,414,712
Settlement deposits receivable	**3,908,535**	2,623,354
Deferred expenses	**213,981**	163,535
Interest receivable	**95,678**	3,368,327
Dividends receivable	**2,443**	3,283
Bulk commodity trading inventory and others	**8,989,421**	7,039,921
Subtotal	**31,911,957**	26,820,301
Less: loss allowance	**1,656,563**	655,767
Total	**30,255,394**	26,164,534

39. CASH HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of customers and the corresponding liabilities as customer brokerage deposits (Note 41). In the PRC, the use of cash held on behalf of customers for security and the settlement of their transactions is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" together with the related provisions of the Securities and Futures Ordinance impose similar restrictions. In other countries and regions, cash held on behalf of customers is supervised by relevant authorities.

40. CASH AND BANK BALANCES

	31 December 2018	2017
Cash on hand	**369**	266
Deposits in banks	**52,226,236**	34,302,875
Total	**52,226,605**	34,303,141

As at 31 December 2018, the Group had restricted funds of RMB4,310 million (31 December 2017: RMB3,364 million).

41. CUSTOMER BROKERAGE DEPOSITS

	31 December 2018	2017
Customer brokerage deposits	**97,773,997**	99,854,891

Customer brokerage deposits represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage activities. For more details, please refer to Note 39 "Cash held on behalf of customers".

42. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018 Current	Non-current
Financial liabilities held for trading		
Debt instruments	**5,994,425**	**—**
Equity investments	**1,457,589**	**—**
Subtotal	**7,452,014**	**—**
Financial liabilities designated as at fair value through profit or loss		
Equity linked notes and others	**—**	**8,765,605**
Minority interests of consolidated structured entities	**402,854**	**—**
Structured notes and others	**31,025,366**	**—**
Subtotal	**31,428,220**	**8,765,605**
Total	**38,880,234**	**8,765,605**

As at 31 December 2018, there were no significant fair value changes related to the changes in the credit risk of the Group.

(In RMB thousands, unless otherwise stated)

42. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

	31 December 2017	
	Current	Non-current
Financial liabilities held for trading		
Debt instruments	7,175,335	—
Equity investments	989,779	—
Subtotal	8,165,114	—
Financial liabilities designated as at fair value through profit or loss		
Equity linked notes and others	—	461,417
Minority interests of consolidated structured entities	1,257,814	—
Structured notes and others	36,567,425	—
Subtotal	37,825,239	461,417
Total	45,990,353	461,417

43. REPURCHASE AGREEMENTS

	31 December	
	2018	2017
Analysed by collateral:		
Equity	**1,410,646**	2,147,587
Debts	**98,234,574**	71,644,776
Gold	**1,649,094**	19,871,472
Others	**20,374,713**	17,956,092
Total	**121,669,027**	111,619,927
Analysed by counterparty:		
Banks	**37,463,246**	51,387,558
Non-bank financial institutions	**6,427,323**	16,838,217
Others	**77,778,458**	43,394,152
Total	**121,669,027**	111,619,927

As at 31 December 2018, the Group's pledged collateral in connection with its repurchase financing business amounted to RMB129,076 million (31 December 2017: RMB126,074 million).

44. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	2017
Due to banks	**16,312,467**	9,835,000
Due to China Securities Finance Corporation Limited	**3,002,400**	—
Total	**19,314,867**	9,835,000

45. TAXES PAYABLE

	31 December 2018	2017
Enterprise income tax	**2,353,702**	1,205,066
Individual income tax	**225,683**	414,984
Value added tax	**253,143**	128,160
Business tax	**6,698**	9,994
Others	**33,772**	35,172
Total	**2,872,998**	1,793,376

46. SHORT-TERM LOANS

	31 December 2018	2017
Analysed by nature:		
Credit loans	**4,915,067**	5,456,469
Collateralised loans	**741,643**	534,982
Total	**5,656,710**	5,991,451
Analysed by maturity:		
Maturity within one year	**5,656,710**	5,991,451

As at 31 December 2018, the annual interest rates on the short-term loans were in the range of 1.70% to 5.70% (31 December 2017: 1.71% to 3.00%). As at 31 December 2018, the book value of the collateral was RMB2,202 million (31 December 2017: RMB2,239 million).

(In RMB thousands, unless otherwise stated)

47. SHORT-TERM FINANCING INSTRUMENTS PAYABLE

2018

Name	Issue date	Maturity date	Coupon rate	Opening balance	Increase	Decrease	Ending balance
17 CITIC 01	11/08/2017	11/08/2018	4.60%	4,580,936	126,632	4,707,568	—
17 CITIC 02	12/09/2017	12/09/2018	4.84%	6,088,066	203,131	6,291,197	—
18 CITIC CP001	19/01/2018	20/04/2018	4.70%	—	2,048,078	2,048,078	—
18 CITIC CP002	07/02/2018	09/05/2018	4.60%	—	3,069,831	3,069,831	—
18 CITIC CP003	05/03/2018	04/06/2018	4.60%	—	4,047,704	4,047,704	—
18 CITIC CP004	04/04/2018	04/07/2018	4.11%	—	4,042,854	4,042,854	—
18 CITIC CP005BC	08/06/2018	07/09/2018	4.38%	—	4,045,035	4,045,035	—
18 CITIC CP006BC	12/07/2018	11/10/2018	3.50%	—	3,027,198	3,027,198	—
18 CITIC CP007BC	07/08/2018	06/11/2018	2.68%	—	4,028,081	4,028,081	—
18 CITIC CP008	13/09/2018	13/12/2018	2.83%	—	4,028,823	4,028,823	—
18 CITIC CP009	22/10/2018	18/01/2019	3.30%	—	5,032,690	737	5,031,953
18 CITIC CP010BC	13/11/2018	12/02/2019	3.20%	—	3,013,132	454	3,012,678
18 CITIC CP011	07/12/2018	08/03/2019	3.15%	—	2,004,398	302	2,004,096
18 CS 05	30/10/2018	18/04/2019	3.50%	—	1,509,104	114	1,508,990
18 CS 06	30/10/2018	27/07/2019	3.70%	—	1,509,599	87	1,509,512
	04/01/2017	02/01/2018	2.15%				
Structured notes	-28/12/2018	-22/07/2019	-5.45%	22,868,837	34,987,510	52,864,231	4,992,116
Total				33,537,839	76,723,800	92,202,294	18,059,345

2017

Name	Issue date	Maturity date	Coupon rate	Opening balance	Increase	Decrease	Ending balance
16 CITIC 01	27/10/2016	27/04/2017	3.10%	1,999,638	362	2,000,000	—
17 CITIC 01	11/08/2017	11/08/2018	4.60%	—	4,581,199	263	4,580,936
17 CITIC 02	12/09/2017	12/09/2018	4.84%	—	6,088,416	350	6,088,066
Structured notes	05/01/2016	04/01/2017	2.60%				
	-29/12/2017	-13/12/2018	-5.20%	19,346,592	102,453,711	98,931,466	22,868,837
Total				21,346,230	113,123,688	100,932,079	33,537,839

As at 31 December 2018, short-term financing instruments payable comprised of short-term corporate bonds and structured notes with an original tenor of less than one year.

As at 31 December 2018, there was no default related to any short-term financing instruments payable issued (31 December 2017: Nil).

48. OTHER CURRENT LIABILITIES

	31 December 2018	2017
Settlement deposits payable	**28,341,767**	13,060,544
Salaries, bonuses and allowances payable	**12,093,994**	11,599,264
Debt instruments issued due within one year and others (Notes 49 (a)(v)(vi)(viii)(ix)(xvi))	**29,071,008**	28,615,318
Amounts due to brokers	**7,207,833**	6,780,060
Interest payable	**19,999**	3,031,684
Accrued liabilities (i)	**6,485**	442,152
Fee and commissions payable	**321,895**	290,495
Funds payable to securities holders	**166,720**	168,374
Funds payable to securities issuers	**147,507**	60,687
Dividends payable	**2,049**	2,049
Others	**4,634,185**	3,719,737
Total	**82,013,442**	67,770,364

(i) The Company made a provision of RMB436 million on a conservative basis with reference to the margin trading accounts being inspected during the investigation by CSRC in 2015. In May 2017, the Company received CSRC's Advanced Notice of Administrative Penalty, confiscating related illegal earnings of RMB62 million and imposing a fine of RMB308 million, totaling RMB370 million.

The Company received CSRC's Notice of Closing the Case (Jie An Zi[2018] No.18) on 5 November 2018 on this event, which mentioned after trial, the CSRC decided to close the case because it believed that the company's illegal facts were not valid. The company reversed the provision in full accordingly.

49. DEBT INSTRUMENTS ISSUED

By category		31 December 2018	2017
Bonds and medium term notes issued	(a)	**85,960,063**	75,694,005
Structured notes issued	(b)	**2,097,307**	1,947,628
		88,057,370	77,641,633

By maturity	31 December 2018	2017
Maturity within five years	**85,491,624**	63,160,758
Maturity over five years	**2,565,746**	14,480,875
	88,057,370	77,641,633

As at 31 December 2018, there was no default related to any issued debt instruments (31 December 2017: Nil).

(In RMB thousands, unless otherwise stated)

49. DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued

		31 December 2018	2017
Item			
06 CITICS Bond	(i)	**1,537,551**	1,500,000
13 CITICS 02	(ii)	**12,329,935**	11,981,578
15 CITICS 01	(iii)	**5,631,152**	5,499,105
15 CITICS 02	(iv)	**2,565,746**	2,499,297
CITIC SEC N1910	(v)	**—**	4,238,222
16 CITICS G1	(vi)	**—**	12,499,104
16 CITICS G2	(vii)	**2,510,317**	2,499,866
17 CITICS 03	(viii)	**—**	1,999,879
17 CITICS 04	(ix)	**—**	999,930
17 CITICS C1	(x)	**2,061,510**	1,999,583
17 CITICS C2	(xi)	**2,373,696**	2,299,859
17 CITICS C3	(xii)	**807,368**	799,927
17 CITICS C4	(xiii)	**4,946,919**	4,899,628
17 CITICS G1	(xiv)	**10,365,438**	9,999,113
17 CITICS G2	(xv)	**2,076,580**	1,999,885
17 CITICS G3	(xvi)	**—**	2,392,398
17 CITICS G4	(xvii)	**2,407,353**	2,393,230
18 CITICS 01	(xviii)	**4,972,303**	—
18 CITICS 02	(xix)	**2,582,070**	—
18 CITICS G1	(xx)	**1,764,755**	—
18 CS 03	(xxi)	**3,083,239**	—
18 CS 04	(xxii)	**4,092,277**	—
18 CS C1	(xxiii)	**5,036,061**	—
18 CS C2	(xxiv)	**4,019,026**	—
18 CS G1	(xxv)	**2,457,000**	—
18 CS G2	(xxvi)	**616,487**	—
CITIC SEC N2204	(v)	**3,433,549**	3,242,260
CITIC SEC N2004	(v)	**2,064,771**	1,951,141
CITIC SEC N2112	(v)	**2,052,435**	—
KVBFG-Convertible Bond	(xxvii)	**172,525**	—
Carrying amount		**85,960,063**	75,694,005

(i) Pursuant to the approval by the CSRC, the Company issued a 15-year bond with a face value of RMB1.50 billion from 25 May to 2 June 2006, which was guaranteed by CITIC Corporation Limited. The coupon rate of the bond is 4.25% and the maturity date is 31 May 2021.

