IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS OR ADDRESSEES WHO ARE OUTSIDE OF THE UNITED STATES

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

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the United States Securities Act of 1933, as amended (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 ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES AND THE GUARANTEE DESCRIBED HEREIN 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, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (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.

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

Confirmation of your representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must be outside the United States. This Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to the Issuer, the Guarantor, the Company and the Joint Lead Managers (as defined in the Offering Circular) that (1) you and any clients you represent are outside the United States and that the e-mail address that you gave the Issuer, the Guarantor and/or the Company and to which this e-mail has been delivered is not located in the United States, its territories or possessions and (2) that you consent to delivery of the Offering Circular and any amendments or supplements thereto by electronic transmission.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of any of the Joint Lead Managers, the Issuer, the Guarantor or the Company 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 any of the Joint Lead Managers or their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of the Offering Circular, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the Offering Circular.

The attached Offering Circular has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Joint Lead Managers, the Trustee (as defined in the Offering Circular), the Agents (as defined in the Offering Circular) nor any of their respective affiliates, directors, officers, employees, representatives, agents or advisers or any person who controls any of them accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version. A hard copy version will be provided to you upon request.

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.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE 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.

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Strictly confidential

ZHONGTAI INTERNATIONAL FINANCE (BVI) COMPANY LIMITED
(中泰國際財務(英屬維爾京群島)有限公司)

(incorporated in the British Virgin Islands with limited liability)

US$300,000,000 3.85 PER CENT. GUARANTEED BONDS DUE 2023
UNCONDITIONALLY AND IRREVOCABLY GUARANTEED BY

ZHONGTAI FINANCIAL INTERNATIONAL LIMITED
(中泰金融國際有限公司)

(incorporated in Hong Kong with limited liability)

AND WITH THE BENEFIT OF A KEEPWELL DEED PROVIDED BY

中泰证券
ZHONGTAI SECURITIES

ZHONGTAI SECURITIES CO., LTD.
(中泰証券股份有限公司)

(incorporated in the People's Republic of China with limited liability)
(Shanghai Stock Exchange Stock Code: 600918)

Issue Price: 100 per cent.

The 3.85 per cent. Bonds due 2023 in aggregate principal amount of US$300,000,000 (the "**Bonds**") will be issued by Zhongtai International Finance (BVI) Company Limited (中泰國際財務(英屬維爾京群島)有限公司) (the "**Issuer**") and bear interest at a rate of 3.85 per cent. per annum, payable semi-annually in arrear in equal instalments on 12 February and 12 August in each year, commencing 12 Feburary 2021. The Bonds will be irrevocably and unconditionally guaranteed (the "**Guarantee**") by Zhongtai Financial International Limited (中泰金融國際有限公司) (the "**Guarantor**"). The Issuer is a wholly-owned subsidiary of the Guarantor and the Guarantor is a wholly-owned subsidiary of Zhongtai Securities Co., Ltd. (中泰証券股份有限公司) (the "**Company**").

The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer which shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations. The Guarantor's obligations under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor. Payments on the Bonds will be made without deduction for or on account of taxes of the British Virgin Islands, Hong Kong and the PRC to the extent described in "*Terms and Conditions of the Bonds – Taxation*".

The Issuer, the Guarantor, the Company and The Bank of New York Mellon, London Branch (the "**Trustee**") will enter into a keepwell deed on or about 12 August 2020 (the "**Keepwell Deed**") as further described in "*Description of the Keepwell Deed*". **The Keepwell Deed does not constitute a guarantee by the Company of the obligations of the Issuer under the Bonds or the obligations of the Guarantor under the Guarantee.**

The Company has completed the pre-issuance registration (the "**Pre-Issuance Registration**") of the issuance of the Bonds with the National Development and Reform Commission or its local counterparts (the "**NDRC**") in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (Fa Gai Wai Zi [2015] No. 2044)(國家發展改革委關於推進企業發行外債備案登記制管理改革的通知)(發改外資[2015]2044號)(the "**NDRC Circular**") issued by the NDRC which came into effect on 14 September 2015. The Guarantor has received an Enterprise Foreign Debt Pre-Issuance Registration Certificate(企業發行外債備案登記證明) dated 8 January 2020, which as at the date of this Offering Circular, remains valid and in full force and effect. The Issuer (failing whom, the Guarantor) undertakes to file or cause to be filed with the NDRC the requisite information and documents pursuant to Condition 4(c) of the Terms and Conditions of the Bonds.

Unless previously redeemed, or purchased and cancelled, the Bonds will mature on 12 August 2023 (the ("**Maturity Date**") at their principal amount. The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. At any time following the occurrence of a Relevant Event (as defined in the Terms and Conditions of the Bonds), the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only (subject to the Terms and Conditions of the Bonds), of such holder's Bonds on the Put Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. (in the case of a redemption for a Change of Control (as defined in the Terms and Conditions of the Bonds)) or 100 per cent. (in the case of a redemption for a No Filing Event (as defined in the Terms and Conditions of the Bonds)) of their principal amount, together with interest accrued to (but excluding) the Put Date. See "*Terms and Conditions of the Bonds – Redemption and Purchase*".

The Bonds and the Guarantee have not been rated. The Company has been assigned a long-term corporate credit rating of "Baa3" with a stable outlook by Moody's Investors Service, Inc., a subsidiary of Moody's Corporation ("**Moody's**") and "BBB-" with a stable outlook by S&P Global Ratings, a division of S&P Global Inc. ("**S&P**"). These credit ratings are not a recommendation to purchase, hold or sell the Bonds in as much as such ratings do not comment as to market price or suitability for a particular investor. There can be no assurance that the ratings will remain in effect for a given period or that the ratings will not be revised, suspended, reduced or withdrawn by the relevant assigning rating agencies in the future.

Investing in the Bonds involves certain risks. See "*Risk Factors*" beginning on page 17.

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds in lieu of the Issuer – See "*Risk Factors – Risks Relating to the Company Group's Business and Industry – The PRC government (including the Shandong Provincial Government and Shandong SASAC) has no obligation to pay any amount under the Bonds.*"

The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any other jurisdiction. The Bonds and the Guarantee may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds and the Guarantee may be offered and sold in offshore transactions in compliance with Regulation S under the Securities Act ("**Regulation S**"). For a description of certain restrictions on resales and transfers, see "Subscription and Sale".

The specified denomination of the Bonds shall be US$200,000 and integral multiples of US$1,000 in excess thereof.

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Bonds in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Bonds 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 Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds, the Issuer, the Guarantor or the Company 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.

The Bonds will initially be represented by interests in a global certificate (the "**Global Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about 12 August 2020 (the "**Issue Date**") with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate, definitive certificates for the Bonds will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Zhongtai International	**China CITIC Bank International**	**BOSC International**	**Haitong International**

Joint Lead Managers and Joint Bookrunners

AMTD	**BOCOM International**	**Central Wealth Securities**	**China Merchants Securities (HK)**
China Minsheng Banking Corp., Ltd., Hong Kong Branch	**CMB International**	**CMB Wing Lung Bank Limited**	**Dongxing Securities (Hong Kong)**
Everbright Sun Hung Kai	**GF Securities**	**Guoyuan Capital**	**ICBC Singapore**
Industrial Bank Co., Ltd. Hong Kong Branch	**Nanyang Commercial Bank**	**Shanghai Pudong Development Bank Hong Kong Branch**	**Zhongtai International (Singapore)**

Lead Manager (in relation to PRC matters only)

China Zheshang Bank Co., Ltd.

Offering Circular dated 5 August 2020

TABLE OF CONTENTS

IMPORTANT NOTICE

THIS OFFERING CIRCULAR DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING CIRCULAR NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR, THE COMPANY OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET OUT IN THIS OFFERING CIRCULAR IS CORRECT AS AT ANY DATE SUBSEQUENT TO THE DATE OF THIS OFFERING CIRCULAR.

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Each of the Issuer, the Guarantor and the Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Issuer, the Guarantor, the Company and each of their respective subsidiaries taken as a whole (the "**Company Group**"), the Bonds, the Guarantee and the Keepwell Deed, which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Company, the Company Group, the Bonds, the Guarantee and the Keepwell Deed are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor, the Company and the Company Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Company, the Company Group, the Bonds, the Guarantee and the Keepwell Deed, the omission of which would, in the context of the issue and offering of the Bonds, the Guarantee and the Keepwell Deed, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer, the Guarantor and the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, each of the Issuer, the Guarantor and the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular.

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds in lieu of the Issuer – See "*Risk Factors – Risks Relating to the Company Group's Business and Industry – The PRC government (including the Shandong Provincial Government and Shandong SASAC) has no obligation to pay any amount under the Bonds.*"

This Offering Circular has been prepared by the Issuer, the Guarantor and the Company solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular is limited to (a) Professional Investors only; or (b) for a person outside Hong Kong, a person to whom securities may be sold in accordance with a relevant exemption from public offer regulations in that jurisdiction. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Company or the Joint Lead Managers (as defined below). None of the Issuer, the Guarantor, the Company and the Joint Lead Managers is making an offer to sell the Bonds in any jurisdictions except where an offer or sale is permitted. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law.

None of the Issuer, the Guarantor, the Company and the Joint Lead Managers represents that this Offering Circular may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor, the Company or any of the Joint Lead Managers which is intended to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular 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.

Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor, the Company, Zhongtai International Securities Limited（中泰國際證券有限公司）(formerly known as Qilu International Securities Limited（齊魯國際證券有限公司）) ("**Zhongtai Securities**"), China CITIC Bank International Limited, BOSC International Company Limited, Haitong International Securities Company Limited, AMTD Global Markets Limited, BOCOM International Securities Limited, Central Wealth Securities Investment Limited, China Merchants Securities (HK) Co., Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CMB International Capital Limited, CMB Wing Lung Bank Limited, Dongxing Securities (Hong Kong) Company Limited, China Everbright Securities (HK) Limited, GF Securities (Hong Kong) Brokerage Limited, Guoyuan Capital (Hong Kong) Limited, Industrial and Commercial Bank of China Limited, Singapore Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Nanyang Commercial Bank, Limited, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch and Zhongtai International Securities (Singapore) Pte. Ltd. as the joint lead managers (together, the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Singapore, Hong Kong, the People's Republic of China, Taiwan and the British Virgin Islands, to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "*Subscription and Sale*".

Each prospective purchaser of the Bonds must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Bonds or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required under any regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Guarantor, the Company and the Joint Lead Managers shall have any responsibility therefor.

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

This Offering Circular is personal to the prospective investors to whom it has been delivered by the Joint Lead Managers and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. Investors may not reproduce or distribute this Offering Circular, in whole or in part, and investors may not disclose any of the contents of this Offering Circular or use any information herein for any purpose other than considering an investment in the Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised, and any disclosure of any of its contents, without prior written consent of the Issuer, the Guarantor and the Company, is prohibited. By accepting delivery of this Offering Circular, the prospective investor agrees to the foregoing and to make no photocopies or other reproduction of this Offering Circular.

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Prospective investors in the Bonds should rely only on the information contained in this Offering Circular. None of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, has authorised the provision of information different from that contained in this Offering Circular, to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor, the Company, any of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them. The information contained in this Offering Circular is accurate in all material respects only as at the date of this Offering Circular, regardless of the time of delivery of this Offering Circular or of any sale of the Bonds. Neither the delivery of this Offering Circular nor any sale made hereunder shall under any circumstances imply that there has not been a change in affairs of the Issuer, the Guarantor, the Company, the Company Group or any of them or that the information set forth herein is correct in all material respects as of any date subsequent to the date hereof. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, undertakes to review the financial condition and affairs of the Issuer, the Guarantor or the Company following the date of this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, in connection with its investigation of the accuracy or completely of such information or its investment decision. To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, accepts any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, or on its or their behalf in connection with the Issuer, the Guarantor, the Company, the Company Group, the Guarantee, the Keepwell Deed or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Agents and each of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, undertakes to review the financial condition or affairs of the Issuer, the Guarantor, the Company or the Company Group for so long as the Bonds remain outstanding nor to advise any investor or potential investor of the Bonds of any information coming to the attention of any of the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them.

IN CONNECTION WITH THE ISSUE OF THE BONDS, ANY JOINT LEAD MANAGER APPOINTED AS STABILISATION MANAGER (SUCH PARTY, A "STABILISATION MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) (PROVIDED THAT CHINA CITIC BANK INTERNATIONAL LIMITED SHALL NOT PARTICIPATE IN SUCH STABILISATION IN ANY EVENT) MAY, IN ACCORDANCE WITH APPLICABLE LAW, OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER(S) (OR PERSON(S) ACTING ON THEIR BEHALF) WILL UNDERTAKE ANY STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE ALLOTMENT OF THE BONDS.

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

Neither this Offering Circular nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, advisers, directors, employees, representatives, officers and agents, or any person who controls any of them, that any recipient of this Offering Circular, or any other information supplied in connection with the offering of the Bonds, should purchase the Bonds. In making an investment decision, investors must rely on their own independent examination of the Issuer, the Guarantor, the Company, the Company Group, the Guarantee, the Keepwell Deed and the terms of the offering, including the merits and risks involved. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisors as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations, in making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Company and the terms of the offering, including the merits and risks involved.

None of the Issuer, the Guarantor, the Company, the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, employees, officers, agents or representatives, or any person who controls any of them, is or are making any representation to investors regarding the legality of an investment in the Bonds under any legal, investment or similar laws or regulations. Investors should not consider any information in this Offering Circular to be legal, business or tax advice. Investors should consult their own attorney, business adviser and/or tax adviser for legal, business and tax advice regarding an investment in the Bonds. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

This Offering Circular has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Bonds. The Issuer and the Guarantor reserve the right to withdraw the offering of the Bonds at any time. The Issuer, the Guarantor and the Joint Lead Managers also reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the Bonds offered hereby. You should read this Offering Circular before making a decision whether to purchase the Bonds.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer, the Guarantor and the Company. Each of the Issuer, the Guarantor and the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong or elsewhere. Investors are advised to exercise caution in relation to the offering of the Bonds. If Investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

This Offering Circular has been prepared using a number of conventions, which investors should consider when reading the information contained herein.

This Offering Circular summarises certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of the Issuer, the Guarantor, the Company, the Company Group and the terms of the offering and the Bonds, including the merits and risks involved.

Unless otherwise indicated, all references in this Offering Circular to the "**Company Group**" are to the Company and its subsidiaries and all references in this Offering Circular to the "**Guarantor Group**" are to the Guarantor and its subsidiaries.

Unless otherwise indicated, all references in this Offering Circular to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China and all references to "**China**", "**Mainland China**" or the "**PRC**" are to the People's Republic of China and, for the purpose of this Offering Circular only, exclude Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan. "**PRC government**" or the "**State**" 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. The "**Shandong Provincial Government**" means the People's Government of Shandong Province. "**SASAC**" means the State-owned Assets Supervision and Administration Commission of the PRC.

Unless otherwise specified or the context requires, all references in this Offering Circular to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC, references herein to "**Hong Kong dollars**", "**HK dollars**" or "**HK$**" are to the lawful currency of Hong Kong and references herein to "**U.S. dollars**" or "**US$**" are to the lawful currency of the United States of America.

Solely for your convenience, this Offering Circular contains translations of certain Renminbi amounts into U.S. dollars, Renminbi amounts into Hong Kong dollars, and Hong Kong dollars into U.S. dollars at specified rates. Unless indicated otherwise, the translation of Renminbi into U.S. dollars has been made at the rate of RMB6.9618 to US$1.00, the noon buying rate in effect on 31 December 2019 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States (the "**Federal Reserve Board**") and the translation of Hong Kong dollars into U.S. dollars has been made at the rate of HK$7.7894 to US$1.00, the noon buying rate in effect on 31 December 2019 as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Further information on exchange rates is set forth in "Exchange Rate Information" in this Offering Circular. No representation is made that the Renminbi or Hong Kong dollars amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at any particular rate or at all.

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

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name shall prevail.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial information of the Guarantor as at and for the years ended 31 December 2017, 2018 and 2019, which has been derived from the accountants' report of the Guarantor for the three years ended 31 December 2019 (the "**Guarantor Audited Financial Statements**"). The Guarantor Audited Financial Statements have been prepared in accordance with all the new and revised Hong Kong Financial Reporting Standards (the "**HKFRS**") and audited by SHINEWING (HK) CPA Limited in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and Hong Kong Standards on Auditing issued by the HKICPA. The Guarantor's historical financial information should not be taken as an indication of its future financial performance.

INFORMATION RELATING TO THE COMPANY GROUP

The information included in this Offering Circular regarding the Company Group (other than the Guarantor Group) is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. The Issuer and the Guarantor have taken reasonable care in the compilation and reproduction of the information. None of the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers has independently verified such information. No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon. In addition, the Company's financial statements have not been included or incorporated by reference in this Offering Circular and the Terms and Conditions of the Bonds do not require or oblige the Company to provide or deliver to the Trustee or holders of the Bonds any information, whether financial or otherwise, at all.

In making an investment decision, investors must rely upon their own examination of the Terms and Conditions of the Bonds, the terms of the offering, the credit strength of the Guarantor Group and not unduly rely upon the Keepwell Deed and/or the credit strength of, or information contained in this Offering Circular related to, the Company Group.