(ii) Pursuant to the approval by the CSRC, the Company issued a 10-year unguaranteed bond with a face value of RMB12.00 billion from 7 June 2013 to 14 June 2013. The coupon rate of the bond is 5.05% and the maturity date is 7 June 2023.

(iii) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB5.50 billion from 24 June 2015 to 25 June 2015. The coupon rate of the bond is 4.60% and the maturity date is 25 June 2020.

49. DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued (Continued)

(iv) Pursuant to the approval of the CSRC, the Company issued a 10-year unguaranteed bond with a face value of RMB2.50 billion from 24 June 2015 to 25 June 2015. The coupon rate of the bond is 5.10% and the maturity date is 25 June 2025.

(v) Pursuant to the resolution of re-Authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of relevant regulator, CITIC Securities Finance MTN Co., Ltd. established a USD 3.00 billion (or other equivalents) Medium Term Note Programme on 17 October 2014. During the year of 2014, CITIC Securities Finance MTN Co., Ltd. had its first drawdown under the Programme to issue notes with a face value of USD 0.65 billion. During the year of 2015, CITIC Securities Finance MTN Co., Ltd. had eight drawdowns under the Programme to issue notes with an aggregated face value of USD 439.68 million, which were at maturity and paid off in the year. CITIC Securities Finance MTN Co., Ltd. had two further drawdowns under the Programme to issue notes with the face value of USD 0.50 billion and USD 0.30 billion on 11 April 2017. From 18 April 2018 to 10 December 2018, CITIC Securities Finance MTN Co., Ltd. had five additional drawdowns under the Programme to issue notes with an aggregated face value of USD729.20 million, of which USD229.20 million were at maturity and paid off in the year. These Medium Term Notes are guaranteed by the Company with no counter-guarantee arrangement. As at 31 December 2018, the bond CITIC SEC N1910 was presented as debt instruments issued due within one year and others (Note 48).

(vi) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB12.50 billion from 16 November 2016 to 17 November 2016. The coupon rate of the bond is 3.26% and the maturity date is 17 November 2019. As at 31 December 2018, the bond was presented as debt instruments issued due within one year and others (Note 48).

(vii) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB2.50 billion from 16 November 2016 to 17 November 2016. The coupon rate of the bond is 3.38% and the maturity date is 17 November 2021.

(viii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2014 and approval of relevant regulator, the Company issued a 2-year unguaranteed subordinated redeemable bond with a face value of RMB2.00 billion on 11 September 2017. The coupon rate of the bond is 4.97% and the maturity date is 12 September 2019. As at 31 December 2018, the bond was presented debt instruments issued due within one year and others (Note 48).

(ix) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2016 and approval of relevant regulator, the Company issued a 2-year unguaranteed subordinated redeemable bond with a face value of RMB1.00 billion on 14 December 2017. The coupon rate of the bond is 5.50% and the maturity date is 15 December 2019. As at 31 December 2018, the bond was presented as debt instruments issued due within one year and others (Note 48).

(x) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of relevant regulator, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB2.00 billion on 24 May 2017. The coupon rate of the bond is 5.10% and the maturity date is 25 May 2020.

(xi) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of relevant regulator, the Company issued a 5-year unguaranteed subordinated redeemable bond with a face value of RMB2.30 billion on 24 May 2017. The coupon rate of the bond is 5.30% and the maturity date is 25 May 2022.

(xii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of relevant regulator, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB0.80 billion on 25 October 2017. The coupon rate of the bond is 5.05% and the maturity date is 26 October 2020.

(xiii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2013 and approval of relevant regulator, the Company issued a 5-year unguaranteed subordinated redeemable bond with a face value of RMB4.90 billion on 25 October 2017. The coupon rate of the bond is 5.25% and the maturity date is 26 October 2022.

(xiv) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB10.00 billion from 16 February 2017 to 17 February 2017. The coupon rate of the bond is 4.20% and the maturity date is 17 February 2020.

(xv) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB2.00 billion from 16 February 2017 to 17 February 2017. The coupon rate of the bond is 4.40% and the maturity date is 17 February 2022.

(xvi) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB2.40 billion from 27 November 2017 to 28 November 2017. The coupon rate of the bond is 5.25% and the maturity date is 28 November 2019. As at 31 December 2018, the bond was presented as debt instruments issued due within one year and others (Note 48).

49. DEBT INSTRUMENTS ISSUED (Continued)

(a) Bonds and medium term notes issued (Continued)

(xvii) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB2.40 billion from 27 November 2017 to 28 November 2017. The coupon rate of the bond is 5.33% and the maturity date is 28 November 2020.

(xviii) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB4.80 billion from 13 April 2018 to 16 April 2018. The coupon rate of the bond is 5.05% and the maturity date is 16 April 2020.

(xix) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB2.50 billion from 9 May 2018 to 10 May 2018. The coupon rate of the bond is 5.09% and the maturity date is 10 May 2021.

(xx) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB1.70 billion from 16 March 2018 to 20 March 2018. The coupon rate of the bond is 5.14% and the maturity date is 20 March 2021.

(xxi) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB3.00 billion from 14 June 2018 to 15 June 2018. The coupon rate of the bond is 5.10% and the maturity date is 15 June 2020.

(xxii) Pursuant to the approval of the CSRC, the Company issued a 2-year unguaranteed bond with a face value of RMB4.00 billion from 6 July 2018 to 9 July 2018. The coupon rate of the bond is 4.80% and the maturity date is 9 July 2020.

(xxiii) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2016 and approval of relevant regulator, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB5.00 billion from 17 October 2018 to 19 October 2018. The coupon rate of the bond is 4.48% and the maturity date is 19 October 2021.

(xxiv) Pursuant to the resolution of re-authorizing on Issuance of Onshore and Offshore Corporate Debt Financing Instruments approved by General Shareholders' Meeting in 2016 and approval of relevant regulator, the Company issued a 3-year unguaranteed subordinated redeemable bond with a face value of RMB4.00 billion from 5 November 2018 to 7 November 2018. The coupon rate of the bond is 4.40% and the maturity date is 7 November 2021.

(xxv) Pursuant to the approval of the CSRC, the Company issued a 3-year unguaranteed bond with a face value of RMB2.40 billion from 13 June 2018 to 15 June 2018. The coupon rate of the bond is 4.80% and the maturity date is 15 June 2021.

(xxvi) Pursuant to the approval of the CSRC, the Company issued a 5-year unguaranteed bond with a face value of RMB0.60 billion from 13 June 2018 to 15 June 2018. The coupon rate of the bond is 4.90% and the maturity date is 15 June 2023.

(xxvii) Pursuant to the approval of the relevant regulator authorities, the subsidiary KVB Kunlun Financial Group Ltd. (the "KVBFG") issued convertible bonds on 12 February 2018 in the total principal amount of HKD200.00 million at 100.00% face value, which may be converted into 326,264,273 conversion shares at the conversion price of HKD0.61 per conversion share (subject to adjustment). And maturity date is the second anniversary of the issue date. The Company may extend the maturity date for a further term of one year from the initial maturity date by giving notice in writing to all of the bondholder(s) on or before the maturity date and with the prior written consent from bondholder(s) of not less than 50.00% of the aggregate principal amount of bonds outstanding. The coupon rate of the bond is 7.50% per annum (or 12.00% per annum where the maturity date is extended pursuant to the bond conditions).

Unless previously redeemed/converted/purchased and cancelled as provided in the bond conditions, on the maturity date, the Company shall redeem 100.00% of the outstanding principal amount of the bonds together with an internal rate of return of 7.50% per annum from and including the issue date but excluding the actual date of redemption, inclusive of any coupon paid or payable on the relevant portion of the bonds.

Where the maturity date is extended pursuant to the bond conditions, the Company shall redeem 100.00% of the outstanding principal amount of the bonds together with an internal rate of return of 12.00% per annum from and including the issue date but excluding the actual date of redemption, inclusive of any coupon paid or payable on the relevant portion of the bonds.

(b) Structured notes issued

As at 31 December 2018, the structured notes issued by the Group amounted to RMB2,097 million (31 December 2017: RMB1,948 million) were with remaining tenant greater than one year and coupon rates ranging from 2.90% to 4.80% (31 December 2017: 3.10% to 4.60%).

50. LONG-TERM LOANS

	31 December 2018	2017
Analysed by nature:		
Credit loans	**7,802**	533,000
Collateralised loans	**945,427**	551,900
Total	**953,229**	1,084,900
Analysed by maturity:		
Maturity within five years	**953,229**	1,084,900

As at 31 December 2018, the interest rates on the long-term loans were in the range of 2.00% to 10.00% (31 December 2017: 4.60% to 5.00%). As at 31 December 2018, the book value of the collateral was RMB4,144 million (31 December 2017: RMB3,935 million).

51. OTHER NON-CURRENT LIABILITIES

	31 December 2018	2017
Regulatory risk provision payables	**561,030**	473,632
Others	**443,860**	443,860
Total	**1,004,890**	917,492

52. ISSUED SHARE CAPITAL

	31 December			
	2018		2017	
Ordinary Shares	**Number of shares (Thousand)**	**Nominal Value**	Number of shares (Thousand)	Nominal Value
Registered, issued and fully paid:				
A shares of RMB1 each	**9,838,580**	**9,838,580**	9,838,580	9,838,580
H shares of RMB1 each	**2,278,328**	**2,278,328**	2,278,328	2,278,328
Total	**12,116,908**	**12,116,908**	12,116,908	12,116,908

53. RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(a) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserves

(i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalisation is not less than 25% of the registered capital immediately before capitalisation.

As at 31 December 2018, the Company did not need to appropriate any statutory surplus reserve as such reserve balance reached 50% of it's registered capital.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve and other non-discretionary surplus reserves, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards, to its discretionary surplus reserve upon approval by the General Shareholders' Meeting. Subject to the approval of General Shareholders' Meeting, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

(c) General reserves

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. General reserves also include reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside of Mainland China in accordance with the regulatory requirements in their respective territories are also included herein. These regulatory reserves are not available for distribution.

(d) Investment revaluation reserve

Investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income (2017: Fair value changes of available-for-sale financial assets).

(e) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(f) Distributable profits

The Company's distributable profits are based on the retained earnings of the Company as determined under China Accounting Standards and IFRSs, whichever is lower.

54. CASH AND CASH EQUIVALENTS

	31 December 2018	2017
Cash and bank balances	**52,226,605**	34,303,141
Less: Restricted funds (Note 40)	**4,310,403**	3,364,186
Interest receivable	**340,898**	
Cash and cash equivalents	**47,575,304**	30,938,955

55. INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments and asset management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in these unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group:

Unconsolidated structured entities sponsored by the Group mainly include investment funds and asset management plans sponsored by the Group. The nature and objective of the structured entities is to manage investors' assets and collect management fees. Financing is sustained through investment products issued to investors. The interests held by the Group in these unconsolidated structured entities mainly involve management fees and performance fees collected from managed structured entities.

In addition, the Group also held certain interests in structured entities sponsored by the Group. In 2018, the Group obtained management fee, commission and performance fee amounting to RMB3,394 million during the period ended 31 December 2018 from the unconsolidated structured entities sponsored by the Group, for which the Group held no investment in as at 31 December 2018 (2017: RMB2,898 million).

The maximum exposure and the book value of relevant balance sheet items of the Group arising from these unconsolidated structured entities sponsored by the Group were set out as below:

	31 December 2018 Carrying amount	31 December 2018 Maximum exposure
Financial assets at fair value through profit or loss (Mandatory)	**8,528,951**	**8,528,951**

55. INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

Structured entities sponsored by third party financial institutions:

The maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities that are sponsored by third party financial institutions were set out as below:

	31 December 2018	
	Carrying amount	**Maximum exposure**
Financial assets at fair value through profit or loss (Mandatory)	**13,772,597**	**13,772,597**

56. TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements. The counterparties are allowed to repledge those securities sold under repurchase agreements in the absence of default by the Group, but has an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return a portion of the collateral or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them. A financial liability is recognised for cash received.

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances require customers to return a portion of the collateral or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognise them.

56. TRANSFERRED FINANCIAL ASSETS (Continued)

Securities lending arrangements (Continued)

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2018		31 December 2017	
	Carrying amount of transferred assets	**Carrying amount of related liabilities**	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	**3,661,525**	**3,500,018**	15,010,137	14,886,155
Securities lending	**537,652**	**—**	71,777	—
Total	**4,199,177**	**3,500,018**	15,081,914	14,886,155

57. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

	31 December 2018	2017
Contracted, but not provided for	**217,721**	189,448

The above-mentioned capital commitments are mainly in respect of the construction of properties and purchase of equipment of the Group.

(In RMB thousands, unless otherwise stated)

57. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Operating lease commitments

(i) Operating lease commitments — as a lessee

At the end of the reporting year, the Group leased certain office properties under operating lease arrangements. The total future minimum lease payments of the Group under irrevocable operating lease arrangements are summarized below.

	31 December	
	2018	2017
Within one year	**508,864**	497,425
After one year but not more than two years	**374,262**	379,739
After two years but not more than three years	**224,414**	291,799
After three years	**328,648**	351,603
Total	**1,436,188**	1,520,566

(ii) Operating lease commitments — as a lessor

At the end of the reporting year, the future minimum lease receivables of the Group as lessor under significant irrevocable operating lease arrangements are summarized below.

	31 December	
	2018	2017
Within one year	**467,177**	288,932
After one year but not more than two years	**424,697**	272,159
After two years but not more than three years	**379,803**	261,196
After three years	**1,205,650**	1,261,665
Total	**2,477,327**	2,083,952

(c) Legal proceedings

From time to time in the ordinary course of business, the Group is subject to claims and are parties to legal and regulatory proceedings. As at 31 December 2018, the Group was not involved in any material legal, or arbitration that if adversely determine, would materially and adversely affect the Group's financial position or results of operations.

58. RELATED PARTY DISCLOSURES

(1) Largest equity holder of the Company

Name of the shareholder	Relationship	Enterprise type	Place of registration and operations	Legal representative	Principal activities	Registered share capital	Percentage of equity interest	Voting rights	Uniform Social Credit Code
CITIC Corporation Limited	Largest equity holder	State-controlled	Beijing	CHANG Zhenming	Financial, industrial and other services	RMB139 billion	16.50%	16.50%	911100007178317092

(2) Related party transactions

(a) Largest equity holder of the Company — CITIC Corporation Limited

Transactions during the year

	2018	2017
Income from providing services	**1,672**	94,363

Guarantees between related parties

During the period from 25 May 2006 to 2 June 2006, the Company issued a 15-year bond with an aggregate face value of RMB1.5 billion which was guaranteed by CITIC Corporation Limited. As at 31 December 2018, the total guarantees provided by CITIC Corporation Limited amounted to RMB1.5 billion (31 December 2017: RMB1.5 billion).

As at 31 December 2018, the structured note issued by the Company held by the largest equity holder of the Company amounted to RMB1,000 million (31 December 2017: RMB3,000 million)

(In RMB thousands, unless otherwise stated)

58. RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(b) Subsidiaries

Transactions during the year

	2018	2017
Interest income	**584,183**	400,208
Investment income	**(9,778)**	166,247
Income from providing services	**30,250**	38,106
Leasing income	**4,667**	3,624
Interest expense	**204,446**	295,198
Expense from receiving services	**3,508**	3,579
Leasing expenses	**371,924**	235,871

Balances at the end of the year

	31 December	
	2018	2017
Other current assets	**17,998,262**	16,445,659
Available-for-sale financial assets		8,406,998
Financial assets at fair value through other comprehensive income	**8,611,224**	
Deposits for investments — Stock index futures	**1,286,579**	1,394,774
Reverse repurchase agreements	**2,537,087**	3,078,305
Derivative financial assets	**396,908**	3,619,432
Refundable deposits	**1,031,560**	800,815
Financial assets held for trading		42,375
Financial assets at fair value through profit or loss (Mandatory)	**18,010**	
Land use rights and intangible assets	**184**	184
Property, plant and equipment	**744**	744
Other current liabilities	**9,529,725**	6,715,885
Repurchase agreements	**300,132**	5,600,000
Derivative financial liabilities	**2,496,232**	1,176,294
Customer brokerage deposits	**190,034**	53,955
Short-term financing instruments payable	**132,252**	712,469
Debt instruments issued	**2,501,725**	687,200

Significant balances and transactions between the Parent and subsidiaries set out above have been eliminated in the consolidated financial statements.

58. RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(c) Subsidiaries and joint ventures of the largest equity holder of the Parent

Transactions during the year

	2018	2017
Interest income	**508,849**	434,953
Income from providing services	**183,201**	164,743
Leasing income	**28,565**	18,197
Investment income	**(61,897)**	(12,361)
Expense from receiving services	**241,734**	143,823
Interest expense	**183,737**	85,038
Leasing expenses	**9,756**	11,394

Balances at the end of the year

	31 December	
	2018	2017
Cash held on behalf of customers (i)	**16,215,702**	12,101,261
Cash and bank balances (i)	**3,670,752**	6,017,147
Other current assets	**548,524**	578,845
Other current liabilities	**21,426**	8,541

(i) Represented deposits placed with financial institution, subsidiaries of the largest equity holder of the Company.

(d) Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries

Transactions during the year

	2018	2017
Leasing income	**1,529**	1,699
Income from providing services	**19,978**	46,278
Leasing expenses	**34,949**	37,369
Expense from receiving services	**3,387**	5,390
Interest expense	**4**	1,927

(In RMB thousands, unless otherwise stated)

58. RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(d) **Controlling equity holder and ultimate parent of the largest equity holder of the Company and its subsidiaries** (Continued)

Balances at the end of the year

	31 December 2018	2017
Other current assets	**1,157**	1,121
Other current liabilities	**425**	434

(e) **Associates**

Transactions during the year

	2018	2017
Income from providing services	**1**	31,719
Leasing income	**4,432**	2,216
Interest expense	**344**	—

Balances at the end of the year

	31 December 2018	2017
Other current assets	**—**	31,756
Other current liabilities	**994**	994

(f) **Joint ventures**

Transactions during the period

	2018	2017
Leasing income	**198**	—

	31 December 2018	2017
Other current liabilities	**17**	—

58. RELATED PARTY DISCLOSURES (Continued)

(2) Related party transactions (Continued)

(g) Other transactions during the year

As at 31 December 2018, the collective asset management plan managed by the Company and held by the Company and its subsidiaries amounted to RMB593 million (31 December 2017: RMB696 million).

As at 31 December 2018, the structured note issued by the Company held by the subsidiaries and joint ventures of the largest equity holder of the Company amounted to RMB4,000 million (31 December 2017: RMB200 million).

59. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: Quoted prices (unadjusted) in active markets, in which the Group principally trades, for identical financial assets or financial liabilities at the measurement date.

Level 2: Valuation techniques using inputs other than quoted prices included within level 1 that are observable for the financial asset or financial liability, either directly or indirectly.

Level 3: Valuation techniques using inputs for the financial asset or financial liability that are not based on observable market data (unobservable inputs).