INDUSTRY AND MARKET DATA

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

FORWARD-LOOKING STATEMENTS

This Offering Circular contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, but not limited to, statements relating to:

- the business and operating strategies, plans, objectives and goals and its ability to implement such strategies and achieve its plans, objectives and goals, and the future business development of the Guarantor Group;
- general economic, political, social conditions and developments primarily in the PRC and Hong Kong;
- future developments, trends and conditions in the industry and markets in which the Guarantor Group and the Company Group operates;
- changes in competitive conditions and the Guarantor Group's ability to compete under these conditions;
- the Guarantor Group's and the Company Group's ability to enter into new markets and expand its operations;
- the Guarantor Group's and the Company Group's expectations with respect to its ability to acquire and maintain regulatory qualifications required to operate its business;
- costs of bank loans and other forms of financing, and the Guarantor Group's and the Company Group's ability to secure adequate financing;
- the Guarantor Group's or the Company Group's estimated capital expenditures;
- the Guarantor Group's and the Company Group's financial condition and results of operations;
- changes in currency exchange rates;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Guarantor Group's and the Company Group's business;
- macroeconomic policies of the PRC government to manage economic growth; and
- other risks identified in the section entitled "*Risk Factors*" in this Offering Circular.

In some cases, you can identify forward-looking statements by such terminology as "may", "will", "should", "could", "would", "expect", "intend", "plan", "anticipate", "going forward", "ought to", "seek", "project", "forecast", "believe", "estimate", "predict", "potential" or "continue" or the negative of these terms or other comparable terminology. Such statements reflect the current views of the Issuer, the Guarantor or the Company with respect to future events, operations, results, liquidity and capital resources and are not guarantee of future performance, some of which may not materialise or may change. Although the Issuer, the Guarantor and the Company believe that the expectations reflected in these forward-looking statements are reasonable, there is no assurance that those expectations will prove to be correct, and you are cautioned not to place undue reliance on such statements. The Issuer, the Guarantor and the Company 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 and the Issuer's, the Guarantor's and the Company's actual results could differ materially from those anticipated in these forward-looking statements.

All forward-looking statements contained in this Offering Circular are qualified by reference to the cautionary statements set forth in this section.

These forward-looking statements speak only at the date of this Offering Circular. The Issuer, the Guarantor and the Company expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in their expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

SUMMARY

The summary below is only intended to provide a limited overview of detailed information described elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read the entire Offering Circular, including the section entitled "Risk Factors" and the consolidated financial statements of the Guarantor and related notes thereto, before making an investment decision.

OVERVIEW OF THE GUARANTOR GROUP

The Guarantor Group is an integrated securities group that offers a wide range of financial services and products in Hong Kong. The Guarantor was established in June 2011 by the Company with approval of the China Securities Regulatory Commission ("**CSRC**") to capture the growing cross-border business opportunities in offshore financial markets. The Guarantor serves as the principal overseas platform of the Company to implement its international expansion strategies. The Guarantor Group obtained its first licences from the Securities and Futures Commission of Hong Kong (the "**SFC**") in November 2012 and December 2012, which allow it to engage in securities dealing transactions and futures contracts dealing transactions, respectively, in Hong Kong. The Guarantor was awarded "Top 3 Breakthrough Brokers of the Year" in the Stock Connect Awards 2019 by the Hong Kong Stock Exchange according to its total improvement of ranking in trading Northbound Stock Connect based on total turnover from 28 November 2018 to 29 November 2019. It was also named "Star Investment Bank in Capital Market" by China Financial Market Magazine and "Hong Kong Leading International Financial Services Brand" by Global Brands Magazine in 2019. In 2020, the Guarantor was named "Hong Kong Best Cross Border Financial Services Brand" by Global Brands Magazine. For the years ended 31 December 2017, 2018 and 2019, the Guarantor Group's revenue was HK$802.6 million, HK$991.4 million and HK$1,111.8 million, respectively. As at 31 December 2017, 2018 and 2019, the Guarantor Group's total current assets were HK$8,657.6 million, HK$10,610.5 million and HK$9,374.7 million, respectively.

The Guarantor Group has a diversified business portfolio and it manages its business mainly in seven segments. The following table sets forth a breakdown of the Guarantor Group's business segments and principal financial products and services:

Business Segments	Principal Financial Products and Services
Securities and futures brokerage	• Securities brokerage
	• Futures and options brokerage
	• Margin financing and securities lending and refinancing
	• Wealth management
	• Agency of financial products
Investment banking	• Equity placement and underwriting
	• Debt placement and underwriting
	• Initial public offering ("**IPO**") sponsoring
	• Corporate finance advisory
	• Merger and acquisition
Asset management.	• Collective and targeted asset management
	• Mutual funds management
	• Private equity fund management

Business Segments	Principal Financial Products and Services
	• Management of enterprise annuities
	• Renminbi Qualified Foreign Institutional Investor ("**RQFII**")
Fixed Income Currencies and Commodities ("**FICC**")	• Debts, foreign exchange, stocks and derivatives and other securities proprietary trading business
	• Over-the-counter ("**OTC**") structured products brokerage and distribution
	• Cash and bonds market making transactions
	• Structural product trading and hedging transactions
	• Issue of bonds, stocks and other large commodities
Insurance brokerage	• Life insurance brokerage
	• Health insurance brokerage
	• Investment related insurance brokerage
	• General insurance brokerage
Finance lease	• Financial leasing
	• Factoring
	• Entrusted loans
Investment	• Equity and fixed income securities investment
	• Public and private funds investment
	• Structural financing

COMPETITIVE STRENGTHS

The Guarantor Group believes its success and future prospects are attributable to the following competitive strengths:

- Well-established international platform, strong brand recognition and continuous shareholder support
- Well-positioned to leverage the strong economic growth of Shandong Province
- Leading market position with continuous growth of synergistic business portfolio and earnings base
- Comprehensive risk management system with effective internal controls and monitoring processes
- Diversified financing channels and strong credit profile

- Dedicated senior management with extensive industry experience and expertise

BUSINESS STRATEGIES

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

- Continue to explore business opportunities in the PRC domestic and overseas markets
- Continue to develop an integrated international business platform to provide its clients with comprehensive financial services with one-stop shop experience
- Develop internet finance
- Capture the opportunities presented by the reform of the securities sector in Hong Kong and the PRC to further develop cross-border businesses
- Continues to enhance capital management, risk management, internal control and IT capabilities and improve operation efficiency
- Continue to attract high-quality professionals with in-depth business and industry knowledge in Hong Kong and the PRC

OVERVIEW OF THE COMPANY GROUP

Headquartered in Shandong Province and established in 2001, the Company Group is one of the leading financial service providers in China. The shares of the Company were listed on the Shanghai Stock Exchange in June 2020 (stock code: 600918). The Company Group offers a wide range of securities financial services to its clients, including securities and futures brokerage, underwriting, financial advisory, private equity, listing sponsorship and asset management. Anchored by the Company, a prominent state-owned enterprise that is indirectly majority-owned by and under the control of Shandong SASAC, the Company Group has an extensive business network in China, comprising 41 branch companies and approximately 284 securities operations offices in China as at 31 December 2019. In 2011, the Company Group extended its footprint to Hong Kong by establishing the Guarantor as its principal overseas platform to capture the growing cross-border business opportunities in the international financial markets.

According to the Business Performance and Ranking of Securities Companies in 2019 (2019年度證券公司經營業績排名情況) published by the Securities Association of China (中國證券業協會), the Company was ranked 16th in terms of total operating revenue, 17th in terms of total assets, 15th in terms of net assets and 15th in terms of net profit attributable to owners of the parent company in the PRC for the year. In addition, according to the 2019 Specialised Statistics regarding Bond Underwriting Business of Securities Companies (2019年證券公司債券承銷業務專項統計) published by the Securities Association of China, the Company was ranked ninth in terms of aggregate number of green bonds transactions (including asset-back securities) and third in terms of aggregate deal volume of green bonds issued (including asset-back securities) in the PRC for the year.

For the years ended 31 December 2017, 2018 and 2019, revenue of the Company Group was RMB8,168.9 million, RMB7,025.2 million and RMB9,709.0 million, respectively, and its net profit was RMB1,895.9 million, RMB1,070.1 million and RMB2,294.0 million, for the same periods. As at 31 December 2017, 2018 and 2019, the Company Group had total assets of RMB132.2 billion, RMB136.1 billion and RMB146.6 billion, respectively. As at 31 December 2017, 2018 and 2019, the Company Group had total net assets of RMB34.1 billion, RMB32.9 billion and RMB35.0 billion, respectively.

ISSUER

The Issuer was incorporated as a business company with limited liability on 11 August 2014 under the laws of the British Virgin Islands and is a wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not engaged in any material activities other than those relating to the issue of RMB1,500 million senior bonds in September 2014, the issue of US$200 million guaranteed bonds in February 2018, the issue of US$200 million guaranteed bonds in March 2019, the issue of three series of private placement guaranteed bonds in an aggregate principal amount of US$77 million in March 2020 and the proposed issue of the Bonds. For further information, see "*Description of the Issuer*".

RECENT DEVELOPMENT

Company's proposed capital injection into the Guarantor

On 23 July 2020, the Company published an announcement in the PRC in connection with its proposed capital injection into the Guarantor. According to the announcement, the Company has obtained the approval from its board of directors for such capital injection estimated to be of a maximum amount of RMB1,600 million (or an equivalent amount in HK$). As at the date of this Offering Circular, completion of the capital injection remains subject to the necessary regulatory or governmental approvals, consents, filings and clearances.

THE ISSUE

The following contains summary information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Bonds" and "Summary of Provisions Relating to the Bonds in Global Form" shall have the same meanings in this summary. For a more comprehensive description of the terms of the Bonds, see "Terms and Conditions of the Bonds" in this Offering Circular.

Issuer	Zhongtai International Finance (BVI) Company Limited (中泰國際財務(英屬維爾京群島)有限公司).
Guarantor	Zhongtai Financial International Limited (中泰金融國際有限公司).
Company	Zhongtai Securities Co., Ltd. (中泰証券股份有限公司).
Guarantee	The Guarantor will unconditionally and irrevocably guarantee (the "**Guarantee**") the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed will be contained in the Trust Deed.
Issue	US$300,000,000 in aggregate principal amount of 3.85 per cent. Bonds due 2023.
Issue Price	100 per cent.
Form and Denomination . .	The Bonds will be issued in registered form in the specified denomination of US$200,000 and integral multiples of US$1,000 in excess thereof.
Interest	The Bonds will bear interest on their outstanding principal amount from and including 12 August 2020 at a rate of 3.85 per cent. per annum, payable semi-annually in arrear in equal instalments on 12 February and 12 August in each year, commencing 12 February 2021.
Issue Date	12 August 2020.
Maturity Date	12 August 2023.
Status of the Bonds	The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer which shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all the Issuer's other present and future unsecured and unsubordinated obligations.
Status of the Guarantee . .	The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Bonds, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Guarantor.

Negative Pledge	The Bonds will contain a negative pledge provision, as further described in Condition 4(a) of the Terms and Conditions of the Bonds.
Events of Default	The Bonds will contain certain events of default provisions as further described in Condition 9 of the Terms and Conditions of the Bonds.
Taxation	All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee 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 within the British Virgin Islands, Hong Kong or the PRC, in each case including any political subdivision or authority therein or thereof having power to tax (a "**Relevant Jurisdiction**"), unless such withholding or deduction is required by law, as further described in Condition 8 of the Terms and Conditions of the Bonds. In such event, the Issuer or, as the case may be, the Guarantor shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, increase the amounts paid by it to the extent required, so that the net amount received by the holders of the Bonds equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.
Final Redemption	Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.
Redemption for Tax Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice in writing to the Bondholders, the Trustee and the Principal Paying Agent (which notice shall be irrevocable), at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if the Issuer (or, the Guarantor, as the case may be) satisfies the Trustee immediately prior to the giving of such notice that (i) it 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 a Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 5 August 2020, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due, as further described in Condition 6(b) of the Terms and Conditions of the Bonds.

Redemption for Relevant Events	At any time following the occurrence of a Relevant Event, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only (subject to the proviso below), of such holder's Bonds on the Put Date at 101 per cent. (in the case of a redemption for a Change of Control (as defined in the Terms and Conditions of the Bonds)) or 100 per cent. (in the case of a redemption for a No Filing Event (as defined in the Terms and Conditions of the Bonds)) of their principal amount, together with interest accrued to (but excluding) the Put Date, as further described in Condition 6(c) of the Terms and Conditions of the Bonds.
Clearing Systems.	The Bonds will initially be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers whereof will be effected only through records maintained by Euroclear and Clearstream. Except as described in the Global Certificate, certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
Common Code	220311112.
ISIN	XS2203111120.
LEI Code	3003001PCV6AS7RLTI09.
Governing Law	English law.
Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent. . .	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Listing.	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only.
Further Issues	The Issuer may from time to time without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, issue price, amount of the first payment of interest on them and the description of the Bonds (including the further Bonds), related corporate resolutions as set out in the introductory paragraphs of the Terms and Conditions of the Bonds and the timing for complying with the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds, as further described in Condition 15 of the Terms and Conditions of the Bonds.
Use of Proceeds	See "*Use of Proceeds*".

Keepwell Deed	The Issuer, the Guarantor, the Company and the Trustee will enter into a Keepwell Deed as further described in "*Description of the Keepwell Deed*".

SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

The following tables present the summary consolidated financial information of the Guarantor. The summary consolidated statements as at and for the years ended 31 December 2017, 2018 and 2019 set forth below (except for the EBITDA data) have been derived from the Guarantor Audited Financial Statements, as audited by SHINEWING (HK) CPA Limited, the independent auditor of the Guarantor. The Guarantor Audited Financial Statements have been prepared and presented in accordance with the HKFRS, which differs in certain respects from generally accepted accounting principles in other jurisdictions. This summary consolidated financial information as set forth below should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements of the Guarantor and, including the notes thereto.

SUMMARY CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December		
	2017	**2018**	**2019**
	(HK$'000) Audited	*(HK$'000)* Audited	*(HK$'000)* Audited
Revenue	802,649	991,441	1,111,779
Other income	42,738	(19,409)	(40,933)
Total revenue and other income and gains or losses	845,387	972,032	1,070,846
Staff costs	(191,627)	(250,390)	(248,285)
Commission expenses	(42,683)	(48,507)	(38,971)
Depreciation	(9,317)	(14,620)	(50,646)
Other operating expenses	(190,929)	(166,446)	(141,624)
Impairment losses, net	(80,972)	(81,819)	(118,187)
Finance costs	(259,746)	(353,106)	(382,401)
Total expenses	(775,274)	(914,888)	(980,114)
Operating profit	70,113	57,144	90,732
Share of loss from an associate	(834)	(422)	–
Gain (loss) on disposal of an associate	–	6,868	–
Profit before taxation	69,279	63,590	90,732
Taxation	(24,170)	(16,216)	(17,143)
Profit for the period	45,109	47,374	73,589
Other comprehensive income (expense)			
Items that may not be reclassified subsequently to profit or loss:			
Change in fair value of equity investments at fair value through other comprehensive income	–	(35,616)	6,360
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operation	19,468	(72,921)	(446)
Change in fair value of debt instruments at fair value through other comprehensive income	–	(1,104)	3,703
Reclassified to profit or loss upon disposal of debt instruments at fair value through other comprehensive income.	–	–	(2,599)
Reclassification adjustments for cumulative loss included in profit or loss upon disposal	31,893	–	–
Fair value gain on available-for- sale investments	13,411	–	–
Share of other comprehensive expense of an associate	127	–	–
Other comprehensive income (expense) for the period	64,899	(109,641)	7,018
Total comprehensive income (expense) for the period	110,008	(62,267)	80,607

SUMMARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2017	2018	2019
	(HK$'000) Audited	*(HK$'000)* Audited	*(HK$'000)* Audited
Assets			
Current assets			
Investments at amortised cost	–[1]	436,076	816,328
Margin loans to customers	1,831,393	1,529,272	1,319,266
Loan receivables	504,993	25,000	15,000
Available-for-sale investments	243,412	–	–
Held-to-maturity financial assets	42,597	–	–
Accounts receivables	168,572	464,012	565,083
Finance lease receivables	601,173	246,776	167,036
Other receivables, deposits and prepayments	94,771	89,644	129,135
Tax recoverable	8,501	13,842	6,284
Derivatives financial assets	5,748	1,312	854
Financial assets at fair value through profit or loss	2,226,317	3,729,409	4,158,089
Bank balances – segregated	714,780	796,068	1,020,107
Bank balances and cash – general	2,215,320	3,279,088	1,177,482
Total current assets	8,657,577	10,610,499	9,374,664
Non-current assets			
Investments at amortised cost	–[1]	3,661,491	3,915,633
Other non-current assets	9,495	6,016	5,820
Property and equipment	23,926	29,413	23,422
Right-of-use assets	–	–	70,871
Financial assets at fair value through other comprehensive income	–[1]	148,594	76,744
Held-to-maturity financial assets	2,451,749	–	–
Loan receivables	78,175	–	–
Finance lease receivables	277,072	168,980	30,968
Interest in an associate	20,416	–	–
Deferred tax assets	4,817	1,218	3,910
Total non-current assets	2,865,650	4,015,712	4,127,368
Total assets	11,523,227	14,626,211	13,502,032
Capital and reserves			
Share capital	1,790,983	1,790,983	1,790,983
Reserves	4,626	(51,395)	23,620
Non-controlling interests	286,790	67,960	–
Total equity	2,082,399	1,807,549	1,814,603
Liabilities			
Current liabilities			
Accounts payables	875,314	2,483,196	1,087,953
Lease liabilities	–	–	35,822
Contract liabilities	–	6,779	4,127
Derivatives financial liabilities	12,502	1,961	2,168
Financial liabilities at fair value through profit or loss	95,780	92,039	249,050
Tax payable	17,040	12,018	17,775
Deposit received from finance lease clients	57,778	22,826	31,176
Financial assets sold under repurchase agreement[2]	–	184,928	543,611
Borrowings	3,867,651	4,006,231	4,585,716
Corporate bonds	–	1,565,608	3,889,692
Other payables and accruals	133,821	165,237	226,673
Third-party interests in consolidated investment funds	956,730	1,026,975	950,448
Total current liabilities	6,016,616	9,567,798	11,624,211

	As at 31 December		
	2017	2018	2019
	(HK$'000) Audited	*(HK$'000)* Audited	*(HK$'000)* Audited
Non-current liabilities			
Deferred tax liability	1,628	203	438
Lease liabilities	–	–	40,788
Deposit received from finance lease client	5,581	19,742	8,909
Borrowings	1,083,542	889,011	13,083
Corporate bonds	2,333,460	2,341,908	–
Total non-current liabilities	3,424,211	3,250,864	63,218
Total liabilities	9,440,827	12,818,662	11,687,429
Total equity and total liabilities	11,523,226	14,626,211	13,502,032
Net current (liabilities) assets	2,640,961	1,042,701	(2,249,547)
Total assets less current liabilities	5,506,611	5,058,413	1,877,821

Note:

(1) Nil balance for the year ended 31 December 2017 was due to the new adoption of HKFRS 9 starting from 1 January 2018.

(2) This line item related to a new business activity that commenced in 2018.

SUMMARY CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended 31 December		
	2017	2018	2019
	(HK$'000) Audited	*(HK$'000)* Audited	*(HK$'000)* Audited
Net cash flows from (used in) operating activities	190,928	1,375,686	(1,045,604)
Net cash flows from (used in) investing activities	(790,324)	(1,280,052)	(262,462)
Net cash flows from (used in) financing activities	1,031,028	975,530	(777,470)
Net increase (decrease) in cash and cash equivalents	431,632	1,071,164	(2,085,536)
Effect of exchange rate change	2,861	(7,396)	(16,070)
Cash and cash equivalents at beginning of period	1,780,827	2,215,320	3,279,088
Cash and cash equivalents at end of the period represented by bank balances and cash – general	2,215,320	3,279,088	1,177,482

OTHER FINANCIAL DATA

	For the year ended 31 December		
	2017	2018	2019
	Unaudited	Unaudited	Unaudited
EBITDA[1] (HK$'000)	338,300	431,300	523,800
EBITDA/interest expense	1.3	1.2	1.4
Total liabilities/EBITDA	27.9	29.7	22.3

Note:

(1) EBITDA refers to profit before taxation plus finance costs, depreciation and amortisation. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of performance or as an indicator of the Guarantor Group's operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare the Guarantor Group's EBITDA to EBITDA presented by other companies because not all companies use the same definitions.

RISK FACTORS

An investment in the Bonds is subject to a number of risks. Investors should carefully consider all of the information in this Offering Circular and, in particular, the risks described below, before deciding to invest in the Bonds. The following describes some of the significant risks that could affect the Guarantor Group, the Company Group and the value of the Bonds. Some risks may be unknown to the Guarantor Group and the Company Group and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations and prospects of the Guarantor Group and the Company Group. The market price of the Bonds could decline due to any of these risks, and investors may lose part or all of their investment. The Issuer, the Guarantor and the Company do not represent that the statements below regarding the risk factors of holding any Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decisions. This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Guarantor Group and the Company Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Circular.

RISKS RELATING TO THE GUARANTOR GROUP'S BUSINESS

General economic and market conditions could materially and adversely affect the Guarantor Group's and the Company Group's business.

Substantially all of the Guarantor Group's and Company Group's revenue is derived from the financial markets. Like other businesses operating in the same industry, the Guarantor Group's and Company Group's business is heavily affected by the inherent risks associated with the financial markets, such as market volatility, fluctuations in the trading volume and the credit capacity or perceived credit worthiness of the securities industry in the marketplace, among other risks. The Guarantor Group's and the Company Group's business is also subject to general economic and political conditions, such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability of short-term and long-term market funding sources, cost of funding and the level and volatility of interest rates.

Moreover, 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 global economy, profound changes occurred to the securities market and the level of volatility of the securities market fluctuated for the past three years. For example, SSE Composite Index kept rising from 3,234.68 as at the end of 2014 and peaked at 5,166.35 in 12 June 2015. However, the PRC A share market fell sharply from mid-June 2015 with SSE Composite Index closing at 2,737.60 on 29 January 2016. Through 2016 to 2017, SSE Composite Index saw a slow growth closing at 3,307.17 on 29 December 2017, which nevertheless represented a decrease of 35.99% compared to 5,166.35 on 12 June 2015. In the first half of 2018, the PRC A share market volatility increased and investors' risk appetites reduced on deepened leveraging and escalated trade friction. While financial markets in Hong Kong also saw a steady recovery and growth through 2016 to 2017, the Hang Seng Index became volatile and unstable since early February 2018, following multiple interest hikes by the U.S. government, currency depreciations of emerging markets, escalated China-U.S. trade friction and the COVID-19. Market volatility, especially in the Hong Kong and the PRC financial markets, may materially and negatively impact the Guarantor Group's and the Company Group's business, results of operations, financial conditions and prospects.

Starting in April 2018, the United States imposed tariffs on various categories of imports from China, and the PRC responded with similarly sized tariffs on United States' products. While China and the United States reached a phase one trade deal in January 2020, the amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the PRC economy and the global economy and the industries which the Guarantor Group's and the Company Group's clients operate in remain uncertain. In Europe, the exit of the United Kingdom from the European Union, and any prolonged period of uncertainty which results, could have a significant negative impact on international markets. The combined effect of the on-going COVID-19 pandemic and decreasing oil prices driven by the Russia-OPEC price war also contributed to the turbulence in the securities and financial markets.

Any of the foregoing events could lead to further negative impact, including significant declines in stock exchange indices, falls in the values of currencies, increases in exchange rates and/or greater volatility of markets in general.

Investors should be aware that there are recent historical financial crises and boom-bust cycles in multiple markets in both emerging and developed economies which leads to risks for all financial institutions, including the Guarantor Group and the Company Group. Turmoil in the financial markets, a downturn in general economic conditions or other risks associated with the Guarantor Group's and the Company Group's business and the securities markets in general could reduce securities trading and corporate finance activities and adversely affect the value of certain financial assets, which may consequently have a material adverse effect on the Guarantor Group's and the Company Group's commission and fees from brokerage, investment banking and asset management businesses, as well as the Guarantor Group's and the Company Group's returns on financial assets and investments. A reduction in the Guarantor Group's and the Company Group's income or a loss resulting from their respective underwriting, investments or trading activities could have a material adverse effect on the Guarantor Group's and the Company Group's business, financial condition and results of operations. As a result of these risks, the Guarantor Group's and the Company Group's income and operating results may be subject to significant fluctuations.

The Guarantor Group's businesses are highly regulated in Hong Kong.

The Guarantor Group's business operations are subject to various applicable laws, regulations and codes of relevant regulatory authorities in Hong Kong. From time to time, the Hong Kong regulatory regime for the financial services industry (for example, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**")) has implemented changes in such rules and regulations, some of which have resulted in additional costs to or restrictions on the Guarantor Group's business activities. If the Guarantor Group fails to comply with the applicable rules and regulations, it may become subject to enquiries and/or investigations by the relevant regulatory bodies and if the results of any investigations or enquiries are severe or proved to involve serious misconduct, the Guarantor Group may be subject to penalties including fines and/or restrictions on its business activities. In extreme cases, it may be hampered or prevented from conducting business in a normal manner and some or all of the Guarantor Group's operation licences may become suspended or revoked. Where penalties are substantial or protracted litigation is involved, the Guarantor Group's reputation and financial position may be jeopardised. In such cases, there may be material and adverse impact on its business, financial condition, results of operations and prospects.

The Guarantor Group operates in sectors facing increasing competition in Hong Kong.

The Guarantor Group faces increasing competition in the financial services industry in Hong Kong. The financial services industry in Hong Kong houses a large number of participants and is highly competitive. The Guarantor Group faces increasing competition from Chinese securities institutions with similar background, multinational financial institutions including banks and investment banks with global networks and local securities institutions in the financial services industry in Hong Kong. According to information published by the SFC, as at 31 March 2020, there were a total of 3,109 licensed corporations engaging in regulated activities in Hong Kong.

The Guarantor Group is currently engaged in Type 1, Type 2, Type 4, Type 6 and Type 9 regulated activities in Hong Kong. New participants may enter the industry or the same regulated activities as the Guarantor Group, provided that they have engaged professionals with the appropriate skills and have obtained the requisite licences and permits.

Generally, competition in the traditional brokerage business in Hong Kong has been fierce. The Guarantor Group expects that competition in all areas of the Guarantor Group's business operations will continue to be intense. Moreover, the Guarantor Group may not be able to compete effectively and successfully in all the business areas in which it currently operates or plans to operate. Increased competitive pressure may adversely affect the Guarantor Group's business, financial condition and results of operations by, amongst other things, (1) reducing the Guarantor Group's market share in its principal lines of businesses; (2) decreasing the Guarantor Group's net interest margins and spreads; (3) decreasing the Guarantor Group's fee and commission income; (4) increasing non-interest expenses, such as sales and marketing expenses; and (5) increasing competition for qualified employees.

There is no assurance that the Guarantor Group can compete effectively against its current and future competitors. Moreover, the Guarantor Group's business objectives may become impractical and/or impossible due to the competitive forces in the market. Under those circumstances, the Guarantor Group's core business and financial performance would be adversely affected.

Substantial indebtedness may restrict the Guarantor Group's business activities and increase its exposure to various operational risks.

The Guarantor Group relies on bank loans and other borrowings to satisfy a portion of its capital requirements and it has a significant amount of outstanding indebtedness. As at 31 December 2019, the Guarantor Group's total outstanding indebtedness (comprising short-term and long-term bank borrowings and short-term corporate bonds) was HK$8,488.5 million, of which 99.8 per cent. of the Guarantor Group's total outstanding indebtedness was short-term borrowings repayable within one year.

Substantial indebtedness could affect the Guarantor Group's business in a number of ways, including:

- requiring it to divert capital resources to service its indebtedness;
- increasing its finance costs, thus affecting its overall profit;
- decreasing its financial flexibility in carrying on the Guarantor Group's business or responding to unexpected market changes;
- limiting, together with the financial and other restrictive covenants of the Guarantor Group's indebtedness, among other things, its ability to borrow additional funds; and
- increasing the Guarantor Group's vulnerability to adverse general economic and industry conditions.

As the Guarantor Group's business scale continues to grow, its capital requirement and its reliance on external financing may continue to increase. The Guarantor Group's financial performance and operating results may be materially and adversely affected if its cash flows and capital resources are insufficient to fund its debt service obligations. Failure to service the Guarantor Group's debt could result in the imposition of penalties, including increases in rates of interest that the Guarantor Group pays on its legal actions against the Guarantor Group by its creditors, or bankruptcy.

Restrictive covenants contained in credit facilities may limit the Guarantor Group's ability to incur additional indebtedness and restrict its future operations, and failure to comply with these restrictive covenants may adversely affect its liquidity, financial condition and results of operations.

Certain financing contracts entered into by the Guarantor Group's subsidiaries contain operational and financial restrictions that prohibit the borrowers from incurring additional indebtedness unless they are able to satisfy certain financial ratios, restrict the borrowers from creating security or granting guarantees or prohibit the borrowers from changing their business and corporate structure, without the lenders' prior consent. Such restrictions may negatively affect the relevant companies' ability to respond to changes in market conditions, pursue the business opportunities the Guarantor Group believes to be desirable, obtain future financing, fund capital expenditures, or withstand a continuing or future downturn in the Guarantor Group's business. Any of these factors could materially and adversely affect the Guarantor Group's ability to satisfy its obligations under outstanding financial obligations, such as the Bonds after issuance.

If the Guarantor Group or any of its member companies is unable to comply with the restrictions and covenants in the current or future debt obligations and other financing agreements, a default under the terms of such agreements may occur. In the event of a default under such agreements, the creditors may be entitled to terminate their commitments granted to the Guarantor Group, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, depending on the provisions of the relevant agreements. Some of the Guarantor Group's financing agreements contain cross-acceleration or cross-default provisions, which give creditors under these financing agreements to require the Guarantor Group to immediately repay their loans or declare a default of borrower as a result of the acceleration or default of other financing agreements by any other member of the Guarantor Group. If any of these events occur, the Guarantor Group may not be able to obtain the lenders' waiver in a timely manner or that the assets and cash flow of the Guarantor Group or its subsidiaries would not be sufficient to repay in full all of the respective debts as they become due, or that the Guarantor Group or its subsidiaries would not be able to find alternative financing. Even if the Guarantor Group or its subsidiaries could obtain alternative financing, there can be no assurance that it would be on terms that are favorable or acceptable to the Guarantor or, as the case may be, its subsidiaries.

Some of the Guarantor Group's assets are provided as security to secure its borrowings. Third-party security rights may limit the Guarantor Group's use of those assets and may adversely affect its operation efficiency. If the Guarantor Group is unable to service and repay their debts under such loan facilities on a timely basis, the assets mortgaged or charged to secure the Guarantor Group's bank loans may be foreclosed, which may adversely affect its business, financial condition, results of operations and prospects.

Any acquisition or strategic investment that the Guarantor Group undertakes could be difficult to integrate and may not yield the expected results and benefits, which may adversely affect its operations.

The Guarantor Group may from time to time to expand its business scale and product offerings to capture more business opportunities in international financial markets through mergers and acquisitions and strategic alliances. Acquisitions and strategic investments involve inherent operational risks, including difficulties in the assimilation of operations, corporate culture and personnel of the acquired business, diversion of management's attention from other business concerns, risks of entering into new markets and the potential loss of key employees of the acquired business. The successful integration of an acquired business may be affected by the size and complexity of the acquired business and the execution of the integration plan by its management. The Guarantor Group may face unexpected delays or encounter difficulties that require the allocation of additional resources to deal with such problems. Further, synergies may not be realized among the Guarantor Group's existing businesses and acquired businesses. In addition, the Guarantor Group's ability to grow by acquisitions depends on, and may be limited by, the availability of suitable acquisition candidates, its ability to negotiate acceptable acquisition terms and its assessment of the characteristics of potential acquisition targets. There can be no assurance that the Guarantor Group will be successful in identifying, developing or investing in targets or businesses that will complement its existing operations or that will otherwise be successful. Moreover, any acquisitions or strategic investments could involve the incurrence of substantial additional indebtedness. There is no assurance that any such transactions undertaken by the Guarantor Group will yield the benefits and advantages as expected. Each of these factors could have a material adverse effect on its business, results of operations and financial condition.

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

Since the Guarantor is wholly-owned by the Company, the Company has substantial influence over the Guarantor's business, including decisions regarding mergers, consolidations and the sale of all or substantial all of its assets, election of directors, timing and amount of dividends or other distributions and other significant corporate actions. In the event that there is any negative effect on the Company's reputation, the Guarantor or, as the case may be, the Guarantor's subsidiaries may be left in a disadvantageous position.

RISKS RELATING TO THE COMPANY GROUP'S BUSINESS AND INDUSTRY

The Company Group faces increasing competition in the financial services industry in Hong Kong and the PRC.

The Company Group's businesses operate in intensely competitive markets, in particular, the financial services industry in the PRC and Hong Kong. The Company Group competes on the basis of a number of factors, including price, products and services, innovation, transaction execution capability, reputation, experience and knowledge of the Company Group's staff, employee compensation and geographic scope.

The Company Group competes principally with large international and other PRC securities firms in China and Hong Kong. The Company Group also faces increasing competition from investment banks, especially in the Company Group's investment banking and brokerage businesses. In addition, the Company Group competes 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 into in the future.

Many of the financial institutions that the Company Group competes 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 foreign financial institutions that the Company Group competes with have been expanding the operations in China, either organically or in partnership with existing financial institutions in China. The Company Group expects that it will face greater competition from the Company Group's foreign competitors if these limitations and restrictions are lifted in the future. The Company Group also faces increasing competition in overseas financial markets due to the expansion of the Company Group's international operations.

The Company Group also competes for clients and faces competition in attracting and retaining professionals and other skilled and qualified employees. The competition among large investment banks for qualified sponsor representatives and other high-quality professionals is substantial. The Company Group's ability to continue to compete effectively in its business will depend upon its ability to attract new employees and retain and motivate existing employees. If the Company Group is unable to compete successfully in any of its principal lines of businesses, the Company Group's business, financial condition and results of operations would be materially adversely affected.

Changes which impact the competitive environment in the PRC securities industry may have a material and adverse effect on the Company Group's business.