(In RMB thousands, unless otherwise stated)

59. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(a) Financial instruments recorded at fair value

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss (Mandatory)				
— Debt securities	85,748,137	63,376,771	46,862	149,171,770
— Equity investments	41,108,163	4,316,967	17,211,704	62,636,834
— Others	22,083,786	10,905,166	1,448,324	34,437,276
Subtotal	148,940,086	78,598,904	18,706,890	246,245,880
Financial assets at fair value through profit or loss (Designated)				
— Equity investments	—	624,646	566,548	1,191,194
Derivative financial assets	1,409,844	9,978,258	—	11,388,102
Financial assets at fair value through other comprehensive income				
— Debt securities	6,495,577	29,832,251	—	36,327,828
— Equity investments	—	15,310,637	221,778	15,532,415
Subtotal	6,495,577	45,142,888	221,778	51,860,243
Total	156,845,507	134,344,696	19,495,216	310,685,419
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
— Financial liabilities held for trading	7,452,014	—	—	7,452,014
— Financial liabilities designated as at fair value through profit or loss	42,212	34,725,389	5,426,224	40,193,825
Subtotal	7,494,226	34,725,389	5,426,224	47,645,839
Derivative financial liabilities	515,420	8,796,479	—	9,311,899
Total	8,009,646	43,521,868	5,426,224	56,957,738

59. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(a) Financial instruments recorded at fair value (Continued)

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets held for trading				
— Debt securities	45,025,670	42,994,611	129,059	88,149,340
— Equity investments	54,529,732	7,761,496	303,477	62,594,705
— Others	2,268,105	5,436,396	—	7,704,501
Subtotal	101,823,507	56,192,503	432,536	158,448,546
Financial assets designated as at fair value through profit or loss	11,263,284	1,942,499	6,499,174	19,704,957
Derivative financial assets	38,184	5,862,611	—	5,900,795
Available-for-sale financial assets				
— Debt securities	467,960	13,612,810	—	14,080,770
— Equity investments	5,720,222	2,067,123	2,984,689	10,772,034
— Others	417,343	24,046,780	—	24,464,123
Subtotal	6,605,525	39,726,713	2,984,689	49,316,927
Total	119,730,500	103,724,326	9,916,399	233,371,225
Financial liabilities:				
Financial liabilities at fair value through profit or loss				
— Financial liabilities held for trading	7,954,878	201,282	8,954	8,165,114
— Financial liabilities designated as at fair value through profit or loss	264,289	32,878,975	5,143,392	38,286,656
Subtotal	8,219,167	33,080,257	5,152,346	46,451,770
Derivative financial liabilities	50,664	13,250,567	—	13,301,231
Total	8,269,831	46,330,824	5,152,346	59,753,001

59. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(b) Valuation techniques used and the qualitative and quantitative information of key parameters for fair value measurement categorized within Level 2

For debt instruments at fair value through profit or loss and at fair value through other comprehensive income whose value is available on China bond pricing system on the valuation date is measured using the latest valuation results published by China bond pricing system.

For debt instruments at fair value through profit or loss and at fair value through other comprehensive income whose value is not available on China bond pricing system, equity instruments at fair value through profit or loss, listed equity instruments with disposal restriction in a specific period, the fair value is determined by valuation technique. The inputs of those valuation techniques include risk-free interest rate, implied volatility curve, RMB denominated swap yield curve, etc., which are all observable.

For equity instruments at fair value through other comprehensive income, the fair value is determined by the equity investment account report provided by third party.

For forward contracts in derivative financial instruments, the fair value is measured by discounting the differences between the contract prices and market prices of the underlying financial instruments. Fair value of swap contracts in derivative financial instruments is calculated based on the difference between the quoted prices or discounted cash flows of underlying financial instruments and the fixed income agreed in the contracts. For option contracts in derivative financial instruments, the fair value is calculated by using the option pricing model.

During the year ended 31 December 2018, there were no changes of valuation techniques for level 2.

(c) Valuation techniques used and the qualitative and quantitative information of key parameters for fair value measurements categorized within Level 3

For unlisted equity investments, stocks instruments without quoted prices in active markets, fund investments, trusts, financial liabilities, etc., the Group adopts the counterparties quotations or valuation techniques to determine the fair value. Valuation techniques include a discounted cash flow analysis, and the market comparison approach, etc. The fair value measurement of these financial instruments may involve unobservable inputs such as liquidity discounts, volatility and risk adjusted discount rate and price to book ratios, etc. The fair value of the financial instruments in level 3 is not significantly sensitive to a reasonable change in these unobservable inputs.

During the period ended 31 December 2018, there were no changes of valuation techniques for level 3.

59. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(d) Movements in Level 3 financial instruments measured at fair value

The reconciliations of the opening and closing balances of Level 3 financial assets and liabilities which are recorded at fair value are presented below:

	As at 1 January 2018	Total gains (losses) recorded in profit or loss	Total losses recorded in other comprehensive income	Additions	Decreases	Transfers to Level 3 from Level 1	Transfers to Level 3 from Level 2	Transfers to Level 1 from Level 3	Transfers to Level 2 from Level 3	As at 31 December 2018
Financial assets:										
Financial assets at fair value through profit or loss (Mandatory)										
— Debt instruments	169,059	26,602	—	6,635	155,434	—	—	—	—	46,862
– Equity instruments	19,947,871	953,071	4,935	1,843,502	3,867,359	—	99,595	632,933	1,136,978	17,211,704
— Others	—	—	—	3,651,607	2,599,402	396,119	—	—	—	1,448,324
Financial assets at fair value through profit or loss (Designated)	—	—	—	566,548	—	—	—	—	—	566,548
Financial assets at fair value through other comprehensive income	—	—	(109,754)	331,532	—	—	—	—	—	221,778
Financial liabilities:										
Financial liabilities at fair value through profit or loss										
— Financial liabilities designated as at fair value through profit or loss	5,143,392	466,695	—	40,000	223,863	—	—	—	—	5,426,224
— Financial liabilities held for trading	8,954	116	—	—	9,070	—	—	—	—	—

The Group reclassified RMB10,201 million on financial assets to level 3 as of 1 January 2018 upon the implementation of IFRS 9.

(In RMB thousands, unless otherwise stated)

59. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(d) Movements in Level 3 financial instruments measured at fair value (Continued)

	As at 1 January 2017	Total gains/ (losses) recorded in profit or loss	Total gains recorded in other comprehensive income	Additions	Decreases	Transfers to Level 3 from Level 2	Transfers to Level 1 from Level 3	Transfers to Level 2 from Level 3	As at 31 December 2017
Financial assets:									
Financial assets held for trading									
— Debt securities	320,294	13,177	—	7,145	(211,557)	—	—	—	129,059
— Equity investments	293,792	972,532	—	4,706,357	(81,130)	174,068	—	5,762,142	303,477
Financial assets designated as at fair value through profit or loss	4,902,764	680,051	—	884,835	(165,037)	196,561	—	—	6,499,174
Available-for-sale financial assets									
— Equity investments	3,234,911	—	736,034	21,747	(2,761,368)	2,658,841	299,828	605,648	2,984,689
Financial liabilities:									
Financial liabilities at fair value through profit or loss									
— Financial liabilities designated as at fair value through profit or loss	4,705,822	496,712	—	—	(59,142)	—	—	—	5,143,392
— Financial liabilities held for trading	6,473	(32)	—	6,641	(4,128)	—	—	—	8,954

The amount of realised investment income recognized in profit or loss from Level 3 financial instruments held by the Group was RMB270 million in 2018 (2017: RMB2,015 million).

(e) Transfers between Level 1 and Level 2

In 2018, the amount of financial assets at fair value through profit or loss held by the Group transferred from Level 1 to Level 2 was RMB112 million and the amount of financial assets at fair value through profit or loss from Level 2 to Level 1 was RMB25 million (31 December 2017: Financial assets held for trading and financial assets designated as at fair value through profit or loss held by the Group transferred from Level 1 to Level 2 was 103 million).

(f) Financial instruments not measured at fair value

At the end of the reporting year, the following financial assets and liabilities of the Group are not measured at fair value.

(i) For refundable deposits, reverse repurchase agreements, cash held on behalf of customers, cash and bank balances, fee and commission receivables, margin accounts, due from banks and other financial institutions, customer brokerage deposits, repurchase agreements, short-term loans, due to banks and other financial institutions and short-term financing instruments payable, these financial instruments are of short term in nature and thus their fair values approximate to their carrying amounts.

59. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(f) Financial instruments not measured at fair value (Continued)

(ii) The recorded amounts and fair values of debt instruments issued are summarized below.

	Carrying amount		Fair value	
	31 December 2018	31 December 2017	**31 December 2018**	31 December 2017
Debt instruments issued	**88,057,370**	77,641,633	**89,307,628**	76,005,327

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The Company has always believed that effective risk management and internal control are critical to its successful operation. The Company has implemented comprehensive risk management and internal control processes, through which it monitors, evaluates and manages the financial, operational, compliance and legal risks that it is exposed to in its business activities, and implements vertical risk management of its subsidiaries through different models including business guidance, operational support and decision-making management.

The Company has established a complete and effective governance structure in accordance with relevant laws, regulations and regulatory requirements. The Company's general meeting, the Board and Supervisory Committee perform their duties to oversee and manage the operation of the Company based on the Company Law, Securities Law, and the Articles of Association of the Company. By strengthening the relevant internal control arrangements and improving the Company's internal control environment and internal control structures, the Board has now incorporated internal control and risk management as essential elements in the Company's decision-making processes.

Structure of Risk Management

The major organizational framework of the risk management of the Company consists of the Risk Management Committee under the Board, the professional committees under the Operation Management, the relevant internal control departments and business departments/business lines. The relatively comprehensive three-level risk management system enables a network of collective decision making among the respective committees, and close cooperation between internal control departments and business departments/business lines, and manages risks through review, decision, execution and supervision. At the division and business line level, the Company has established three lines of defence in risk management, that is, business departments/business lines to assume the primary responsibility for risk management, internal control departments, including the Risk Management Department and the Compliance Department, to conduct professional management of all types of risks and the Audit Department to take charge of post-supervision and evaluation.

Level 1: The Board

The Risk Management Committee of the Board supervises the overall risk management of the Company with the aim of controlling risks within an acceptable scope and ensures smooth implementation of effective risk management schemes over risks related to operating activities; prepares overall risk management policies for the Board's review; formulates strategic structure and resources to be allocated for the Company's risk management purposes and keeps them in line with the internal risk management policies of the Company; sets boundaries for major risk indicators; performs supervision and review on the risk management policies and makes recommendation to the Board.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of Risk Management (Continued)

Level 2: Operation Management

The Company has established the Assets and Liabilities Management Committee. Within the authority delegated by the Board and the Operation Management of the Company, the committee makes decisions on and reviews major issues and related systems involving application of the Company's proprietary capital. For the purpose of ensuring the Company's capital security, the committee optimizes assets allocation and improves the efficiency of the capital application via a scientific, standardized and prudent approach under strict control and management over risk exposures.

The Company has established the Capital Commitment Committee. The committee performs final risk assessment and reviews on capital commitment of the underwriting business within the authority delegated by the Board and the Operation Management of the Company. All corporate finance business involving application of capital of the Company is subject to the approval by the Capital Commitment Committee to ensure an acceptable level of risk exposure of the corporate finance activities and security of capital of the Company.

The Company has established the Risk Management Committee. This committee reports to the Risk Management Committee of the Board and the Operation Management of the Company, and is responsible for monitoring and managing the daily risks of the Company within its designated authority, deciding on and approving material matters related to risk management and relevant system and setting limits for risk. The Risk Management Committee comprises a risk management sub-working group and a reputation risk management sub-working group. The risk management sub-working group is the main body responsible for the daily monitoring and management of the financial risks over the Company's buy-side business and facilitating the execution of the decisions made by the Risk Management Committee of the Company. With regular working meeting, the risk management sub-working group has set up specific working groups led by specific risk management control experts with the involvement of related business departments/business lines separately in accordance with market risks, credit risks, liquidity risks and operational risks to respond to pending matters from daily monitoring or decisions made by the higher authorities in a timely manner through the establishment of coordination on implementation level. The reputation risk management sub-working group is the daily management body of reputation risks and is responsible for establishing relevant rules and management mechanisms, preventing and identifying reputation risks, responding to and tackling reputation events in a proactive and effective manner and mitigating any negative effect to the largest extent.

The Company has appointed the Chief Risk Officer to be responsible for coordinating the overall risk management work.

The Company has established the Product Committee. Under the authority of the Board and the Operation Management of the Company, the Product Committee uniformly makes plans, preparation and decisions regarding the products and service business of the Company. It reviews the launch or sales of products and provides related service, and is the decision-making body of the appropriateness management for the launch of financial products of the Company. The Risk Evaluation Group and the Appropriateness Management Group were established under the Product Committee. The Risk Evaluation Group is responsible for reviewing the qualification of the principal which entrusted the Company to sell products, and is tasked with organizing the specific product evaluation, establishing the classification criteria and methods of risks associated with products or services of the Company, performing risk assessment and risk grading on products or services, as well as supervising the management of product terms. The Appropriateness Management Group is responsible for formulating the criteria for investor classification and principles

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of Risk Management (Continued)

Level 2: Operation Management (Continued)

and procedures for appropriate matching of investors, supervising departments to implement investor appropriateness management work, organizing appropriateness training and appropriateness self-examination and rectification at the company level, and supervising the establishment and improvement of investor appropriateness evaluation database and other work related to appropriateness management.

Level 3: Division/Business Units

At the division and business line level, the Company has segregated the roles and responsibilities of the front office, middle office and back office to ensure the establishment of a system of "checks and balances", forming three lines of defence in risk management jointly built by business departments/business lines, internal control departments including the Risk Management Department and the Compliance Department, as well as the Audit Department.

Being the Company's first line of defence in risk management, front-office business departments/business lines of the Company bear the first-line responsibility for risk management. These departments are responsible for the establishment of business management systems and risk management systems for various businesses and perform supervision, assessment and reporting on business risks and contain such risks within the approved limits.

Internal control departments such as Risk Management Department and Compliance Department of the Company are the second line of defence in risk management, of which:

The Risk Management Department of the Company performs risk identification, measurement, analysis, monitoring, reporting and management. The department analyzes and assesses the overall risks of the Company and each of its business lines and recommends on optimized allocation of risk resources; assists the Risk Management Committee of the Company in the preparation of risk management indicators such as risk limits, as well as supervision and reporting on the execution of the risk limits; establishes and improves the timely reporting and feedback mechanism among front office, the Risk Management Department and the Operation Management, and regularly discloses the general risk portfolio of the Company to the Operation Management and makes recommendations on risk management; establishes a comprehensive stress test mechanism as a basis for major decision making and daily operational adjustment and fulfillment of regulatory requirements; performs pre-risk assessment and control over new products and businesses.

The Compliance Department of the Company organizes the establishment and implementation of the basic compliance system of the Company, provides compliance advice and enquiries to the Operation Management, departments/business lines and branches of the Company, monitors lawful compliance of management and operating activities; supervises and instructs the departments/business lines and branches of the Company to assess, develop, modify and improve internal management systems and business processes based on changes in laws, regulations and guidelines; performs compliance pre-reviews on internal management systems, important decisions, new products, new businesses and key business activities launched by the Company; fulfills the regular and non-regular obligations of reporting to regulatory authorities; organizes and performs money laundering risk control in accordance with the anti-money laundering system of the Company, etc.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of Risk Management (Continued)

Level 3: Division/Business Units (Continued)

The Legal Department of the Company is responsible for oversight of the legal risks of the Company and its relevant businesses.

The Office of the Board of the Company promotes the management over the reputation risk of the Company in conjunction with the General Manager's Office, Risk Management Department, Compliance Department, Human Resources Department, Legal Department, Information Technology Centre, Audit Department and other relevant departments.

The Information Technology Centre of the Company is responsible for managing the IT risks of the Company.

The Audit Department of the Company is the third line of defence in risk management and has the overall responsibility for internal audit, planning and implementing internal audit of all departments/business lines of the Company, its subsidiaries and branches, monitoring the implementation of internal control systems, preventing various moral and policy risks, and assisting the Company with the investigation of emergency events.

Other internal control departments exercise their respective risk management functions within the scope of their responsibilities.

(a) Credit risk

Credit risk is the risk in respect of loss arising from inability of a borrower, counterparty or issuer of financial positions held to meet its obligations or whose credit qualifications deteriorate.

The credit risk of the Group mostly arises from four aspects: firstly, brokerage business in respect of securities dealing and futures trading on behalf of clients, if the Group does not require the clients to pay sufficient margin deposits in advance according to the laws, the Group may have to undertake the settlement responsibility on behalf of clients if the clients do not have sufficient funds to pay for the transaction, or face financing gaps due to other factors on the settlement date, and accordingly resulting in losses; secondly, credit risk arising from the securities financing businesses including margin financing and securities lending, stock repo, stock-pledged repo, which refers to the Group's exposure to losses caused by clients' failure to perform the contracts; thirdly, default risk from credit product investment, which refers to the risk of the Group's asset losses and change in yield by reason of default or refusal to pay principal and interest on due dates by the financing parties or the issuers of the credit products the Group invested; and fourthly, counterparty default risk in OTC derivative transactions such as interest rate swap, equity swap, OTC option and forwards, i.e. the risk of counterparties failing to perform their payment obligations in accordance with contracts when the contracts reach the mature dates.

The Company assesses the credit ratings of counterparties or issuers through its internal credit rating systems, measures its credit risk by means of stress test and sensitivity analysis, and manages such credit risk based on these results through credit approval system. Meanwhile, the Company uses its information management systems to monitor its credit risk on a real time basis, keeps track of the credit risk of its business products and transaction counterparties, provides analysis and pre-warning reports, and adjust its credit limits in a timely manner.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Securities brokerage business transaction in Mainland China are all required to be settled in full by security deposit, as a result of which the settlement risk associated with brokerage business has been largely controlled.

Credit risk arising from the securities financing business primarily includes clients' provision of false information, failure to make full repayment on time, contractual breach of portfolio limits and compositions, violation of regulatory requirements, and provision of collateral encumbered with legal disputes. Credit risk arising from this type of businesses is mainly managed through client education, credit reference checks, credit approval, daily mark to market, risk reminders to clients, forced liquidation of clients' positions, judicial recourse and other means.

For credit products investment, in respect of private equity investment, the Company has established the entrance levels and investment caps for its products and will manage its credit risk through risk assessment, risk reminders and judicial recourse, and in respect of public offering investments, through the counterparty credit approval policy, the Company has developed certain investment restrictions based on the credit ratings.

The counterparties in OTC derivative transactions are mainly financial institutions and other professional institutions and the main risks are their failure to make payments on time, their failure to cover the security deposits in a timely manner when the losses are made on investments and discrepancy between amounts calculated by the parties. The Company sets certain proportions for the security deposits of counterparties and restrictions on the transaction size, controls the credit risk exposure of counterparties through daily mark to market, margin calls and forced liquidation of clients' positions, and carries out recourse through judicial procedures upon the forced liquidation of clients' positions and the occurrence of losses.

Expected credit loss measurement

From the commencement date of IFRS 9 on 1 January 2018, the measurement of the expected credit loss allowance for debt instruments measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

The Company has applied a 'three-stage' impairment model for expected credit losses ("ECL") measurement based on changes in credit quality since initial recognition of financial assets as summarized below:

— A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Company;

— If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired;

— If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Expected credit loss measurement (Continued)

Stage 1: The Company measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL; Stages 2 and 3: The Company measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and the Company has measured the loss allowance for such financial instrument at an amount equal to the lifetime ECL.

For debt securities investments classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporates key parameters, including Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD").

For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporates key parameters, including EAD and Loss Ratio ("LR").

For credit-impaired financial assets classified under Stage 3, management assesses the credit loss allowances by estimating the cash flows expected to arise from the financial assets.

The estimation of credit loss under all stages is taking into consideration of forward looking factors.

The measurement of ECL adopted by management according to IFRS 9, involves judgements, assumptions and estimations.

- Determination of the criteria for SICR;
- Selection of the appropriate models and assumptions;
- Projection of macroeconomic variables and relative weightings for forward-looking scenarios.

Measuring ECL – inputs, assumptions and estimation techniques

The ECL are measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

The Company considers the forward-looking impact on ECL. For debt securities investments, ECL are the discounted product of the PD, LGD and EAD. For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements, ECL are the discounted product of the EAD and LR.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Measuring ECL – inputs, assumptions and estimation techniques (Continued)

— The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligator. The definition of default refers to the failure to pay the debt as agreed in the contact, or other violations of the debt contract and have a significant impact on the normal debt repayment. For debt securities investments, the appropriate external and internal credit ratings are taken in consideration to determine PD.

— LGD represents the Company's expectation of the extent of loss on a defaulted exposure. For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements, the Company determines LGD, based on factors including the liquidation value of collateral upon forced liquidation taking into consideration the estimated volatility over the liquidation period. For debt securities investments, LGD is determined based on assessed publicly available information.

— LR represents the Company's expectation of the likelihood and extent of loss on exposure based on the relevant loan to collateral ratio. The Company uses historical loss rates and assesses their appropriateness.

— EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

The criteria of significant increase in credit risk ("SICR")

The Company evaluates the financial instruments at each financial statement date after considering whether a SICR has occurred since initial recognition. An ECL allowance for financial assets is recognized according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking. The Company considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

Taking into consideration of the obligors' credit quality, contract maturity date, the related collateral securities information, which including the sector situation, liquidity discount factor, concentration, volatility and related information, the Company set a force liquidation level for each obligor of the margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements. The Company considers margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements to have experienced a significant increase in credit risk if the obligor is more than 30 days past due on its contractual payments or margin calls were triggered by a decrease of the ratio of financing assets to collateral below a force liquidation level taking into consideration the obligors' credit quality. As at 31 December 2018, more than 85% of the margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements' ratio of financing assets to collateral above a force liquidation level, which did not experience any significant increase in credit risk.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The criteria of significant increase in credit risk ("SICR") (Continued)

The Company considers debt securities investments to have experienced a significant increase in credit risk if the obligor is more than 30 days past due on its contractual payments or the latest internal ratings of issuers of debt securities or the debt securities themselves suffered two notches of downward migration or more, compared to their ratings on initial recognition; and when the latest external ratings of the debt securities or the issuers of the debt securities were under investment grade. As at 31 December 2018, the majority of the debt securities investments of the Company have been rated as investment grade or above and did not experience any significant increase in credit risk.

The financial instrument are considered to have a low risk when the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company has not used the low credit risk exemption as at 31 December 2018.

Definition of credit-impaired assets

The Company considers whether a financial instrument is credit-impaired according to IFRS 9 based on criteria which is consistent with the internal credit risk management practice. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements, a forced liquidation of a client's position triggered when the collateral valuation falling short of the related loan amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- The debtor is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the debtor's financial difficulty;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructure.

When a financial asset is considered to be credit-impaired, it may be from multiple events, not due to a separately identifiable event.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Forward-looking information

The assessment of SICR and the calculation of ECL incorporate forward-looking information.

For debt securities investments, the Company has analyzed historical data and identified the key economic variables impacting credit risk and ECL. Key economic variables include the growth rate of Domestic GDP, output growth of industries and the growth rate of fixed assets investment index. The impact of these economic variables on the PD, LGD and EAD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on default rates and on the components of PD, LGD and EAD.

For margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements, based on the analysis of the characteristics of these products, the Company has identified the key economic variables impacting credit risk and ECL for these financial instrument portfolio include Volatility of Shanghai Composite Index and Shenzhen Composite Index. The Company made forward adjustment to the ECL of margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements by analyzing the impact of these economic variables on the LR.

The growth rate of domestic GDP applied in its forward looking scenarios ranged from 6.0% to 6.6%.

In addition to the base economic scenario, the Company's expert team also identifies other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

As at 1 January 2018 and 31 December 2018, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of key economic variables. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighting applied to the base scenario by the Company was more than the aggregate of the optimistic and pessimistic scenarios.

The Company measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

For margin financing, the management considers the impact of forward-looking macro-economic information movement on consolidated financial statements as insignificant, taking consideration of its risk characteristics and credit-risk management methodology.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, economic scenario weighting and other factors considered when applying expert judgment. Changes in these inputs, assumptions and judgments impact the assessment of significant increase in credit risk and the measurement of ECLs.

As at 31 December 2018, the Company concluded for all portfolios that three scenarios are appropriate, being the optimistic scenario, base scenario and pessimistic scenario. As at 31 December 2018, the incremental impact of using the probability-weighted ECL against the base scenario only was less than 5%.

Assuming a further 10% weighting added to the probability of the optimistic scenario and a corresponding 10% weighting reduction in the base scenario when measuring ECL using the aforesaid three scenarios, the decremental impact would be less than 5%. Assuming a further 10% weighting added to the probability of the pessimistic scenario and a corresponding 10% weighting reduction in the base scenario when measuring ECL using the aforesaid three scenarios, the incremental impact would be less than 5%.

Meanwhile, the Company primarily uses sensitivity analysis to monitor any significant increase in credit risk. As at 31 December 2018, assuming no significant increase in credit risk since initial recognition was identified, and all the financial assets in Stage 2 moved to Stage 1, the decremental impact on ECL recognized in financial statements would be less than 5% of the total gross amount of debt instrument measured at amortized cost and FVOCI.

Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these enhancements is accepting collateral for funds advanced or guarantees. The Company determined the type and amount of collaterals according to the credit risk evaluation of counterparties. The collaterals under financing businesses are primarily stocks, debt securities, funds etc. Management will exercise margin calls according to related agreements based on the market value fluctuation of collaterals.

Credit risk exposure analysis

The Company considered the credit risk of the margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements was relatively low, as more than 90% of margin accounts, stock repo and stock-pledged repo under reverse repurchase agreements' ratio of financing assets to underlying collateral value was over force liquidation level as at 31 December 2018. High threshold of financing assets to collateral ratios indicates that probability of default was low. As at 31 December 2018, all debt securities investments of the Company were rated as investment grade or above.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Credit risk exposure analysis (Continued)

The maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is presented below:

	31 December 2018	31 December 2017
Available-for-sale financial assets		43,758,439
Financial assets at fair value through other comprehensive income (Debt instruments)	**36,327,828**	
Refundable deposits	**1,112,777**	972,410
Margin accounts	**57,197,814**	73,982,611
Financial assets held for trading		115,120,901
Financial assets designated as at fair value through profit or loss		359,232
Financial assets at fair value through profit or loss (Mandatory)	**198,554,732**	
Derivative financial assets	**11,388,102**	5,900,795
Reverse repurchase agreements	**67,370,441**	114,592,030
Cash held on behalf of customers	**92,420,971**	92,386,338
Bank balances	**52,226,237**	34,302,875
Others	**31,406,920**	26,461,322
Total maximum credit risk exposure	**548,005,822**	507,836,953

(In RMB thousands, unless otherwise stated)

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations

The breakdown of the Group's maximum credit risk exposure, without taking account of any collateral or other credit enhancements, as categorised by geographical area are summarized below.

31 December 2018	**By geographical area Mainland China**	**Outside Mainland China**	**Total**
Financial assets at fair value through other comprehensive income (Debt instruments)	**35,920,840**	**406,988**	**36,327,828**
Refundable deposits	**927,206**	**185,571**	**1,112,777**
Margin accounts	**53,784,988**	**3,412,826**	**57,197,814**
Financial assets at fair value through profit or loss (Mandatory)	**167,236,233**	**31,318,499**	**198,554,732**
Derivative financial assets	**7,808,614**	**3,579,488**	**11,388,102**
Reverse repurchase agreements	**63,605,150**	**3,765,291**	**67,370,441**
Cash held on behalf of customers	**84,710,249**	**7,710,722**	**92,420,971**
Bank balances	**37,569,452**	**14,656,785**	**52,226,237**
Others	**5,622,522**	**25,784,398**	**31,406,920**
Total maximum credit risk exposure	**457,185,254**	**90,820,568**	**548,005,822**

31 December 2017	By geographical area Mainland China	Outside Mainland China	Total
Available-for-sale financial assets	43,663,290	95,149	43,758,439
Refundable deposits	929,303	43,107	972,410
Margin accounts	70,545,373	3,437,238	73,982,611
Financial assets held for trading	73,840,390	41,280,511	115,120,901
Financial assets designated as at fair value through profit or loss	50,776	308,456	359,232
Derivative financial assets	3,419,636	2,481,159	5,900,795
Reverse repurchase agreements	113,057,225	1,534,805	114,592,030
Cash held on behalf of customers	85,304,600	7,081,738	92,386,338
Bank balances	23,308,576	10,994,299	34,302,875
Others	6,930,754	19,530,568	26,461,322
Total maximum credit risk exposure	421,049,923	86,787,030	507,836,953

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

	31 December 2018			
		Stage of ECL		
Loss allowance	**Stage I**	**Stage II**	**Stage III**	**Total**
	12-month ECL	**Lifetime ECL**		
Reverse repurchase agreements				
Amortized cost	57,212,408	6,978,908	5,144,971	69,336,287
Loss allowance	104,741	563,073	1,298,032	1,965,846
Book value	57,107,667	6,415,835	3,846,939	67,370,441
Margin accounts				
Amortized cost	56,815,700	220,530	478,219	57,514,449
Loss allowance	173,771	22,462	120,402	316,635
Book value	56,641,929	198,068	357,817	57,197,814
Financial assets at fair value through other comprehensive income (Debt instruments)				
Fair value	36,327,828	—	—	36,327,828
Loss allowance	101,846	—	44,000	145,846
Others				
Amortized cost	25,508,720	4,682,353	2,453,625	32,644,698
Loss allowance	47,228	4,588	1,595,131	1,646,947
Book value	25,461,492	4,677,765	858,494	30,997,751

(In RMB thousands, unless otherwise stated)

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(i) Credit loss allowance for reverse repurchase agreements

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 (Note 5 (3))	252,956	—	326,288	579,244
Increases	—	873,221	1,019,280	1,892,501
Reverses	(165,473)	(93,966)	(10,509)	(269,948)
Write-offs	—	—	—	—
Transfers between stages				
— Increase	51,682	18,717	243,386	313,785
— Decrease	(34,424)	(227,679)	(51,682)	(313,785)
Other changes	—	(7,220)	(228,731)	(235,951)
31 December 2018	104,741	563,073	1,298,032	1,965,846

Due to the fluctuation of the stock market, the collateral valuations fell short of the related resale agreements amount. The overall increase of the ECL allowance was RMB1,893 million for the year ended 31 December 2018. As at 31 December 2018, the fair value of collateral under Stage 3 was RMB3,666 million.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(ii) Credit loss allowance for margin accounts

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 (Note 5 (3))	219,564	338	92,545	312,447
Increases	—	93,072	171,493	264,565
Reverses	(46,263)	(31,735)	(128,095)	(206,113)
Write-offs	—	—	—	—
Transfers between stages				
— Increase	1,949	15	1,472	3,436
— Decrease	(1,487)	(289)	(1,660)	(3,436)
Other changes	28	(38,939)	(15,353)	(54,264)
31 December 2018	173,771	22,462	120,402	316,635

Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin accounts. The overall increase of the ECL allowance was RMB273 million for the year ended 31 December 2018. As at 31 December 2018, the fair value of collateral under Stage 3 was RMB359 million.