If the PRC government gradually deregulates the PRC securities industry, it may attract new competitors to the securities industry or allow the Company Group's current competitors to expand its business scope into new business segments. The deregulation of the PRC securities industry could also attract more foreign financial institutions to enter the PRC market to conduct investment banking and other related businesses. These institutions are currently subject to PRC regulatory limitations and restrictions on their business activities.

In March 2015, the CSRC stated that it was evaluating a proposal to open up the PRC securities industry to other financial institutions such as commercial banks, but did not provide a timetable on when the new policy would be implemented. The Company Group believes that allowing PRC commercial banks to enter the securities industry will intensify market competition in securities brokerage, equity underwriting and other businesses, as commercial banks generally have greater financial resources, wider branch networks and larger client bases compared with securities companies. In addition, such deregulation trend of the PRC securities industry could also attract more foreign financial institutions to enter the PRC market to conduct investment banking and other related business. In addition, as China gradually increases the shareholding cap of foreign investors in securities companies and broadens the business scopes of foreign-invested securities companies, international investment banks with strong capital, advance business capabilities may participate in the PRC securities markets, which will further increase the competitive pressure on the domestic securities companies such as the Company Group to maintain and expand its client base and market share. On 20 July 2019, the Office of the Finance Stability and Development Committee under the State Council issued the Relevant Measures for Further Opening Up the Financial Industry (《關於進一步擴大金融業對外開放的有關措施》), which announced that the timeline of lifting the restriction on the ratio of foreign stakes in securities companies, fund management companies and futures companies was brought forward from the schedule 2021 to 2020.

Moreover, in recent years, internet financial services companies have entered the PRC financial industry with large client bases and advantages in providing innovative services through the internet. Their services may be considered by the Company Group's clients or potential clients as a favourable alternative for managing their funds or fulfilling their needs for investments.

Any of the above changes in the competitive environment in the PRC securities industry may increase the level of competition. As a result, the Company Group's business, financial condition and results of operations may be materially and adversely affected.

The Company contributed to China Securities Finance Corporation Limited (中國證券金融股份有限公司) in response to government measures for stabilising the PRC stock market, which may increase its exposure to market and other risks.

Due to the significant fluctuations in the A share market in 2015, the PRC government introduced measures to stabilise the market. As a result, the Company and 20 other major securities companies in the PRC issued a joint announcement on 4 July 2015, pursuant to which they each undertook that: (i) they would contribute an aggregate amount of no less than RMB120.0 billion, representing at least 15 per cent. of their aggregate net assets value as at 30 June 2015, to China Securities Finance Corporation Limited ("**CSFCL**") for investment in the PRC blue-chip exchange-trade funds ("**ETFs**"); and (ii) they would not reduce the position of their A share proprietary trading portfolio to a level below the position as at 3 July 2015, if the SSE Composite Index is below 4,500. Simultaneously, the Company also entered into transaction confirmation of income swaps and a master agreement on transactions of over-the-counter derivatives in PRC Securities and Futures Markets with CSFCL. Accordingly, the Company contributed a total amount of RMB4.6 billion as an investment fund to CSFCL, consisting of RMB3.4 billion made on 2 July 2015 and RMB1.2 billion made on 2 September 2015, respectively. Such contributions were deposited in a designated account under the unified operation of CSFCL for the purposes of investment in PRC blue-chip ETFs and blue-chip stocks.

The Company shares the investment risks and gains in proportion to its contributions. Nonetheless, the Company cannot control how CSFCL uses the contributions and when the Company can redeem its contributions. The Company may incur losses due to the disposal or impairment of such contributions in the future, and its financial condition may fluctuate due to the revaluation of the contributions at the end of a period, both of which may materially and adversely affect its results of operations and financial conditions. Going forward, the Company may also incur additional losses from similar contributions that may be required or made in response to government measures for stabilising the PRC stock market during market fluctuations.

The PRC government (including the Shandong Provincial Government and Shandong SASAC) has no obligation to pay any amount under the Bonds.

The PRC government (including the Shandong Provincial Government and Shandong SASAC) is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Financing Activities Conducted by 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)(the "**MOF Circular**") promulgated on 28 March 2018 and took effect on the same day, and the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of 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) (the "**Joint Circular**") promulgated on 11 May 2018 and took effect on the same day. The description of the relationships between the Issuer, the Guarantor and the Keepwell Provider and the Shandong Provincial Government in this Offering Circular does not imply in any way any explicit or implicit credit support of the Shandong Provincial Government in respect of the Bonds, the repayment of which remains the sole responsibility of the Issuer.

The PRC government as the ultimate shareholder of the Issuer only has limited liability in the form of its equity contribution in the Issuer. As such neither the PRC government nor the Shandong Provincial Government nor Shandong SASAC has any obligation to pay any amount under the Bonds. The Bonds are solely to be repaid by the Issuer as an obligor under the relevant transaction documents and as an independent legal person. In the event that the Issuer or the Guarantor does not fulfil its obligations under the Bonds or the Guarantee, the Bondholders will only be able to claim as an unsecured creditor against the Issuer and the Guarantor and their respective assets, and not any other person including the PRC government, the Shandong Provincial Government, Shandong SASAC and any other local or municipal government. Investors should base their investment decision on the financial condition of the Issuer and the Guarantor Group and any perceived credit risk associated with an investment in the Bonds based on the Guarantor Group's own financial information reflected in the Guarantor Audited Financial Statements. As the MOF Circular and the Joint Circular are relatively new and given the limited volume of published decisions related to these circulars, the interpretation and enforcement of these laws and regulations involve uncertainties.

The Company Group derives a substantial portion of its revenue from securities brokerage commission and any material adverse change in the market conditions affecting the Company Group's securities brokerage business could have a material adverse impact on the Company Group's business, financial condition and results of operations.

For the years ended 31 December 2017, 2018 and 2019, revenue derived from the Company Group's securities brokerage business accounted for 31.8 per cent., 27.2 per cent. and 25.4 per cent., respectively, of its total revenue. The Company Group's brokerage businesses are affected by the performance of the financial markets in Hong Kong, China and principal overseas financial markets, which may be in turn affected by factors beyond the Company Group's control including economic conditions, investment sentiment, competition landscape and fluctuations in interest rates. Before the Company Group is able to develop its investment banking business and asset management business and achieve balanced sources of revenue, any material adverse change in the performance of the Company Group's securities brokerage business may have a material and adverse impact on its overall business, financial condition and results of operations.

The Company Group has historically experienced negative operating cash flow and any decrease in the Company Group's liquidity could materially and adversely affect the Company Group's business, financial condition and results of operations.

Maintaining adequate liquidity is crucial to the Company Group's business operations. The Company Group meets its liquidity needs, including the payment obligations under the Bonds, primarily through cash generated by operating activities, funding by its shareholder and, to a lesser extent, cash provided by external financing. A decrease in the Company Group's liquidity could reduce the confidence of its customers or counterparties, which may result in loss of business and customer accounts or an increase in funding cost. Factors that may adversely affect the Company Group's liquidity position include a significant increase in its margin financing activities, increased regulatory capital requirements, substantial investments, other regulatory changes or a loss of market or customer confidence. The Company Group recorded negative net operating cash flow of approximately RMB29,041.0 million for the year ended 31 December 2017, principally due to a continual decline in its trading and repurchase volumes. Consequently, there cannot be any assurance that the Company Group will not experience negative operating cash flows in the future. In the event that the Company Group is unable to generate sufficient cash flows to meet the demand of its capital and operating expenditure, its operations may have to be funded from its financing activities, which may not be available at term favourable to the Company Group or at all. Accordingly, the Company Group's liquidity may be impaired, which in turn, may have a material and adverse effect on its businesses, prospects, financial condition and results of operations.

Any failure to obtain sufficient capital resources on acceptable terms or in a timely manner may adversely affect the Company Group's business and prospects.

Maintaining the Company Group's competitiveness and implementing its growth strategies both require the Company Group to obtain sufficient funds to replenish its working capital and pursue strategic alliance or acquisitions. The Company Group has historically met its capital requirement through (i) cash flow generated from the its operating activities, (ii) bank and other borrowings, and (iii) capital injection by shareholders. The Company Group believes that it will continue to require substantial capital resources to support its business operations and expansion.

The Company Group's ability to generate sufficient operating cash flow is affected by a number of factors, such as its ability to deliver high quality services on a consistent basis and its ability to compete effectively, changes in the general market conditions and regulatory environment and the competition it faces. Any adverse change in any of these factors, which may be out of the Company Group's control, may create capital shortfall. The Company Group cannot assure that its operating activities are able to generate sufficient cash to satisfy its cash need at all times. Insufficient cash flow generated from the Company Group's operating activities will increase its reliance on external financing.

The Company Group's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including:

- general economic and capital market conditions;
- changes in monetary policies with respect to bank interest rates and lending policy;
- interest rates and credit availability from banks or other lenders;
- interest rates and credit availability from banks or other lenders;
- the Company Group's ability to obtain the regulatory approvals required to access financing;
- laws and regulations that affect bank borrowings and other forms of fund raising activities by the Guarantor Group; and
- social and political conditions in Hong Kong and the PRC generally.

The Company Group may not be able to obtain additional financing, either on a short-term or a long-term basis, or that such financing will be obtained on terms favourable to the Company Group. If the Company Group is unable to obtain financing on a timely basis and at a reasonable cost, it may not be able to implement its growth strategy through expansions. This would restrict the Company Group's ability to grow and, over time, may reduce the quality and reliability of the products and services the Company Group provides and adversely affects its business, financial condition, results of operations and prospects. In addition, substantial indebtedness may in turn increase the pressure on the Company Group's liquidity and cause additional operational risks.

The Company Group may fail to expand into new business in time.

The success of the Company Group's operations depends on, among other things, the proper timing on launching new businesses, products and services to the Company Group's clients. Because the Company Group's businesses operate in a highly competitive environment, any delay or failure to introduce new businesses in time or in response to market demand, or any failure of the Company Group's new products and services to gain timely market acceptance could adversely affect the overall businesses and financial performance of the Company Group.

The Company Group is committed to providing new products and services in order to strengthen its leading market position in Hong Kong and the PRC securities industry. The Company Group will continue to expand its product and service offerings such as FICC, asset securitisation, equity and futures, over-the-counter trading, private equity and other new business, seeking cooperation opportunities with internet corporations, research institutions, private equity funds and other institutions, transacting with new customers and entering into new markets. These expansions expose the Company Group to new and increasingly challenging risks, including but not limited to:

- the Company Group may not be able to obtain the necessary and requisite licences and consents from the regulatory authorities within the expected timeframe in offering new products and services to customers;
- the Company Group may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and customers;
- the Company Group may be subject to greater regulatory scrutiny, increased credit risks, market risks and operational risks;
- the Company Group may suffer from reputational concerns arising from dealing with less sophisticated counterparties and customers;
- the Company Group may be unable to provide customers with adequate levels of service for its new products and services;
- the Company Group may be unable to hire additional qualified personnel to support the offering of a broader range of products and services;
- the Company Group's new products and services may not be accepted by its customers or meet its profitability expectations;
- the Company Group may be unable to obtain sufficient financing from internal and external sources to support its business expansion; and
- the Company Group may not be successful in enhancing its risk management capabilities and IT systems to identify and mitigate all the risks associated with these new products and services, new customers and new markets.

If the Company Group is unable to effectively and timely address major risks and challenges emerged during the course of its expansion and to achieve the intended commercial results with respect to its offering of new products and services, the Company Group's business, financial condition, results of operations and prospects could be materially and adversely affected.

The Company Group's investment banking business may be affected by various risks in the underwriting and sponsorship of securities.

The Company Group's investment banking business is subject to certain risks that are primarily related to the underwriting of securities. The primary offering of securities in Hong Kong and the PRC, especially an IPO, is subject to a merit-based review and approval process conducted by relevant regulatory authorities. The result and timing of these reviews are beyond the Company Group's control and may cause substantial delays to, or the termination of, securities offerings underwritten and sponsored by the Company Group. The Company Group cannot assure that such approvals will be granted in a timely manner or at all in the future. A significant decline in the approval rate of the securities offerings the Company Group sponsors could harm the Company Group's reputation, defeat client confidence and reduce the Company Group's underwriting and sponsors fee income.

The performance of the Company Group's investment banking business also depends on market conditions. Adverse market conditions and capital market volatility may also cause delays to, or the termination of, securities offerings underwritten and sponsored by the Company Group. Significant capital market volatility may adversely affect the investor interest in investing in the securities underwritten by the Company Group. If the Company Group underwrites securities offerings on a firm commitment basis, it would then be required to purchase the unsubscribed portion for its own account, which would materially and adversely affect its liquidity.

Intensifying price competition in investment banking business from investment banks and other securities firms may force the Company Group to charge a lower underwriting fee rate to stay competitive. This could cause a reduction in the Company Group's underwriting and sponsors fees, which could adversely affect its business, financial condition and results of operations. As a result, the Company Group cannot assure that its underwriting and sponsors fees can be sustained at current levels.

The Company Group may face regulatory liabilities, fines, penalties or other disciplinary actions for conducting inadequate due diligence in connection with an offering, fraud or misconduct committed by issuers, their agents, other sponsors or the Company Group itself, misstatements and omissions in disclosure documents, or other illegal or improper activities that occur during the course of the underwriting process.

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

The Company Group receives asset management fees based on the asset size of each asset management plan under its management. For the years ended 31 December 2017, 2018 and 2019, revenue from the Company Group's asset management business amounted to RMB832.7 million, RMB499.8 million and RMB480.0 million, respectively, representing approximately 10.2 per cent., 7.1 per cent. and 4.9 per cent. of the Company Group's total revenue, for the same periods. However, poor investment performance and volatile market conditions could therefore adversely affect the revenue and growth of the Company Group's asset management business because existing clients might withdraw funds or request lower fees or the Company Group's performance fees might decline.

The alternative investment and private equity fund management business of the Company Group is subject to its investment decisions and market volatility.

The Company Group engages in alternative investment and private equity fund management. The alternative investment and private equity fund management business of the Company Group generally involves equity investments in private companies and investment in private equity funds with its own capital. The Company Group earns investment returns from dividends paid by its portfolio companies and generates capital gains from exits through an IPO or share sale by its portfolio company. To make a sound investment decision, the Company Group needs to identify carefully and select a target business based on the prospectus of the industry which it operates, market potentials, level of technology, operation ability and business model. In general, this selection process involves a systematic analysis and forecast of the target's profitability and sustainability. However, the Company Group may make unsound investment decisions, and its portfolio companies may take longer than expected to mature to a stage suitable for IPOs. As such, the investment period of the Company Group would be longer than it anticipated which could reduce its returns on investment. In addition, the ability of the Company Group to exit a private equity investment is also subject to market conditions in the PRC. Due to volatile equity capital markets, the Company Group may be forced to sell its investments at undesirable prices or defer sales for a considerable period of time or may not be able to sell at all. If the Company Group cannot sell its private equity investments during the planned disposition period, its investment returns will continue to be exposed to markets risks. Furthermore, if the target company does not reach the profitability the Company Group anticipated, its ability to exit from, or receive dividends on, such investments could be severely constrained. As a result, the business, financial condition and results of operations of the Company Group could be materially and adversely affected.

The Company Group's main businesses are subject to extensive regulatory requirements and any noncompliance could have an adverse impact on the Company Group's business, reputation and results of operations.

As a participant in the securities and financial services industries, the Company Group is subject to extensive regulatory requirements in Hong Kong and the PRC, which are designed to ensure the integrity of the financial markets, the soundness of securities firms and other financial institutions and the protection of investors. These regulations often serve to limit the Company Group's activities by, among other things, imposing capital requirements, limiting the types of products and services the Company Group may offer and restricting the types of securities in which the Company Group may invest. In addition, these regulations may also require the Company Group to obtain relevant approvals or licences for conducting businesses. Regulatory authorities from time to time conduct inspections, examinations and inquiries in respect of the Company Group's compliance with such requirements. On 1 September 2016, the Company received a notice from the CSRC that the CSRC decided to initiate an investigation against the Company relating to a NEEQ listing transaction in which the Company acted as market maker. On 22 December 2017, the CSRC notified the Company in writing that it had concluded the investigation and determined that the Company's actions constituted market-making with a penalty of RMB1 million consequently levied on the Company.

From time to time, the regulatory regime for the financial services industry in Hong Kong and the PRC has implemented changes in such rules and regulations, some of which have resulted in additional costs to or restrictions on the Company Group's business activities. Since 2012, the SFC and the Hong Kong Stock Exchange initiated a reform of the sponsor regime in relation to the initial public offerings and stock listing in Hong Kong. The reform has significantly increased the legal liabilities of investment banks and securities firms when they sponsor initial public offerings and stock listing in Hong Kong. Failure to comply with the applicable regulations and guidelines may subject relevant entities to sanctions, fines, penalties or other disciplinary actions, such as suspension or revocation of important licences. Where penalties are substantial or protracted litigation is involved, the Company Group's reputation may be damaged and its business, financial condition, results of operations and prospects may be materially and adversely affected.

The Company Group's business may be materially adversely affected if the Company Group fails to maintain their risk management and internal control system or these systems are proved to be ineffective or inadequate.