(In RMB thousands, unless otherwise stated)

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Risk concentrations (Continued)

(iii) Credit loss allowance for financial assets at fair value through other comprehensive income

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 (Note 5 (3))	15,367	—	111,944	127,311
Increases	126,931	—	—	126,931
Reverses	(10,603)	—	—	(10,603)
Write-offs	(29,849)	—	(67,944)	(97,793)
Transfers between stages				
— Increase	—	—	—	—
— Decrease	—	—	—	—
Other changes	—	—	—	—
31 December 2018	101,846	—	44,000	145,846

(iv) Credit loss allowance for other financial assets measured at amortized cost

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 (Note 5 (3))	73,040	3,472	836,678	913,190
Increases	11,383	1,690	438,347	451,420
Reverses	(39,945)	(402)	(21,633)	(61,980)
Write-offs	(39)	—	—	(39)
Transfers between stages				
— Increase	179	7	—	186
— Decrease	(7)	(179)	—	(186)
Other changes	2,617	—	341,739	344,356
31 December 2018	47,228	4,588	1,595,131	1,646,947

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk refers to the risk that the Company is not able to obtain sufficient capital with reasonable cost and in a timely manner to pay its overdue debts, perform other payment obligations and meet capital requirements for normal business operations. The Company has consistently adhered to the overall operation of capital. The responsibilities for centralized management of fund allocation lie within the Treasury Department. In respect of the domestic stock exchanges and interbank market, the Company has a relatively high credit rating, and has secured stable channels for short-term financing, such as borrowing and repurchases. At the same time, the Company has replenished its longterm working capital through public or private offering of corporate bonds, subordinated bonds, income vouchers and the like to enable the Company to maintain its overall liquidity at a relatively secured level.

In addition, the Risk Management Department independently monitors and assesses the fund and debt positions of the Company over a future time span on a daily basis. It measures the solvency of the Company via analysis of matching between assets and liabilities within specified point in time and time period and indicators such as funding gap ratio. The Risk Management Department releases a liquidity risk report on a daily basis and reports on the status of the Company's assets and liabilities, quota management and other situations. The Company also sets threshold values for internal and external liquidity risk indicators, and once exceeded, the Risk Management Department will warn the Risk Management Committee, the management and relevant departments of such risks of the Company through relevant systems, and appropriate actions will be taken by the relevant competent departments to adjust the liquidity risks exposed to a level within the permitted ranges. The Company has also established a liquidity reserve pool system with sufficient high-liquidity assets to meet its emergency liquidity needs.

(In RMB thousands, unless otherwise stated)

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2018						
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative financial liabilities:							
Customer brokerage deposits	97,773,997	–	–	–	–	–	97,773,997
Financial liabilities at fair value through profit or loss	2,112,461	12,390,485	22,144,598	3,909,907	1,680,348	5,426,224	47,664,023
Repurchase agreements	–	115,941,168	5,004,961	895,743	–	–	121,841,872
Due to banks and other financial institutions	–	19,317,809	–	–	–	–	19,317,809
Short-term loans	15,498	5,643,888	7,311	–	–	–	5,666,697
Short-term financing instruments payable	–	14,292,170	3,870,171	–	–	–	18,162,341
Debt instruments issued	–	593,030	2,909,944	91,594,896	2,755,000	–	97,852,870
Long-term loans	–	–	–	1,016,862	–	–	1,016,862
Others	30,072,455	9,681,555	28,685,165	331,088	–	496,610	69,266,873
Total	129,974,411	177,860,105	62,622,150	97,748,496	4,435,348	5,922,834	478,563,344
Cash flows from derivative financial liabilities settled on a net basis	926	2,335,581	3,041,218	3,550,519	674,951	383,748	9,986,943
Gross-settled derivative financial liabilities:							
Contractual amounts receivable	–	(292,032)	–	–	–	–	(292,032)
Contractual amounts payable	–	293,910	–	–	–	68,922	362,832
	–	1,878	–	–	–	68,922	70,800

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

	31 December 2017						
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total
Non-derivative financial liabilities:							
Customer brokerage deposits	100,124,307	–	–	–	–	–	100,124,307
Financial liabilities at fair value through profit or loss	1,153,898	10,414,280	15,814,141	1,014,922	669,656	17,614,826	46,681,723
Repurchase agreements	–	76,400,969	33,184,628	2,884,451	26	–	112,470,074
Due to banks and other financial institutions	–	9,843,819	–	–	–	–	9,843,819
Short-term loans	3,772	6,523,113	305,543	–	–	–	6,832,428
Short-term financing instruments payable	–	10,841,482	23,399,681	–	–	–	34,241,163
Debt instruments issued	–	508,000	2,780,861	71,812,620	15,488,500	–	90,589,981
Long-term loans	–	6,899	20,696	1,218,017	–	–	1,245,612
Others	14,831,203	19,198,017	18,268,947	721,578	36,059	196,766	53,252,570
Total	116,113,180	133,736,579	93,774,497	77,651,588	16,194,241	17,811,592	455,281,677
Cash flows from derivative financial liabilities settled on a net basis	25,618	4,244,501	7,222,103	758,372	24,068	1,069,798	13,344,460
Gross-settled derivative financial liabilities:							
Contractual amounts receivable	—	(81,767)	—	—	—	(200,000)	(281,767)
Contractual amounts payable	—	83,423	—	—	—	219,115	302,538
	–	1,656	–	–	–	19,115	20,771

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk

Market risks represent potential losses due to movement in market prices of financial positions held. Financial positions held are derived from the proprietary investment, market-making business and other investment activities. Movements in the financial positions held primarily originated from instructions received from the customers and the relevant strategies of proprietary investment.

Market risks primarily include equity price risk, interest rate risk, commodity price risk and foreign exchange rate risk. Among which, equity price risk arises from fluctuation in the price and volatility of equities such as stocks, equity portfolio and stock index futures. Interest rate risk primarily arises from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads. Commodity price risk arises from adverse price movements of various commodities. Exchange rate risk represents exposures arising from changes in non-local currency rates.

The Company has established a top-down risk limit management system, which allocates the overall risk of the Company to different business departments/business lines, and through monitoring by the internal control department, and by timely assessment and reporting of significant risk matters, the overall market risk of the Company is controlled within an acceptable level.

The Company assesses, monitors and manages its overall market risks in a comprehensive manner through a risk management department, which is independent of the business departments/business lines, and its assessments and testing results are reported to the respective business departments/business lines, the Operation Management and the Risk Management Committee of the Company. In implementing market risk management, the front-office business departments/business lines, with direct responsibility for market risks and as the frontline risk management team, dynamically manage the market risks arising from its securities holdings, and actively take measures including reducing risk exposures or risk hedging when the exposures are relatively high. The relevant monitoring personnel from the Risk Management Department will continuously cooperate and communicate directly with the respective business departments/business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

The Risk Management Department estimates possible losses arising from market risks through a series of measurements, including possible losses under normal market volatility and extreme market conditions. Under normal volatilities, the Risk Management Department measures the possible losses of the Company in the short term mainly via VaR and sensitivity analysis. Meanwhile, in extreme situations, the department measures the possible losses of the Company via stress test. The risk report sets out the market risk portfolios and its changes in each of the business departments/business lines. The report will be delivered on a daily, weekly, monthly or quarterly basis to the responsible officers of the business departments/business lines and the Operation Management of the Company.

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

VaR represents the potential losses of investment portfolios held due to movements in market prices over a specified time period and at a given level of confidence. The Company adopts VaR as a major indicator of its market risk measurement. The calculation is based on a holding period of one trading day and a confidence level of 95%. VaR detects exposures such as interest rate risk, equity price risk and exchange rate risk, and measures the movement of market risks such as those arising from changes in interest rate curves, prices of securities and exchange rates. The Risk Management Department constantly inspects the accuracy of VaR through backtesting and improves its calculation in line with the expansion of the Company. The Company also evaluates the possible losses in its proprietary positions arising from extreme situations through stress tests. The Risk Management Department has established a series of macro and market scenarios to calculate the possible losses to the Company with full position upon the concurrence of different events under a single or multiple scenarios. These scenarios include the occurrence of major setbacks in macro-economic conditions, significant and adverse changes in major markets and extraordinary risk events. Stress test constitutes an integral part of the market risk management of the Company. Through stress tests, the Company could focus more on the possible losses to the Company, analyze its risk return and compare its risk resistant capacities, and evaluate whether the overall market risk portfolio of the Company is within its expected limits. In view of the market condition and risk characteristics in 2018, the Company further enhanced the research and optimization of stress test methodology by adding more stress tests under specific scenarios such as new stress test for options business under extreme circumstances, and by adding new stress test for liquidity adjustment across various businesses given the actual rhythm and liquidity of its business, in order to better evaluate and manage its possible material loss under extreme circumstances.

The Company sets limits for its respective business departments/business lines to control fluctuations in profit or loss and market exposures. The risk limits are monitored by the Risk Management Department on a daily basis. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn the relevant management officers in advance, discuss with the respective business management officers, and in accordance with the opinion reached through discussions, the business departments/business lines will reduce the exposures to the risk limits, or may apply for a temporary or permanent upgrade in the limits, subject to approval by the corresponding authorized personnel or organization.

The Company continues to modify the risk limits system, defines a unified limit management measures and a hierarchical authorization mechanism, and on the basis of such authorization mechanism, reorganizes the measures for the management of the system with different levels of risk limit indicators for the Company, its respective business departments/business lines and investment accounts.

In respect of foreign assets, in order to ensure the availability of funds required for foreign business expansion, the Company implemented centralized management toward its exchange risk. The Company keeps track of the risk by closely monitoring the value of the assets in the account on a daily basis. It monitors the exchange risk from different angles, such as assets limit, VaR, sensibility analysis and stress test, and to manage exchange risk exposure through methods such as adjusting foreign currency position, using forward exchange contract/option hedging, currency swap contracts, etc.

(In RMB thousands, unless otherwise stated)

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) VaR

VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

The calculation is based on the historical data of the Group's VaR (confidence level of 95% and a holding period of one trading day).

The Group's VaR analysis by risk categories is summarised as follows:

	31 December	
	2018	2017
Stock price-sensitive financial instruments	**112,832**	166,225
Interest rate-sensitive financial instruments	**67,718**	20,923
Exchange rate-sensitive financial instruments	**57,956**	112,725
Total portfolio VaR	**134,931**	191,414

(ii) Interest rate risk

The Group's interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments arising from adverse movements in interest rates. The Group's interest rate risk mainly sources from the volatility of fair value of financial instruments held by the Group which are sensitive to the interest rate risk, resulting from market interest rate's negative fluctuation.

The Group uses interest rate sensitivity analysis as the principal tool to monitor interest rate risk. The use of interest rate sensitivity analysis assumes all other variables remain constant, but changes in the fair value of financial instruments held at the end of the measurement period may impact the Group's total income and total equity when interest rates fluctuate reasonably and possibly.