The Company Group has established risk management and internal control systems and procedures. Certain areas within its risk management and internal control systems may require constant monitoring, maintenance and continual improvements by its senior management and staff. The Company Group's businesses and prospects may be materially and adversely affected if its efforts to maintain these systems are proved to be ineffective or inadequate.

The Company Group has a relatively short operating history. Deficiencies in the Company Group's risk management and internal control systems and procedures may adversely affect its ability to record, process, summarise and report financial and other data in an accurate and timely manner, as well as adversely impact on its ability to identify any reporting errors and non-compliance with rules and regulations.

The Company Group's internal control system, no matter how sophisticated in designs, still contains inherent limitations caused by mis-judgment or fault. As such, there is no assurance that its risk management and internal control systems are adequate or effective notwithstanding the above-mentioned efforts, and any failure to address any internal control matters and other deficiencies could result in investigations and/or disciplinary actions or even prosecution being taken against the Company Group and/or its employees, disruption to its risk management system, and material and adverse effects on the Company Group's financial condition, results of operations and prospects.

The Company Group may suffer significant losses from its credit exposures.

The Company Group's businesses are subject to risks that a customer or counterparty may fail to perform its contractual obligations or that the value of collateral held to secure the obligations might be inadequate. While the Company Group has internal policies and procedures designed to manage such risks, these policies and procedures may not be fully effective. The Company Group's credit exposure mainly results from its margin financing, IPO financing and other financing services and the Company Group's role as a counterparty in financial and derivative contracts. Any material non-payment or non-performance by a customer or counterparty could adversely affect the Company Group's financial position, results of operations and cash flows.

In addition, the Company Group has exposure to credit risk associated with the Company Group's available-for-sale investments. These investments may also be subject to price fluctuations as a result of changes in the financial market's assessment of the issuer's creditworthiness, delinquency and default rates and other factors, which could adversely affect the Company Group's financial condition and results of operations.

Interest rate fluctuations may affect the Company Group's profitability.

The Company Group's exposure to interest rate risk is primarily associated with its interest income, interest expenses and fixed income securities. The Company Group earns interest income bank deposits (including its own deposits and customer deposits), margin financing and securities lending business and financial assets held under resale agreements. Interest income from these sources is directly linked to the prevailing market interest rates. During periods of declining interest rates, the Company Group's interest income would generally decrease.

The Company Group also makes interest payments on deposits it holds on behalf of its customers, its short-term borrowings and repurchase transactions. These interest expenses are directly linked to the prevailing market interest rates. During periods of rising interest rates, the Company Group's interest expenses and financing costs would generally increase.

In addition, the Company Group holds income securities. During periods of rising interest rates, market prices and the Company Group's investment returns on fixed income securities will generally decrease. Significant interest rate fluctuations could reduce the Company Group's interest income or returns on fixed income investments, or increase its interest expenses, any of which could adversely affect the Company Group's financial condition and results of operations.

Fluctuations in stock markets could affect the Company Group's financial assets.

Fluctuations in stock markets could affect the Company Group's investments and financial assets. Poor market conditions could affect the value of its financial assets while favourable market conditions may not be sustainable. Lack of liquidity or price volatility could reduce the value of the financial assets that the Company Group invests in or manages which, in turn, may have a material adverse effect on its business, growth prospects, net inflows of asset under management, fee income, results of operations and/or financial condition. The Company Group may also suffer losses on stock index futures contracts it enters into if stock indices move unfavourably.

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

The success of the Company Group's business is dependent to a large extent on its ability to attract and retain key personnel who possess in-depth knowledge and understanding of the securities and financial markets. These key personnel include members of the Company Group's senior management, licensed sponsor representatives, experienced investment managers and industry analysts, IT specialists, sales staff and other personnel. Therefore, the Company Group devotes considerable resources to recruiting and retaining personnel. However, the market for quality professionals is highly competitive and the Company Group faces increasing competition in recruiting and retaining these individuals as other securities firms and financial institutions are competing for the same pool of talent. Intense competition may require the Company Group to offer higher compensation and other benefits in order to attract and retain qualified professionals, which could materially and adversely affect the Company Group's financial condition and results of operations. As a result, the Company Group may be unable to attract or retain these personnel to achieve its business objectives and the failure to do so could severely disrupt the Company Group's business and prospects.

The Company Group may not be able to detect and prevent fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties.

The Company Group may be exposed to fraud or other misconduct committed by its employees, representatives, agents, customers or other third parties that could subject the Company Group to financial losses and sanctions imposed by governmental authorities, as well as adversely affect the Company Group's reputation.

The Company Group's internal control procedures are designed to monitor its operations and ensure overall compliance. However, the Company Group's internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions the Company Group takes to prevent and detect such activities may not be effective. The Company Group cannot assure that fraud or other misconduct will not occur in the future. If such fraud or other misconduct does occur, it may cause negative publicity as a result. The Company Group's failure to detect and prevent fraud and other misconduct may have a material adverse effect on the Company Group's business reputation, financial condition and results of operations.

The Company Group may not be able to identify money laundering activities or other illegal/improper activities fully or in a timely manner, which could expose the Company Group to additional liability and adverse effect to its operations.

The Company Group is required to comply with applicable anti-money laundering, anti-terrorism laws and other laws and regulations in Hong Kong, the PRC and other jurisdictions. These laws and regulations require the Company Group, 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. In March 2017, the SFC has reprimanded a subsidiary of the Company, Zhongtai Securities, for its failures to comply with anti-money laundering regulatory requirement when handling third-party fund deposits between January 2013 and December 2014, with a fine of HK$2.6 million. Since the middle of January 2015, the Company Group took remedial actions by enhancing its internal procedures and controls, in particular, to detect and report suspicious third-party fund deposits in a timely manner, to conduct internal trainings for compliance staff and responsible offers to understand their respective roles and responsibilities and to maintain proper and accurate record of assessment conducted by its senior management and compliance officers. In March 2017, the

Company also engaged an independent internal control advisor to conduct a review of its internal control. As at the date of this Offering Circular, the Company has not been notified of any further actions the SFC may take and the Company is of the view such public reprimand by the SFC would not have a material adverse effect on the Company Group's business, financial condition and results of operations. While the Company Group has established and will enhance from time to time such policies and procedures aimed at detecting and preventing money laundering activities and other illegal or improper activities through the Company Group's operations, such policies and procedures may not in all cases detect and prevent possibilities of money laundering and other illegal or improper activities. To the extent the Company Group fails to comply with the applicable laws and regulations, the relevant government agencies to whom it reports have the power and authority to impose fines and other penalties on the Company Group, which may adversely affect its business and financial results.

The Company Group relies heavily on IT systems to process and record the transactions and offer online products and services.

The Company Group's operations rely heavily on the proper function of its IT systems to process accurately a large number of transactions across numerous and diverse markets and its broad range of products in a timely manner. The Company Group's system for processing securities transactions is highly automated. A prolonged disruption to, or failure of, the Company Group's information processing or communications systems would limit its ability to process transactions. This would impair the Company Group's ability to service its customers and execute trades on behalf of customers and for its own account, which could materially and adversely affect the Company Group's competitiveness, financial condition and results of operations.

The proper functioning of the Company Group's financial control, risk management, accounting, customer service and other data processing systems, together with the communication networks between its headquarters and branches, are critical to the Company Group's business and its ability to compete effectively.

In addition, the securities industry is characterised by rapidly changing technology. Online securities trading platforms and other new channels, such as mobile devices, are becoming increasingly popular among the Company Group's customers due to their convenience and user-friendliness. The Company Group relies heavily on technology, particularly the Internet, to provide high quality online services. However, the Company Group's technology operations are vulnerable to disruptions from human error, natural disasters, power failure, computer viruses, spam attacks, unauthorised access and other similar events. Disruptions to, or instability of, the Company Group's technology or external technology that allows its customers to use the Company Group's online products and services could harm its business and reputation.

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

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

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

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of the Company Group's customers. The Company Group may be subject to arbitration claims and lawsuits in the ordinary course of business. For example, in November 2015, Zhongtai International Wealth Management Limited (中泰國際優越理財有限公司) ("**Zhongtai Wealth Management**"), a wholly-owned subsidiary of the Guarantor, initiated legal proceedings before the Hong Kong courts against Royal Moon International Company Ltd. (皇月國際有限公司) and China Kingstone Mining Holdings Ltd. (中國金石礦業控股有限公司) for breach of contract. In September 2016, China Kingsmount Industrial Group Limited brought legal proceedings in the Hong Kong courts against Zhongtai Financial Investment Limited (中泰金融投資有限公司) ("**Zhongtai Investment**"), a wholly-owned subsidiary of the Guarantor, for alleged misrepresentation in a sale and purchase agreement relating to the latter's issuance of US$10 million secured notes due 2015. As at the date of this Offering Circular, no judgment has been granted in respect of this lawsuit against Zhongtai Investment. The Company Group may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies. Actions brought against the Company Group may result in settlements, injunctions, fines, penalties or other results adverse to the Company Group that could harm its reputation. Even if the Company Group is successful in defending itself against these actions, the costs of such defence may be significant to the Company Group. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase. A significant judgment or regulatory action against the Company Group, or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees, would have a material adverse effect on the Company Group's liquidity, business, financial condition, results of operations and prospects.

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

Various laws, regulations and rules require the Company Group to protect the personal data and confidential information of its customers. The relevant authorities may issue sanctions or orders against the Company Group if it fails to protect the personal information of its customers, and the Company Group may have to provide compensation for economic loss arising from its failure to protect the personal information of its customers in accordance with relevant laws and regulations. Incidents of mishandling the personal information or failure to protect the confidential information of its customers could create a negative public or customer perception of its operations or brand name, which may materially and adversely affect the Company Group's reputation and prospects.

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

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

The Company Group may continue to experience pricing pressures in the future as some of its competitors seek to increase market share by reducing prices.

The Company Group has experienced intense price competition in some of its 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. In addition, underwriting fees, financial advisory fees, as well as asset management fees, have also been subject to pricing pressure. The Company Group believes that it will continue to experience competitive pressures in these and other areas in the future as some of its competitors seek to obtain market share by reducing prices.

The information in this Offering Circular relating to the Company Group is derived and sourced from publicly available sources and has not been independently verified or reviewed by the Company.

The information included in this Offering Circular regarding the Company Group (other than the Guarantor Group) is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. The Issuer and the Guarantor have taken reasonable care in the compilation and reproduction of the information. None of the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers has independently verified such information. No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon. In addition, the Company's financial statements have not been included or incorporated by reference in this Offering Circular and the Terms and Conditions of the Bonds do not require or oblige the Company to provide or deliver to the Trustee or holders of the Bonds any information, whether financial or otherwise, at all.

In making an investment decision, investors must rely upon their own examination of the Terms and Conditions of the Bonds, the terms of the offering, the credit strength of the Guarantor Group and not unduly rely upon the Keepwell Deed and/or the credit strength of, or information contained in this Offering Circular related to, the Company Group.

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

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

The Bonds and the Guarantee have not been rated. The ratings assigned to the Company may be lowered or withdrawn in the future.

The Bonds and the Guarantee have not been rated. The Company has been assigned a long-term corporate credit rating of "Baa3" with a stable outlook by Moody's and "BBB-" with a stable outlook by S&P. These credit ratings are not a recommendation to buy, sell or hold the Bonds and may be subject to revision, suspension or withdrawal at any time. The Company Group cannot assure investors that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. In addition, credit rating agencies may change their methodology for assigning ratings at any time. Neither the Issuer, the Guarantor or the Company has any obligation to inform holders of the Bonds of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Company may adversely affect the ability of the Company to access the debt capital markets.

RISKS RELATING TO HONG KONG AND THE PRC

The Guarantor Group may be affected by an economic downturn in Hong Kong.

The Guarantor Group conducts most of its operations and generates the majority of its revenue in Hong Kong. Consequently, its business is highly dependent on Hong Kong's economic and market conditions. Any slowdown of the Hong Kong economy, declines in crude oil and commodities prices and fluctuations in interest and foreign exchange rates may materially undermine the business and results of operations of entities listed on the Hong Kong Stock Exchange. Adverse changes in general economic or financial conditions increase the volatility of the securities market, thereby weakening investors' confidence in and reducing securities trading, margin financing and corporate finance activities, which, in turn, would materially and adversely affect the commission and fee income from its securities brokerage business, interest income from its FICC and investment businesses and underwriting commissions, financial advisory fees and sponsor fees from its investment banking business. The Guarantor Group may also experience decreases in the fees earned from its asset management business during periods of adverse economic and market conditions due to the reduced value of its asset management portfolio. Hong Kong's economic performance is sensitive to changes in the economic cycles of Hong Kong and China, volatility in financial markets and international events such as the withdrawal of the United Kingdom from the European Union and the escalation of trade tensions between the U.S. and China. Current concerns about a deep contraction in Hong Kong's economy are further compounded by the ongoing COVID-19 pandemic, which has significantly impacted global markets and international trade. As the Guarantor Group's business is highly susceptible to the state of Hong Kong's economy and local securities and financial markets, any prolonged period of sluggish market activity or even a downturn may materially and adversely affect its business, results of operations and financial condition. There is no assurance that the Guarantor Group's future growth will reflect its historical growth or that it will be able to maintain the same level of growth under uncertain or unstable economic conditions.

Civil unrest could have an adverse impact on the Guarantor Group's business, financial condition or operating results.

Civil unrest and an uncertain political environment in Hong Kong may impact Hong Kong's economy and result in an economic slowdown or downturn. Protests or demonstrations causing disruption to businesses and commercial activities may adversely impact investor confidence, dampen consumer spending and affect overall business activities in Hong Kong, which in turn may have a negative impact on the Guarantor Group's business in Hong Kong. Any significant or sudden economic slowdown, recession or other adverse changes or developments in the local social and economic environment or political arrangements in Hong Kong may result in declines in the Guarantor Group's profitability and materially affect its business and expansion strategy and financial results.

The Guarantor Group's business operation is exposed to currency risks and may be affected by a discontinuation of or amendment to the link of the Hong Kong dollar to the U.S. dollar or revaluation of the Hong Kong dollar.

The Guarantor Group's assets and liabilities are denominated in major currencies, particularly the HK dollar, the U.S. dollar and Renminbi. The Hong Kong dollar has been linked to the U.S. dollar since 1983, and the Hong Kong government has in the past expressed its commitment to maintaining exchange rate stability under the Linked Exchange Rate System, an automatic interest rate adjustment mechanism. However, there can be no assurance that the Hong Kong dollar will continue to be linked to the U.S. dollar or that, in the event of a liquidity problem affecting the Hong Kong dollar, such bilateral repurchase agreements or automatic interest rate adjustment mechanism will help to maintain adequate liquidity of the Hong Kong dollar.

In addition, the value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and by international political and economic conditions and by many other factors. In August 2015, the PBOC implemented changes to the way that it calculates the midpoint against the U.S. dollar to take into account market-maker quotes before announcing the daily midpoint. This change, among others that may be implemented, may increase the volatility in the value of the Renminbi against other currencies.

The Guarantor Group's business, financial condition and results of operations could be adversely affected by the impact on the Hong Kong economy of the discontinuation of the link of the Hong Kong dollar to the U.S. dollar or any significant change in the exchange rate of U.S. dollar or Renminbi against the Hong Kong dollar.

The Company Group's business, financial condition, results of operations and prospects could be adversely affected by a slowdown in the PRC economy.

A substantial majority of the Company Group's assets are located in the PRC, and a substantial majority of the Company Group's revenue is derived from their businesses in the PRC. Therefore, the performance of the PRC economy affects, to a significant degree, the Company Group's business, prospects, financial condition and results of operations.

The PRC economy has experienced rapid growth in the past 30 years. However, there has been a slowdown in the growth of the PRC's gross domestic product ("**GDP**") since the second half of 2013 and this has raised market concerns that the historic rapid growth of the economy of the PRC may not be sustainable. According to the National Statistics Bureau of the PRC, the annual growth rate of China's GDP in 2019 slowed down to 6.1 per cent., the lowest growth rate since 1990, on a year-on-year basis compared to 6.6 per cent. in 2018. According to an announcement by the National Statistics Bureau of the PRC on 17 April 2020, China's GDP for the first quarter of 2020 contracted by 6.8 per cent. compared to the same period in 2019, the first such decline since quarterly GDP records began in 1992. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective.

In March 2016, Moody's changed the PRC government's credit rating outlook to "negative" from "stable", which highlighted the country's surging debt burden and questioned the government's ability to enact reforms. In May 2017, Moody's downgraded the sovereign credit rating of the PRC from Aa3 to A1 and changed its outlook to "stable" from "negative", reflecting Moody's expectation that economy-wide debt in the PRC will continue to rise as potential growth slows. In September 2017, S&P downgraded the sovereign credit rating of the PRC from AA- to A+, citing its concerns over the level of economic and financial risks within the PRC. In addition, while a multi-year appreciation of the RMB exchange rate had already started to give way to two-way fluctuations, the PBOC's decision to change its daily rate fixing mechanism triggered a noticeable downward pressure on the RMB exchange rate and fuelled expectations of further devaluation ahead. If the PRC's economy experiences a continued slowdown in growth or a downturn in the future, or if the RMB exchange rate experiences unexpected phenomenal fluctuations, the Guarantor Group's PRC business and its ability to implement any growth strategies involving the PRC could be materially and adversely affected.