Assuming a parallel shift in the market interest rates and without taking into consideration of the management's activities to reduce interest rate risk, the impact of such a shift on revenue and shareholders' equity based on an interest rate sensitivity analysis of the Group is as follows:

Sensitivity of revenue

	2018	2017
Change in basis points		
+25 basis points	**(384,536)**	(210,768)
–25 basis points	**399,489**	210,216

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity of equity

	31 December 2018	2017
Change in basis points		
+25 basis points	**(43,963)**	(19,384)
–25 basis points	**44,257**	19,563

(iii) Currency risk

Currency risk is the risk of fluctuation in the fair value of financial instruments or future cash flows arising from adverse movements in foreign exchange rates. The Group's currency risk primarily relates to the Group's operating activities, whose settlements and payments are denominated in foreign currencies different from the Group's functional currency, and its net investment in foreign subsidiaries.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on revenue and equity. A negative amount in the table reflects a potential net reduction in revenue or equity, while a positive amount reflects a potential net increase.

Sensitivity of revenue

Currency	Change in currency rate	2018	2017
USD	–3%	**371,041**	(44,663)
HKD	–3%	**(566,045)**	(195,043)

Sensitivity of equity

Currency	Change in currency rate	31 December 2018	2017
USD	–3%	**(263,404)**	(97,818)
HKD	–3%	**(15,323)**	(231,893)

(In RMB thousands, unless otherwise stated)

60. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(iii) Currency risk (Continued)

While the table above indicates the effect on revenue and equity of 3% depreciation of USD and HKD, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

The tables below summarize the Group's exposure to foreign currency exchange rate risk as at 31 December 2018 and 31 December 2017. The Group's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group in RMB equivalent, categorized by the original currencies.

	As at 31 December 2018				
	RMB	**USD in RMB equivalent**	**HKD in RMB equivalent**	**Other in RMB equivalent**	**Total**
Net on-balance sheet position	**132,905,115**	**(6,131,863)**	**20,670,185**	**9,388,059**	**156,831,496**

	As at 31 December 2017				
	RMB	USD in RMB equivalent	HKD in RMB equivalent	Other in RMB equivalent	Total
Net on-balance sheet position	128,554,318	(2,357,788)	16,886,462	10,059,567	153,142,559

(iv) Price risk

Price risk is the risk that the fair value of equity instruments decreases due to the variance between the stock index level and individual share values. If this occurs, market price fluctuations of equity instruments at fair value through profit or loss will impact the Group's profit; and market price fluctuations of equity instruments classified as financial assets at fair value through other comprehensive income will impact shareholders' equity for the Group.

As at 31 December 2018, the equity investment accounted for approximately 12.15% of the total assets. The equity investment classified as the financial assets held for trading and financial assets designated as at fair value through profit or loss accounted for approximately 13.10% of the total assets as at 31 December 2017, while the equity investment classified as available-for-sale financial assets accounted for approximately 1.72% of the total assets.

61. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	31 December 2018	2017
Non-current assets			
Property, plant and equipment		**707,818**	793,673
Investment properties		**62,602**	65,375
Goodwill		**43,500**	43,500
Land-use rights and intangible assets		**2,189,249**	2,244,594
Investments in subsidiaries	25	**32,045,836**	30,630,220
Investments in associates		**4,250,177**	4,405,822
Available-for-sale financial assets			18,728,724
Financial assets at fair value through other comprehensive income		**15,310,637**	
Financial assets at fair value through profit or loss (Mandatory)		**1,369,064**	
Refundable deposits		**1,857,724**	1,619,537
Deferred income tax assets		**2,858,718**	2,131,827
Other non-current assets		**192,090**	146,997
Total non-current assets		**60,887,415**	60,810,269
Current assets			
Fee and commission receivables		**651,408**	742,193
Margin accounts		**49,999,921**	64,640,791
Available-for-sale financial assets			25,029,678
Financial assets at fair value through other comprehensive income		**44,826,556**	
Financial assets held for trading			103,128,392
Financial assets at fair value through profit or loss (Mandatory)		**160,298,222**	
Derivative financial assets		**8,131,769**	7,047,058
Reverse repurchase agreements		**65,975,750**	115,740,073
Other current assets		**20,722,071**	20,459,345
Cash held on behalf of customers		**51,493,673**	53,705,651
Cash and bank balances		**30,201,951**	18,519,503
Total current assets		**432,301,321**	409,012,684

(In RMB thousands, unless otherwise stated)

61. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Notes	31 December 2018	2017
Current liabilities			
Customer brokerage deposits		**49,397,670**	52,517,124
Derivative financial liabilities		**9,065,465**	13,019,243
Financial liabilities at fair value through profit or loss		**6,159,079**	7,619,769
Repurchase agreements		**108,219,463**	100,030,181
Due to banks and other financial institutions		**20,025,301**	9,835,000
Tax payable		**1,988,388**	1,047,273
Short-term financing instrument payables		**18,191,597**	34,250,308
Other current liabilities		**67,874,191**	63,195,880
Total current liabilities		**280,921,154**	281,514,778
Net current assets		**151,380,167**	127,497,906
Total assets less current liabilities		**212,267,582**	188,308,175
Non-current liabilities			
Debt instruments issued		**82,835,816**	63,516,278
Deferred income tax liabilities		**1,673,992**	1,575,318
Financial liabilities at fair value through profit or loss		**2,281,912**	—
Total non-current liabilities		**86,791,720**	65,091,596
Net assets		**125,475,862**	123,216,579
Equity			
Issued share capital	52	**12,116,908**	12,116,908
Reserves		**81,513,819**	80,757,181
Retained earnings		**31,845,135**	30,342,490
Total equity		**125,475,862**	123,216,579

62. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Notes	Share Capital	Reserves						Retained earnings	Total
			Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Sub-total			
At 31 December 2017		12,116,908	54,435,353	6,263,770	18,744,385	1,313,673	80,757,181		30,342,490	123,216,579
Changes in accounting policy		–	–	–	–	237,324	237,324		(207,554)	29,770
At 1 January 2018		12,116,908	54,435,353	6,263,770	18,744,385	1,550,997	80,994,505		30,134,936	123,246,349
Profit for the year		–	–	–	–	–	–		8,214,393	8,214,393
Other comprehensive income		–	–	–	–	(1,114,080)	(1,114,080)		–	(1,114,080)
Total comprehensive income		–	–	–	–	(1,114,080)	(1,114,080)		8,214,393	7,100,313
Dividend – 2017	19	–	–	–	–	–	–		(4,846,763)	(4,846,763)
Appropriation to surplus reserves		–	–	–	–	–	–		–	–
Appropriation to general reserves		–	–	–	1,657,431	–	1,657,431		(1,657,431)	–
Capital increase by equity holders – Others		–	(24,037)	–	–	–	(24,037)		–	(24,037)
At 31 December 2018		12,116,908	54,411,316	6,263,770	20,401,816	436,917	81,513,819		31,845,135	125,475,862

(In RMB thousands, unless otherwise stated)

62. STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

		Reserves							
	Share Capital	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Sub-total	Retained earnings	Total
At 1 January 2017	12,116,908	54,542,565	6,263,770	17,019,349	1,242,294	79,067,978	27,684,658	118,869,544
Profit for the year	—	—	—	—	—	—	8,623,786	8,623,786
Other comprehensive income	—	—	—	—	71,379	71,379	—	71,379
Total comprehensive income	—	—	—	—	71,379	71,379	8,623,786	8,695,165
Dividend – 2016	—	—	—	—	—	—	(4,240,918)	(4,240,918)
Appropriation to surplus reserves	—	—	—	—	—	—	—	—
Appropriation to general reserves	—	—	—	1,725,036	—	1,725,036	(1,725,036)	—
Capital increase by equity holders — Others	—	(107,212)	—	—	—	(107,212)	—	(107,212)
At 31 December 2017	12,116,908	54,435,353	6,263,770	18,744,385	1,313,673	80,757,181	30,342,490	123,216,579

63. EVENTS AFTER THE REPORTING PERIOD

Issuance of short-term Financing Bond

From January to March 2019, the Company has completed the issuance of three tranches of commercial papers of RMB2 billion, RMB3 billion and RMB3 billion, each of which with a term of 91 days, 91 days and 90 days and coupon rates of 2.95%, 2.71% and 2.79%, respectively, in accordance with the Notice of People's Bank of China on the Issuance of Commercial Papers by CITIC Securities Company Limited (Yin Fa [2017] No.292), and Resolution of 3rd Extraordinary Shareholders' General Meeting of 2013 of the Company, and the resolution passed by the 17th meeting of the 5th Session of the Board of Directors on 25 September 2013.

Issuance of corporate bonds

Pursuant to the resolution of the 22nd meeting of the 6th Board of Directors' Meeting on 22 March 2018 and the 2017 Annual General Shareholders' Meeting of the Company, as well as the approval (SHSE [2018] No.1422) by the Shanghai Stock Exchange, the Company was authorized to issue corporate bonds through private placements to qualified investors with face value of not more than RMB30 billion. On 28 February 2019 and 21 March 2019, the Company completed its first and second issuance of corporate bonds of RMB2.7 billion and 3 billion, both with a term of 3 years and coupon rates of 3.90% and 3.98%.

63. EVENTS AFTER THE REPORTING PERIOD (Continued)

Proposed profit distribution after the reporting period

According to the board resolution passed in the Board of Directors' meeting of the Company held on 21 March 2019, the Company made the following resolution based on the profit for the year ended 31 December 2018: (i) appropriation of a total of RMB821.44 million to the general risk reserve calculated on the basis of 10% of the profit for the year ended 31 December 2018 of the company; (ii) appropriation of a total of RMB821.44 million to the transaction risk reserve calculated on the basis of 10% of the profit for the year ended 31 December 2018 of the company; (iii) appropriation of a total of RMB9.20 million to the provisions of risk calculated on the basis of 2.5% of the revenue of trustee fee; (iv) appropriation of a total of RMB5.35 million to the provisions of risk calculated on the basis of 10% of the revenue of collective asset management business; (v) No statutory surplus reserve to be appropriated because the accumulated amount had reached 50% of the registered capital of the Company; (vi) proposed cash dividend for the year ended 31 December 2018 of RMB3.50 yuan for every 10 shares (pre-tax), totaled approximately RMB4,241 million (pre-tax). If the company completes the acquisition of Guangzhou Securities Company Limited by issuance of new A Shares by the Base Date for the payment of the dividends to A Shareholders, the cash dividend per Share will be adjusted according to the approximate total distribution amount of RMB4,241 million (pre-tax), and the number of total issued Shares of the Company upon completion of the aforesaid issuance of new A Shares. This proposed dividend is subject to the approval of the General Meeting of Shareholders of the Company.

64. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements was approved and authorised for issue by the Board of Directors on 21 March 2019.

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