Currently, an outbreak of COVID-19 has occurred in different regions of the world, including the PRC. As at the date of this Offering Circular, the epidemic, after initially spreading far and wide inside China, has also escalated into a major public health crisis on a global scale and was declared a pandemic by the World Health Organisation. Several cities in China were under a lockdown with restrictions on travel and movement of people as well as prolonged closures of workplaces in an effort to curb the spread of

COVID-19, and the epidemic also caused the delay in resumption of local 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 activity and curtailing global trade. The epidemic may create further negative economic impact in the PRC as well as result in increased volatility in the global markets and affect investment sentiment. Any such adverse changes in the international financial markets or the PRC national and regional economies may materially and adversely affect the Company Group's business, financial condition and results of operations.

Uncertainty and adverse changes in the PRC economy could affect the industries in which the Company Group operates, and in turn decrease the opportunities for developing the Company Group's businesses, increase costs and decrease the availability of potential sources of financing, and increase the Company Group's exposure to material losses from its investments, any of which could have a material adverse effect on the Company Group's financial condition and results of operations.

Economic, political and social conditions in the PRC and government policies could affect the Company Group's business and prospects.

The PRC economy differs from the economies of developed countries in many respects, including, among other things, government involvement, level of economic development, growth rate, foreign exchange controls and resources allocation.

The PRC economy is in the process of transitioning from a centrally planned economy to a more market-oriented economy. For more than three decades, the PRC government has implemented economic reform measures to utilise market forces in the development of the PRC economy. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. The Company Group cannot predict whether changes in PRC economic, political or social conditions and in PRC laws, regulations and policies will adversely affect its business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on the Company Group's operations and business development.

The Company Group's business, financial condition and results of operations may be adversely affected by:

- changes in PRC political, economic and social conditions;
- changes in policies of the PRC government, including changes in policies in relation to the Company Group's business segments;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures that may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- the imposition of additional restrictions on currency conversion and remittances abroad.

If the PRC's economic growth slows down or if the PRC economy experiences a recession, the Company Group's business, results of operations and financial condition could be materially and adversely affected.

The operations of the Company Group may be affected by inflation and deflation within the PRC.

Economic growth in the PRC had historically been accompanied by periods of high inflation. Increasing inflation rates were due to many factors beyond the Company Group's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign government policies and regulations as well as movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Company Group's expectations, the Company Group may be unable to increase the prices of its services and products in amounts that are sufficient to cover its increasing operating costs. Further inflationary pressures within the PRC may have a material adverse effect on the Company Group's business, financial condition or results of operations.

Recently, concerns have arisen over deflationary pressures in the PRC as a result of weak domestic demand and slow economy. The inflation rates within the PRC have been on a downward trend in recent years. A prolonged period of deflation may result in falling profits, closure of plants and shrinking employment and incomes by companies and individuals, any of which could adversely affect the Company Group's business, financial condition or results of operations.

The PRC legal system has inherent uncertainties that could limit the legal protection available to investors.

The Company Group is generally subject to laws and regulations of the PRC. The PRC legal system is based on written statutes. Prior court decisions, in certain circumstances, may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to market participants in the PRC. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the enforcement of these laws, regulations and rules may involve uncertainties and their interpretations may not be as consistent or predictable as in other more developed jurisdictions. These uncertainties may impede the Company Group's ability to enforce the contracts entered into with investors, creditors, customers and business partners based in the PRC. The Company Group cannot predict the effect of future developments in the PRC legal system or the integration of such developments under the legal systems of the jurisdictions, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws, or the overturn of local government's decisions by itself, provincial or national governments. These uncertainties may limit legal protections available to or against the Company Group. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on the Company Group's business, prospects, financial condition and results of operations.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against the Company Group and the Company Group's management.

The Company is incorporated under the laws of the PRC and a substantial portion of the Company Group's assets is located in the PRC. In addition, most of the Company Group's directors, supervisors and executive officers reside within the PRC and the assets of the Company Group's directors and officers may be located within the PRC. Therefore, it may not be possible for investors to effect service of process upon any member of the Company Group or their respective directors or members of its senior management inside the PRC. The Issuer, the Guarantor and the Company have irrevocably submitted to the exclusive jurisdiction of the Hong Kong courts in the transaction documents relating to the Bonds. Hong Kong and the PRC have entered into certain arrangements on the reciprocal recognition and enforcement of judgments in civil and commercial matters (the "**Reciprocal Arrangements**") which allow for a final court judgment (relating to the payment of money or other civil or commercial proceeding) rendered by a Hong Kong court or PRC court (as the case may be) to be recognised and enforced in the PRC or Hong Kong (as the case may be), provided certain conditions are met. However, certain matters may be excluded under the Reciprocal Arrangements and a judgment may be refused to be recognised and enforced by the requested place in certain circumstances such as for public policy reasons or where the judgment was obtained by fraud. As a general matter, a judgment of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. The PRC signed the Hague Convention on Choice of Court Agreements (the "**Hague Convention**") in September 2017 which is intended to promote the use of exclusive choice of court agreements in international contracts and facilitate the creation of a recognition and enforcement regime for court judgements between contracting States. However, the signing of the Hague Convention does not have currently have any legal effect until it is ratified by the PRC government. The PRC has not entered into treaties or arrangements providing for the reciprocal recognition and enforcement of judgments of courts with numerous countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for Bondholders to enforce any judgments obtained from such foreign courts against the Company Group, the Issuer, the Guarantor, the Company or any of their respective directors or senior management in the PRC.

The Company Group is subject to restrictions on the remittance of Renminbi into and out of the PRC and governmental controls on currency conversion, and may be affected by the risk relating to fluctuations in exchange rates in the future.

Most of the Company Group's revenue is denominated in Renminbi, which is also the reporting currency. Renminbi is not a freely convertible currency. A portion of the Company Group's cash may be required to be converted into other currencies in order to meet the Company Group's foreign currency needs, including cash payments on declared dividends, if any, on the Bonds.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and the remittance of currency out of PRC. Substantially all of the Company Group's revenues are denominated in Renminbi, a portion of which may need to be converted into other currencies in order to meet the Company Group's foreign currency obligations, such as payments of dividends, overseas acquisitions, and payments of principal and interests under the Bonds or other foreign currency denominated debt, if any.

Under the existing PRC laws and regulations on foreign exchange, payments of current account items, including profit distributions, interest payments and trade and service related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange ("**SAFE**") provided that certain procedural requirements are complied with. Approval from or registration with competent government authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, take measures to restrict access to foreign currencies for current account and capital account transactions under certain circumstances. If the foreign exchange control system prevents the Company Group from obtaining sufficient foreign currencies to satisfy the Company Group's foreign currency demands, the Company Group may not be able to pay interests and/or principal to holders of the Bonds or other foreign currency denominated debt, if any. In addition, there can be no assurance that new laws or regulations will not be promulgated in the future that would have the effect of further restricting the remittance of Renminbi into or out of the PRC.

The proceeds from the offering of the Bonds will be received in U.S. dollars. As a result, any appreciation of Renminbi against the U.S. dollar or any other foreign currencies may result in the decrease in the value of the Company Group's foreign currency-denominated assets and the Company Group's proceeds from the offering of the Bonds. Conversely, any depreciation of Renminbi may adversely affect the Company Group's ability to service the Bonds.

The value of Renminbi against the U.S. dollar and other foreign currencies is subject to changes in the PRC's policies, as well as international economic and political developments. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. From 21 July 2005 to 17 March 2014, the floating band of interbank spot foreign exchange market trading price of Renminbi against the U.S. dollar was gradually widened from 0.3 per cent. to 2 per cent. On 11 August 2015, the People's Bank of China ("**PBOC**") adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change at primary international currencies. On 11 December 2015, the China Foreign Exchange Trade System, a sub-institutional organisation of PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective.

In addition, the value of Renminbi depreciated significantly against the U.S. dollar since the end of 2015 but has recently appreciated. There can be no assurance that the Renminbi will not experience significant fluctuations against the U.S. dollar or against any other currency in the future. Furthermore, the Company Group is required to obtain SAFE's approval before converting significant amounts of foreign currencies into Renminbi. As a result, any significant increase in the value of Renminbi against foreign currencies could reduce the value of the Company Group's foreign currency-denominated revenue and assets and could materially and adversely affect the Company Group's business, financial condition, results of operations and prospects.

The outbreak of contagious diseases in the PRC, Hong Kong and/or around the world may lead to higher volatility in the global capital markets, which may materially and adversely affect the Company Group's business, financial condition and results of operations.

The outbreak of communicable diseases on a global scale such as the ongoing COVID-19 pandemic may affect investment sentiment and result in sporadic volatility in global capital markets. In addition, such outbreaks may result in restrictions on travel and public transport and prolonged closures of workplaces which may have a material adverse effect on the global economy. Any material change in the financial markets or the PRC economy or Hong Kong economy or regional economies as a result of these events or developments may materially and adversely affect the Company Group's business, financial condition and results of operations.

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

Any occurrence of force majeure events, natural disasters or outbreaks of epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, swine influenza caused by the H1N1 virus or H1N1 influenza or variants thereof and COVID-19, may materially and adversely affect the Company Group's business and results of operations. Possible force majeure events may give rise to additional costs to be borne by the Company Group and have adverse effects on the quality of its assets, business, financial condition and results of operations. Currently, an outbreak of COVID-19 has occured in different regions of the world, including the PRC and Hong Kong, where the Company Group operates its business. An outbreak of an epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activities in affected areas, which may, in turn, adversely affect the Company Group's business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and droughts in the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore the Company Group's business. The Company Group cannot assure investors that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the measures taken by the PRC government or other countries in response to such contagious diseases, will not seriously disrupt the Company Group's operations or those of the Company Group's customers, which may have a material and adverse effect on the Company Group's business and results of operations.

RISKS RELATING TO THE BONDS AND THE GUARANTEE

The Issuer has limited financial resources.

The Issuer, which is a wholly-owned subsidiary of the Guarantor, is an indirect offshore subsidiary of the Company. The Issuer does not conduct business or any other activities other than issuance and sale of the Bonds and the lending of the proceeds of the offering 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 members of the Company Group, and its ability to make payments under the Bonds depends on receipt of timely remittances from the members of the Company Group from whom the amounts are due from. If the Issuer does not receive sufficient payment from any member of the Company Group when any amount is due from it as a result of any redemption (including redemption upon maturity and upon occurrence of a Change of Control as described in "Terms and Conditions of the Bonds"), the Issuer will not be able to fulfil its obligations under the Bonds.

The Bonds and the Guarantee are unsecured obligations.

The Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The payment of the principal and interest of the Bonds and the payment under the Guarantee may be adversely affected if:

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

- there is a default in or acceleration of payment under the Issuer's or the Guarantor's existing or future secured indebtedness or other unsecured indebtedness.

If any of these events were to occur, Bondholders' rights to receive payment pursuant to the Bonds and the Guarantee may be subordinated to those of the creditors of the Issuer or the Guarantor as a result of rule of law or secured priority in payment. There can be no assurance that the Issuer or the Guarantor will have sufficient cash to pay amounts due on the Bonds after it satisfies the obligations due to other creditors.

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

In certain circumstances (including, without limitation, the giving of notice to the Issuer pursuant to Condition 9 of the Terms and Conditions of the Bonds and the taking of any actions and/or steps and/or instituting proceedings pursuant to Condition 13 of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request holders of Bonds to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any such actions and/or steps and/or institutes such proceeding on behalf of holders of Bonds. The Trustee shall not be obliged to take any such actions and/or steps and/or institute proceedings 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 on when any such actions and/or steps can be taken and/or when such proceedings can be instituted. The Trustee may not be able to take such actions and/or steps and/or institute such proceedings, notwithstanding the provision of an indemnity and/or security and/or pre-funding to it, in breach of the terms of the Trust Deed (as defined in the Terms and Conditions of the Bonds) and in such circumstances or 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 holders of Bonds to take such actions and/or steps and/or institute such proceedings directly.

The Issuer may be treated as a PRC resident enterprise for PRC tax purposes, which may subject the Issuer to PRC income taxes on its worldwide income and interest payable by the Issuer to foreign investors and gain from the sale of the Bonds.

Under the PRC Enterprise Income Tax Law ("**EIT Law**") and its Implementing Regulation, which became effective on January 1, 2008 and was amended on 24 February 2017 and 29 December 2018, enterprises organised under the laws of jurisdictions outside the PRC with their "de facto management bodies" located within the PRC are deemed to be "resident enterprises for PRC tax purposes," and are therefore subject to PRC enterprise income tax at the rate of 25 per cent. in respect of their income sourced from both within and outside China. The Implementing Regulation defines the term "de facto management body" as a management body that exercises substantial and overall control and management over the production and operations, personnel, accounting and properties of an enterprise. In addition, the Notice on Issues Concerning the Determination of Chinese-controlled Enterprises Incorporated Overseas as Resident Enterprises on the Basis of Their De Facto Management Bodies issued by the State Administration of Taxation ("**SAT**")(國家稅務總局關於境外注冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) on 22 April 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group would be classified as a "resident enterprise" with a "de facto management body" located within the PRC if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights, or senior management, reside within the PRC. Pursuant to Promulgation of the Administrative Measures on Income Tax on Overseas Registered Chinese – funded Holding Resident Enterprises (Trial Implementation)(境外註冊中資控股居民企業所得稅管理辦法(試行)) a circular issued by the SAT which became effective on 1 September 2011 and the relevant rules, a foreign enterprise controlled by a PRC company or a PRC company group shall be deemed a "resident enterprise" by the final decision of the provincial or local tax authorities through the application of the foreign enterprise or the investigation of the relevant tax authorities.

There is no assurance that the Issuer will not be treated as a "resident enterprise" under the EIT Law, any aforesaid circulars or any amended regulations in the future. If the Issuer is treated as a PRC resident enterprise for PRC enterprise income tax purposes, among other things, it would be subject to the PRC enterprise income tax at the rate of 25 per cent. on its worldwide taxable income. Furthermore, if the Issuer is treated as a PRC resident enterprise, payments of interest by the Issuer may be regarded as derived from sources within the PRC and therefore the Issuer may be obligated to withhold PRC income tax at 10 per cent. on payments of interest on the Bonds to non-PRC resident enterprise investors without an establishment within the PRC or whose income has no connection to its establishment with the PRC. In the case of non-PRC resident individual investors, the tax may be withheld at a rate of 20 per cent..

In addition, if the Issuer is treated as a PRC resident enterprise, any gain realised on the transfer of the Bonds by non-PRC resident investors may be regarded as derived from sources within the PRC and accordingly may be subject to a 10 per cent. PRC income tax in the case of non-PRC resident enterprises or 20 per cent. in the case of non-PRC resident individuals. The PRC tax on interest or gains may be reduced or exempted under applicable tax treaties between the PRC and the Bondholder's home country. For example, according to an arrangement between the PRC and Hong Kong for the avoidance of double-taxation, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, may be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds. If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

On 23 March 2016, the Ministry of Commerce of the People's Republic of China and SAT issued the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (Caishui [2016] No. 36) ("**Circular 36**"), which introduced a new value-added tax ("**VAT**") from 1 May 2016. According to Circular 36, VAT is applicable where the entities or individuals provide financial services such as providing the loans within the PRC. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. It is further clarified under Circular 36 that the loans refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of loans under Circular 36, the issuance of Bonds is likely to be treated as the Bondholders providing the loans to the Issuer, which thus shall be regarded as the financial services for VAT purposes. In the event the Issuer is deemed to be a PRC resident enterprise in the PRC by the PRC tax authorities, the Bondholders may be regarded as providing the financial services within the PRC and consequently, the amount of interest payable by the Issuer to any non-resident Bondholders may subject to withholding VAT at the rate of 6 per cent. In addition, in that case the holders of the Bonds shall also be subject to the local levies at approximately 12 per cent. of the VAT payment. Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties. If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any VAT on gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

If the Issuer and/or the Guarantor is required to withhold PRC tax (including VAT) from interest payments on the Bonds or the Guarantee, the Issuer and the Guarantor will be required, subject to certain exceptions, to pay such additional amounts as will result in receipt by the holders of the Bonds of such amounts as would have been received had no such withholding been required. In certain circumstances, the Issuer and/or the Guarantor may have the option to redeem the Bonds prior to their maturity upon the requirement to pay such additional amounts arising, and a Holder may not be able to reinvest the redemption proceeds in comparable securities at the same rate of return of the Bonds. In addition, the requirement to pay additional amounts will increase the cost of servicing interest payments on the Bonds and could have an adverse effect on the Company Group's financial condition.

The Issuer may not be able to redeem the Bonds upon the due date for redemption thereof.

The Issuer may, on the occurrence of a Change of Control (as defined under the Terms and Conditions of the Bonds), and at maturity will, be required to redeem part or all of the Bonds. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. The Issuer's failure to repay, repurchase or redeem tendered Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Company Group.

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

If the Issuer, the Guarantor or the Company is unable to comply with the restrictions and covenants in the Bonds, or if any member of the Company Group, such as the Issuer and the Guarantor, 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 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 the Company Group's debt agreements, and the Bonds, 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, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occur, there can be no assurance that the assets and cash flows of the Company Group 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 any member of the Company Group, such as the Issuer and the Guarantor.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Trust Deed and the Keepwell Deed by the Trustee or by less than all of the holders of the Bonds that may be adverse to the interests of individual holders of the Bonds.

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

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

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

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

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

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

Each potential investor in any Bonds 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 Bonds, the merits and risks of investing in the relevant Bonds and the information contained in this Offering Circular;

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

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Bonds;

- understand thoroughly the terms of the relevant Bonds 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.

A potential investor should not invest in Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

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

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

The Terms and Conditions of the Bonds and the transaction documents are governed by English law, whereas 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. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments 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 (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), judgments 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 judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Arrangement on Reciprocal Recognition and Enforcement of Judgments 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. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared with 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 holders of the Bonds will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited.

The Issuer may issue additional Bonds in the future.

The Issuer may, from time to time, and without prior consultation of the Bondholders, create and issue further bonds having the same Terms and Conditions as the Bonds in all respects (or in all respects save for the issue date, the issue price, the first payment of interest on them (see "*Terms and Conditions of the Bonds – Further Issues*") and so that such further issue will be consolidated and form a single series with the Bonds or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

The interpretation of the NDRC circular may involve significant uncertainty, which may adversely affect the enforceability and/or effective performance of the Bonds.

According to the NDRC Circular, if a PRC enterprise or an offshore branch or enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a tenor of one year or more, such PRC enterprise must, in advance of issuing such bonds, file certain prescribed documents with the NDRC and obtain the Enterprise Foreign Debt Pre-Issuance Registration Certificate (企業發行外債備案登記證明) from the NDRC in respect of such issue. According to the NDRC Circular, the enterprise must also report certain details of the bonds to the NDRC within ten PRC business days upon the completion of the bond issue. The Company has registered the issuance of each series of the Bonds with the NDRC and obtained a certificate from the NDRC dated 8 January 2020 evidencing such registration. The Issuer (failing whom, the Guarantor) undertakes to file or cause to be filed with the NDRC the requisite information and documents pursuant to Condition 4(c) of the Terms and Conditions of the Bonds.

Further, on 6 July 2019, the General office of the NDRC issued the Circular of the General Office of the NDRC on the Relevant Requirements for the Filing and Registration of Issuance by Local State-owned Enterprises of Foreign Debts (國家發展改革委辦公室關於對地方國有企業發行外債申請備案登記有關要求的通知(發改辦外資[2019]666號)) (“**Circular 666**”), which aims to strengthen the management of local government debt and prevent the risks of medium and long-term foreign debts and hidden debt of local government.

However, the interpretation of the NDRC Circular and the Circular 666 may involve significant uncertainty. In particular, uncertainty in interpretation of the NDRC Circular which may adversely affect the enforceability and/or effective performance of the Bonds. The administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by the NDRC. In addition, there is no assurance that the Issuer (failing whom, the Guarantor) will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Bonds to the NDRC within the prescribed time frame. The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue and post-issue registration requirements, therefore, there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Issuer, the Guarantor, the Bonds or the investors of the Bonds. There is also risk that the registration with the NDRC may be revoked or amended in the future or that future changes in PRC laws and regulations may have a negative impact on the performance or validity and enforceability of the Bonds in the PRC. Potential investors of the Bonds are advised to exercise due caution when making their investment decisions.

The Bonds will initially be represented by the Global Certificate and holders of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing system(s).

Bonds will initially be represented by the Global Certificate. Such Global Certificate will be deposited with a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a “**Clearing System**”). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive definitive Bonds. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Certificate. While the Bonds are represented by the Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Bonds are represented by the Global Certificate, the Issuer, failing whom the Guarantor, will discharge its payment obligations under the Bonds by making payments to the common depositary for Euroclear and Clearstream for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant Clearing System to receive payments under the Bonds. None of the Issuer, the Guarantor or the Company has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System to appoint appropriate proxies. Similarly, holders of beneficial interests in the

Global Certificate will not have a direct right thereunder to take enforcement actions against the Issuer, the Guarantor or the Company in the event of a default under the Bonds but will have to rely upon their rights under the Trust Deed.

Bondholders should be aware that a definitive Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

In relation to any Bond which has a principal amount consisting of a minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the Bonds may be traded in amounts in excess of the minimum specified denomination that are not integral multiples of such minimum specified denomination. In such a case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination will not receive a definitive Certificate in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that it holds an amount equal to one or more specified denominations. If definitive Bonds are issued, holders should be aware that a Definitive Certificate which has a principal amount that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

RISKS RELATING TO THE KEEPWELL DEED

The Keepwell Deed is not a guarantee of the payment obligations under the Bonds and the Guarantee.

The Company will execute a Keepwell Deed with the Issuer, the Guarantor and the Trustee, according to which it will undertake, among other things, to ensure that the Issuer and the Guarantor has sufficient liquidity to ensure timely payment of any amounts payable under the Bonds and the Guarantee in accordance with their terms of payment as and when due. See "*Description of the Keepwell Deed*" for further information. Neither the Keepwell Deed nor any actions taken by the Company thereunder can be deemed as a guarantee by the Company for the payment obligation of the Issuer or the Guarantor under the Bonds and the Guarantee. Accordingly, in the event of a payment default on the part of the Issuer or the Guarantor, the Company will only be obliged to make sufficient funds available to the Issuer or the Guarantor, rather than jointly or severally to assume the payment obligation, as in the case of a guarantee. In addition, the holders of the Bonds will be subject to the conditions provided in the Trust Deed for any actions to be taken against the Company to enforce the Keepwell Deed.

Furthermore, even if the Company intends to perform its obligations under the Keepwell Deed, depending on the manner in which the Company performs its obligations under the Keepwell Deed so as to arrange sufficient funds for the Issuer or the Guarantor to meet their respective payment obligations under the Bonds and the Guarantee, such performance may be subject to all necessary regulatory or governmental approvals, consents, licences, orders, permits, registrations, filings, clearances and any other authorisations with and from relevant PRC governmental authorities, including without limitation, the CSRC, the NDRC or its competent local counterpart, the Ministry of Commerce of the People's Republic of China or its competent local counterpart and SAFE or its competent local counterpart, as applicable. There is no guarantee that the Company will obtain such approvals, consents, licences, orders, permits, registrations, filings, clearances and authorisations. In addition, the relevant PRC governmental authorities may from time to time impose restrictions on cross-border transfers which may affect the Company's ability to perform its obligations under the Keepwell Deed in a timely manner or at all – such restrictions may include the imposition of prescribed minimum eligibility requirements, maximum monetary limits and other verification and vetting requirements on any cross border transfers.

Consequently, although the Company is required to use all reasonable efforts to obtain any required approvals, consents, licences, orders, permits, registrations, filings, clearances and authorisations in order to fulfil its obligations under the Keepwell Deed, there is no assurance that the same will be obtained in a timely manner or at all. In the event that the Company fails to obtain the requisite approvals, consents, licences, orders, permits, registrations, filings, clearances and authorisations, the Issuer or the Guarantor may have insufficient funds to discharge their outstanding payment obligations to the holders of the Bonds. In addition, the obligations under the Keepwell Deed may not give rise to a debt claim in the event of any insolvency proceedings in relation to the Company, and accordingly the bondholders may have limited or no remedies against the Company in connection with such insolvency proceedings. Further, in the event of an insolvency of the Company, any sale proceeds received by the Company may be subject to the insolvency claims of third parties. The Trustee's claim against the sale proceeds will be an unsecured claim and may rank lower in priority to any claims by secured third party creditors of the Company. In addition, the Trustee will not have a direct claim against the sale proceeds received by the Company. In addition, in the event of an insolvency of the Company, any transaction deemed to be at an undervalued transaction may be set aside in insolvency proceedings. As a result of the above and the risk described in "*Risks Relating to the Company Group's Business and Industry – The information in this Offering Circular relating to the Company Group is derived and sourced from publicly available sources and has not been independently verified or reviewed by the Company.",* investors should not unduly rely upon the Keepwell Deed and the information related to the Company Group contained in this Offering Circular in making an investment decision on the Bonds.

In addition, under the Keepwell Deed, the Company will undertake, among other things, to cause the Guarantor or the Issuer to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Bonds and the Guarantee and all payments due under the Trust Deed and the Agency Agreement. However, any claim by the Issuer, the Guarantor, the Trustee and/or Bondholders against the Company in relation to the Keepwell Deed will be effectively subordinated to all existing and future obligations of the Company's subsidiaries (which do not guarantee the Bonds) and all claims by creditors of such subsidiaries (which do not guarantee the Bonds) will have priority to the assets of such entities over the claims of the Issuer, the Guarantor, the Trustee and/or Bondholders under the Keepwell Deed.

The Issuer's or the Guarantor's claims under the Keepwell Deed may be structurally subordinated to existing and future liabilities and obligations of the Company and will be structurally subordinated to all existing and future liabilities and obligations of the Company's subsidiaries.

As described above, under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee, among other things, to cause the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment of any amounts payable in respect of the Bonds and the Guarantee. Payments could be remitted by the Company out of the PRC to the Issuer or the Guarantor either as inter-company loans to, or capital increases in, the Issuer or the Guarantor in order for them to meet their respective payment obligations under the Bonds. The ability of the Company to make such payments is subject to, among other things, its cash flow conditions, restrictions contained in its articles of association, applicable laws, restrictions contained in its debt instruments and claims by its creditors. Further, the Company derives part of its revenue from its subsidiaries. It thus may need to depend on dividends or interest and principal payments from its subsidiaries to satisfy its obligations, including its obligations under the Keepwell Deed.

As a result, any claim by the Issuer or the Guarantor or the Trustee against the Company in relation to the Keepwell Deed will be effectively subordinated to existing and future claims of the secured creditors of the Company and, in the case of payment by the Company to the Issuer or the Guarantor in the form of capital increases, also to the claims of the other creditors of the Company. The Issuer's or the Guarantor's claims will be further effectively subordinated to all existing and future claims of the lenders, holders of debt securities and other creditors, including trade creditors, of the Company's subsidiaries (other than the Issuer), from which the Company derives a portion, though not a majority, of its revenue. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding-up of the business of the Company or any of the Company's subsidiaries (other than the Issuer), the creditors of the Company or the creditors of the Company's subsidiaries, as the case may be, generally will have the right to be paid in full before any distribution is made to the Company or to the Issuer or the Guarantor.

Price of the Bonds may be affected by additional bonds issued by the Company Group following this offering.

In order to maintain or adjust the capital structure, the Company Group will consider the macro economic conditions, prevailing borrowing rate in the market and adequacy of cash flows generated from operations and may further access the international capital markets. The Keepwell Deed does not contain any covenant that limits or restricts the Company's ability to issue other bonds or to provide guarantee or indemnity in respect of other bonds, unless such bonds involve creation of any mortgage, charge, lien or other security interest. If the Company issues other bonds outside the PRC or to provide guarantee or indemnity in respect of other bonds issued outside the PRC, the Company is not obliged under the Keepwell Deed to accord the holders of the Bonds with the same or an equivalent guarantee or indemnity or the offer to exchange the Bonds for such new securities issued or guaranteed by the Company. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

RISKS RELATING TO THE MARKET GENERALLY

A trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. One or more initial investors may subscribe for a material proportion of the aggregate principal amount of the Bonds which may reduce the liquidity of the Bonds in the secondary trading market and such investors may have certain influence on matters voted on by Bondholders. Accordingly, there can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Company Group's operations and the market for similar securities. Although application will be made for the listing of the Bonds on the Hong Kong Stock Exchange, no assurance can be given as to the liquidity of, or trading marked for, the Bonds. None of the Joint Lead Managers are obligated to make a market in the Bonds, and if any Joint Lead Manager does so it may discontinue such market-making activity at any time without notice. Further, the Bonds may be allocated to a limited number of investors, in which case liquidity may be limited. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, the holders of the Bonds will only be able to resell the Bonds in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. Please see "*Subscription and Sale*". None of the Issuer, the Guarantor or the Company can predict or give any assurance as to whether an active trading market for the Bonds will develop or be sustained or whether there will be any disruptions to trading in the Bonds that may result in volatility in prices.

A small number of investors will purchase a significant percentage of the Bonds and may therefore be able to significantly influence matters which require to be voted on by the Bondholders. Additionally, this may reduce the liquidity of the Bonds in the secondary trading market.

A small number of investors may purchase a significant percentage of the Bonds in this offering. Any holder of a significant portion of the Bonds may therefore be able to significantly influence, amongst other matters, the convening of meetings and the passing of Extraordinary Resolutions (as defined in the Trust Deed), which require to be voted on by the Bondholders. Additionally, the interests of these substantial investors may be different from the interests of the other holders of the Bonds and the significant portion of the Bonds to be held by them may reduce the liquidity of the Bondholders in the secondary trading market. If any such Bondholder sells a material amount of the aggregate principal amount of the Bonds at any one time, it may materially and adversely affect the trading price of the Bonds.

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

The Bonds are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars would be subject to foreign exchange risks by virtue of an investment in the Bonds, due to, among other things, economic, political and other factors over which none of the Issuer, the Guarantor or the Company has any control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Bonds below their stated coupon rates and could result in a loss when the return on the Bonds is translated into such currency. In addition, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Bonds.

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

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

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

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for Chinese securities 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 the PRC. The international financial markets have experienced significant volatility in recent years. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

CAPITALISATION AND INDEBTEDNESS

The following table sets forth the Guarantor's consolidated capitalisation and indebtedness as at 31 December 2019 on an actual basis and on an adjusted basis after giving effect to the issuance of the Bonds before deducting the fees and commission and other estimated expenses payable by the Guarantor in connection with the issuance with the Bonds. The following table should be read in conjunction with the Guarantor's consolidated financial information and related notes included in this Offering Circular.

	As at 31 December 2019		As at 31 December 2019	
	Actual	Actual	As adjusted	As adjusted
	(HK$'000) (unaudited)	*(US$'000)*[(1)] (unaudited)	*(HK$'000)* (unaudited)	*(US$'000)*[(1)] (unaudited)
Current Borrowings				
Borrowings	4,585,716	588,712	4,585,716	588,712
Corporate bonds	3,889,692	499,357	3,889,692	499,357
Total Current Borrowings	**8,475,408**	**1,088,069**	**8,475,408**	**1,088,069**
Non-current Borrowings				
Borrowings	13,083	1,680	13,083	1,680
Bonds to be issued[(2)]	–	–	2,336,820	300,000
Total Non-current Borrowings	**13,083**	**1,680**	**2,349,903**	**301,680**
Total Borrowings[(3)]	**8,488,491**	**1,089,749**	**10,825,311**	**1,389,749**
Equity				
Share capital	1,790,983	229,926	1,790,983	229,926
Reserve	23,620	3,032	23,620	3,032
Total Equity	**1,814,603**	**232,958**	**1,814,603**	**232,958**
Total Capitalisation[(4)]	**10,303,094**	**1,322,707**	**12,639,914**	**1,622,707**

Notes:

(1) This amount has been translated into Hong Kong dollars for convenience purpose at a rate of HK$7.7894 to US$1.00, which is the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars on 31 December 2019 as set forth in the H.10 weekly statistical release of the Federal Reserve Board.

(2) For illustrative purpose only, the aggregate principal amount of the Bonds to be issued has been presented as a liability in "As adjusted" column of the above table, before deducting the fees and commission and other estimated expenses payable by the Guarantor in connection with the issuance with the Bonds.

(3) Total borrowings represents "Total Current Borrowings" and "Total Non-current Borrowings".

(4) Total capitalisation represents "Total Borrowings" and "Total Equity".

Since 31 December 2019, the Guarantor's consolidated total borrowings had increased primarily due to an increase in total current borrowings as a result of additional loan facilities from, among others, China Construction bank (Asia) Corporation Limited, China Merchants Bank Co., Ltd., China Zheshang Bank Co., Ltd., Huaxia Bank Co., Limited Hong Kong Branch, Industrial Bank Co., Ltd., Luso International Banking Limited, Nanyang Commercial Bank, Limited and Ping An Bank Co., Ltd., China CITIC Bank International Limited., Bank of China (Hong Kong) Limited, DanSing Bank, Limited, Chiyu Banking Corporation Ltd., Chong Hing Bank, Shanghai Pudong Development Bank Co., Ltd, Hong Kong Branch., China Minsheng Banking Crop., Ltd, Hong Kong Branch, Bank of Shanghai (Hong Kong) Limited and Agricultural Bank of China Shanghai Branch with terms ranging from one year to three years, as well as three series of private placement guaranteed bonds in an aggregate principal amount of US$77 million issued by the Issuer in March 2020, each with a term of six months (the "**March 2020 Bonds**"). Substantially all of the loan proceeds were used toward the full repayment of the Issuer's US$200 million guaranteed bonds that matured in March 2020 (the "**Redeemed Bonds**"). The proceeds of the March 2020 Bonds were used to repay existing debt obligations and for general corporate purposes. As at 30 June 2020, the Guarantor's consolidated total current borrowings – borrowings had increased by approximately 29.47 per cent. as compared to the balance as at 31 December 2019. Meanwhile, the Guarantor's consolidated total current borrowings – corporate bonds had decreased by approximately 23.73 per cent. as compared to the balance as at 31 December 2019, primarily due to the redemption of the Redeemed Bonds and partially offset by the issue of the March 2020 Bonds. In addition, total equity had decreased slightly since the balance as at 31 December 2019 due to a decrease in reserve which resulted from decreased retained profit and unfavourable foreign exchange reserve.

On 23 July 2020, the Company published an announcement in the PRC in connection with its proposed capital injection into the Guarantor estimated to be of a maximum amount of RMB1,600 million (or an equivalent amount in HK$). As at the date of this Offering Circular, completion of the capital injection remains subject to the necessary regulatory or governmental approvals, consents, filings and clearances. Please also see "*Summary – Recent Development*".

Other than as disclosed above, there has been no other material changes to the Guarantor's consolidated capitalisation and indebtedness since 31 December 2019.

USE OF PROCEEDS

The proceeds from this offering are intended to be used to refinance existing offshore indebtedness.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to modification and other than the words in italics is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of 3.85 per cent. Bonds due 2023 in an aggregate principal amount of US$300,000,000 (the "**Bonds**") on 12 August 2020 (the "**Issue Date**") was authorised by resolutions of the board of directors of Zhongtai International Finance (BVI) Company Limited (中泰國際財務(英屬維爾京群島)有限公司)(the "**Issuer**") passed on 26 June 2020. The Bonds are guaranteed by Zhongtai Financial International Limited (中泰金融國際有限公司)(the "**Guarantor**"). The giving of the Guarantee (as defined in Condition 3(b)) was authorised by resolutions of the board of directors of the Guarantor on 13 July 2020 and resolutions of the sole shareholder of the Guarantor on 13 July 2020. The Bonds are constituted by, are subject to, and have the benefit of, a trust deed dated on or about 12 August 2020 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch as trustee for itself and the holders of the Bonds (in such capacity, the "**Trustee**", which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) and are the subject of an agency agreement dated on or about 12 August 2020 (as amended and/or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (in such capacity, the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Bonds) and as transfer agent (in such capacity, the "**Transfer Agent**", which expression shall include any successor transfer agent appointed from time to time in connection with the Bonds), The Bank of New York Mellon, London Branch as principal paying agent (in such capacity, the "**Principal Paying Agent**", which expression shall include any successor principal paying agent appointed from time to time in connection with the Bonds), the Trustee and any other agents named therein. The "**Agents**" means the Principal Paying Agent, the Registrar, the Transfer Agent, their respective successors and any other agent or agents appointed from time to time with respect to the Bonds, and the "**Paying Agents**" includes the Principal Paying Agent. The Bonds will also have the benefit of a Keepwell deed dated on or about 12 August 2020 (as amended or supplemented from time to time, the "**Keepwell Deed**") entered into by the Issuer, the Guarantor, Zhongtai Securities Co., Ltd. (中泰証券股份有限公司)(the "**Company**") and the Trustee. The entry into the Keepwell Deed has been approved by the board of directors and the shareholders of the Company.

Certain provisions of these Conditions (as defined below) are summaries of the Trust Deed, the Keepwell Deed and the Agency Agreement and subject to their detailed provisions. The Bondholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Keepwell Deed and those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed, the Keepwell Deed and the Agency Agreement are available for inspection by the Bondholders at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m.) at the principal place of business in London of the Trustee (being at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) and at the specified office of the Principal Paying Agent from time to time, in each case following prior written request and satisfactory proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent.

All capitalised terms that are not defined in these terms and conditions (these "**Conditions**") will have the meanings given to them in the Trust Deed.

1 Form, Specified Denomination and Title

The Bonds are issued in the specified denomination of US$200,000 and integral multiples of US$1,000 in excess thereof.

The Bonds are evidenced by registered certificates ("**Certificates**") and, save as provided in Condition 2(a), each Certificate shall evidence the entire holding of the Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar outside of the United Kingdom 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 Bond 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 the Certificate evidencing it or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" and (in relation to any Bond) "**holder**" means the person in whose name a Bond is registered (or in the case of a joint holding, the first named thereof).

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

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

2 Transfers of Bonds

(a) **Transfer:** A holding of Bonds may, subject to Condition 2(d) and Condition 2(e), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) evidencing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (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 and any other evidence as the Registrar or the relevant Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed such form of transfer. In the case of a transfer of only part of a holding of Bonds evidenced 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 Bonds to a person who is already a holder of Bonds, a new Certificate evidencing the enlarged holding shall only be issued against surrender of the Certificate evidencing the existing holding. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. No transfer of title to a Bond will be valid unless and until entered on the Register. 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 Bondholder following prior written request and satisfactory proof of holding and identity to the satisfaction of the Registrar.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(b) **Exercise of Options in Respect of Bonds:** In the case of a partial exercise of a Bondholders' option to require the Issuer to redeem the Bonds pursuant to Condition 6(c) in respect of a holding of Bonds evidenced by a single Certificate, the holder of such single Certificate shall be issued a new Certificate in respect of the part that is subject to the exercise of such option pending such redemption and a further new Certificate in respect of the balance of the holding that is not subject to the exercise of such option. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or the Transfer Agent.

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

(d) **Transfer or Exercise Free of Charge:** Certificates, on transfer, exercise of an option or partial redemption of the Bonds, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment by the relevant Bondholder of any and all tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity, security and/or pre-funding to its satisfaction as the Registrar or the relevant Transfer Agent may require); (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the Registrar or the relevant Transfer Agent (as the case may be) being satisfied that the regulations have been complied with.

(e) **Closed Periods:** No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the due date for any payment of the principal of that Bond, (ii) after a Put Exercise Notice (as defined in Condition 6(c)) has been deposited by the relevant Bondholder in respect of such Bond pursuant to Condition 6(c), (iii) during the period of seven days ending on (and including) any Record Date (as defined in Condition 7(a)) or (iv) after such Bond has been called for redemption pursuant to Condition 6(b).

3 Status and Guarantee

(a) **Status:** The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a)) unsecured obligations of the Issuer which shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(b) **Guarantee:** The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the "**Guarantee**") are contained in the Trust Deed. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 Negative Pledge and Other Covenants

(a) **Negative Pledge**

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor shall, and each of the Issuer and the Guarantor shall ensure that none of their respective Subsidiaries (other than any Listed Subsidiary and a Subsidiary of such Listed Subsidiary) will, create, incur, assume or permit to subsist or have outstanding any Security upon any of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or any guarantee or indemnity in respect of such Relevant Indebtedness, without at the same time or prior thereto (i) providing to the Bonds the same security as is created or subsisting for such Relevant Indebtedness, guarantee or indemnity or (ii) providing such other security for the Bonds as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

(b) **Information Rights**

For so long as any Bond remains outstanding:

(i) the Guarantor will deliver to the Trustee (A) within 180 days after the end of each Relevant Period, a copy of the relevant Audited Financial Reports for each Relevant Period and (B) within 90 days after the end of each Relevant Period, a copy of the Unaudited Financial Reports prepared on a basis consistent with the Audited Financial Reports; and

(ii) the Issuer and the Guarantor will each deliver to the Trustee within 180 days after the end of each Relevant Period and also within 14 days of any request by the Trustee, a certificate of the Issuer or, as the case may be, the Guarantor signed by one of the Authorised Signatories of the Issuer or the Guarantor, as the case may be, confirming that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer or the Guarantor, as the case may be, as at a date (the "**Certification Date**") not more than five days before the date of the certificate: (A) no Event of Default or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and (B) each of the Issuer and the Guarantor has complied with all its obligations under the Trust Deed and the Bonds; and the Trustee shall be entitled to rely conclusively upon the certificates mentioned above and shall not be liable to any Bondholder or any other person for such reliance.

(c) **Undertakings Relating to the NDRC**

The Issuer (failing whom, the Guarantor) undertakes to file or cause to be filed with the NDRC the requisite information and documents within the prescribed time period after the Issue Date in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

(d) **Notification of Completion of the NDRC Post-issue Filing**

The Issuer shall provide the Trustee with, within 60 PRC Business Days after the submission of the NDRC Post-issue Filing, (i) a certificate in English substantially in the form set out in the Trust Deed signed by an Authorised Signatory of the Issuer confirming the completion of the NDRC Post-issue Filing; and (ii) copies of the relevant documents evidencing due filing with the NDRC (or any other document evidencing the completion of filing confirmed by NDRC) (if any) and the particulars of filing (if any) certified in English as true and complete copies of the originals by an Authorised Signatory of the Issuer (and the Trustee may rely conclusively without liability to any Bondholder or any other person on such certification provided by the Issuer), (the items specified in (i) and (ii) together, the "**Filing Documents**").

In addition, the Issuer shall, within 10 PRC Business Days after the Filing Documents are delivered to the Trustee, give notice to the Bondholders (in accordance with Condition 16) confirming the completion of the NDRC Post-issue Filing.

The Trustee shall have no obligation or duty to monitor or assist with or ensure the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing and/or the Filing Documents or any translation thereof or to give notice to the Bondholders confirming the completion of the NDRC Post-issue Filing, and shall not be liable to Bondholders or any other person for not doing so.

(e) **Keepwell Deed**

For so long as any Bond remains outstanding, each of the Issuer and the Guarantor covenants to take all such actions as may be necessary in order to enable the Company to comply with its obligations under the Keepwell Deed.

(f) **Definitions**

In these Conditions:

"**Audited Financial Reports**" means annual audited consolidated statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows of the Guarantor together with any statements, reports (including any directors' and auditor's reports) and notes attached to or intended to be read with any of them, each in the English language;

a "**Listed Subsidiary**" of any person means any Subsidiary of such person whose ordinary shares are listed or dealt in or traded on any internationally recognised stock exchange;

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

"**Potential Event of Default**" means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 9 become an Event of Default;

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

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

"**Relevant Indebtedness**" 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 or capable of being, 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 more than one year from its date of incurrence or issuance;

"**Relevant Period**" means, in relation to Audited Financial Reports, each period of twelve months ending on the last day of the Guarantor's financial year (being 31 December of that financial year) and, in relation to Unaudited Financial Reports, each period of six months ending on the last day of the first half of the Guarantor's financial year (being 30 June of that financial year);

"**Security**" means any mortgage, charge, pledge, lien, encumbrance, hypothecation, title retention, security interest or security arrangement of any kind;

"**Subsidiary**" of any person means (i) 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 (ii) 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; and

"**Unaudited Financial Reports**" means semi-annual unaudited consolidated statement of profit or loss and other comprehensive income and statement of financial position of the Guarantor, each in the English language.

5 Interest

The Bonds shall bear interest on their outstanding principal amount from and including 12 August 2020 at the rate of 3.85 per cent. per annum, payable semi-annually in arrear in equal instalments of US$19.25 per Calculation Amount (as defined below) on 12 February and 12 August in each year (each an "**Interest Payment Date**") commencing on 12 February 2021. Each Bond will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate evidencing such Bond, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at the same aforesaid rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder, and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**". Interest in respect of any Bond shall be calculated per US$1,000 in principal amount of the Bonds (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for each Interest Period (and for any period less than a complete Interest Period) shall be equal to the product of the rate of interest specified above, the Calculation Amount and the relevant day-count fraction determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed, rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

6 Redemption and Purchase

(a) Final Redemption

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date. The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 6.

(b) Redemption for Tax Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders and the Trustee and the Principal Paying Agent in writing (which notice shall be irrevocable), at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if the Issuer (or, the Guarantor, as the case may be) satisfies the Trustee immediately prior to the giving of such notice that (i) it 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 a Relevant Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of such laws or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 5 August 2020, and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds (or the Guarantee, as the case may be) then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(b), the Issuer (or the Guarantor, as the case may be) shall deliver to the Trustee (A) a certificate signed by an Authorised Signatory of the Issuer (or by an Authorised Signatory of the Guarantor, as the case may be) stating that the obligation referred to in (i) above of this Condition 6(b) cannot be avoided by the Issuer (or the Guarantor, as the case maybe) taking reasonable measures available to it and (B) an opinion of independent tax or legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such Additional Tax Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 6(b) without further enquiry and without liability to any Bondholder or any other person, in which event the same shall be conclusive and binding on the Bondholders.

(c) Redemption for Relevant Events

At any time following the occurrence of a Relevant Event, the holder of each Bond will have the right, at such holder's option, to require the Issuer to redeem all, or some only (subject to the proviso below), of such holder's Bonds on the Put Date at 101 per cent. (in the case of a redemption for a Change of Control) or 100 per cent. (in the case of a redemption for a No Filing Event) of their principal amount, together with interest accrued to (but excluding) the Put Date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of the Principal Paying Agent or any other Paying Agent (a "**Put Exercise Notice**"), together with the certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Relevant Event, or, if later, 30 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16. The

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

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds that are the subject of the Put Exercise Notice delivered as aforesaid on the Put Date; provided that, such holder shall have no right to require the Issuer to redeem such Bonds to the extent that it would result in such holder holding an aggregate principal amount of Bonds of less than US$200,000 immediately following the Put Date.

The Issuer or the Guarantor shall give notice to Bondholders (in accordance with Condition 16) and to the Trustee and the Principal Paying Agent in writing by not later than seven 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 Bonds pursuant to this Condition 6(c).

Neither the Trustee nor any of the Agents shall be required to take any steps to ascertain whether a Relevant Event has occurred or may occur and none of them shall be responsible or liable to Bondholders for any loss arising from any failure to do so.

For the purposes of this Condition 6(c):

a "**Change of Control**" means the occurrence, at any time, of any of the following:

(i) the Guarantor ceasing to directly or indirectly hold or own 100 per cent. of the issued share capital of the Issuer; or

(ii) the Company ceasing to directly or indirectly hold or own 100 per cent. of the issued share capital of the Guarantor; or

(iii) other than the SASAC or any Person directly or indirectly Controlled by the central or local government of the PRC, any Person or Persons (acting as a group) acquiring the Control of the Company;

"**Control**" means (i) the ownership, acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of a Person, whether obtained directly or indirectly, or (ii) the right to appoint and/or remove all or the majority of the members of a Person's board of directors (excluding independent directors) or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise. For the avoidance of doubt, a Person is deemed to Control another Person so long as it fulfils one of the two foregoing requirements and the term "**Controlled**" has meanings correlative to the foregoing;

a "**No Filing Event**" occurs when the Filing Documents are not delivered to the Trustee in accordance with Condition 4(d) within 60 PRC Business Days after the submission of the NDRC Post-issue Filing;

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;

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

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

(d) **Notice of Redemption**

All Bonds in respect of which any notice of redemption is given under this Condition 6 shall be redeemed on the date specified in such notice in accordance with this Condition 6. If there is more than one notice of redemption given in respect of any Bond (which shall include any notice given by the Issuer (or the Guarantor, as the case may be) pursuant to Condition 6(b) and any Put Exercise Notice given by a Bondholder pursuant to Condition 6(c)), the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail. Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under any notice of redemption or Put Exercise Notice and none of them shall be liable to Bondholders, the Issuer, the Guarantor, the Company or any other person for not doing so.

(e) **Purchase**

Subject to applicable laws and regulations, the Issuer, the Guarantor, the Company and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor, the Company or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Bondholders or for the purposes of Conditions 9, 12(a) and 13.

(f) **Cancellation**

All Certificates evidencing Bonds purchased by or on behalf of the Issuer, the Guarantor, the Company or any of their respective Subsidiaries may be held, resold or surrendered to the Registrar for cancellation. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

7 Payments

(a) **Method of Payment**

(i) Payments of principal and premium (if any) shall be made (subject to surrender of the relevant Certificates at the specified office of any Paying Agent if no further payment falls to be made in respect of the Bonds evidenced by such Certificates) in the manner provided in Condition 7(a)(ii) below.

(ii) Interest on each Bond shall be paid on the due date for payment to the person shown on the Register at the close of business on the fifth Payment Business Day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Bond shall be made in US dollars by wire transfer to the registered account of the holder of such Bond. In these Conditions, the "**registered account**" of a holder means the US dollar account maintained by or on behalf of such holder with a bank, details of which appear in the Register at the close of business on the Record Date.

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

*Notwithstanding the foregoing, so long as the Global Certificate evidencing the Bonds is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any alternative clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive) except 1 January and 25 December.*

(b) **Payments subject to Fiscal Laws:** All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives 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 (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

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

(d) **Appointment of Agents:** The Principal Paying Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar with its specified office outside of the United Kingdom, (iii) a Transfer Agent and (iv) such other agents as may be required by any other stock exchange on which the Bonds may be listed, in each case, as approved in writing by the Trustee. Notice of any such change or any change of any specified office of an Agent shall promptly be given by the Issuer, failing whom the Guarantor, to the Bondholders in accordance with Condition 16 and to the Trustee.

(e) **Delay in Payment:** Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so) or if a transfer made in accordance with Condition 7(a)(ii) reaches the registered account of the relevant holder after the due date for payment.

(f) **Non-Payment Business Days:** If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, "**Payment Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are generally open for business and settlement of US dollar payments in New York City or the place in which the specified office of the Principal Paying Agent is located.

8 Taxation

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee 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 within the British Virgin Islands, Hong Kong or the PRC, in each case including any political subdivision or authority therein or thereof having power to tax (a "**Relevant Jurisdiction**"), unless such withholding or deduction is required by law.

Where such withholding or deduction is made by the Issuer or, as the case may be, the Guarantor by or within the PRC up to and including the aggregate rate applicable on 5 August 2020 (the "**Applicable Rate**"), the Issuer or, as the case may be, the Guarantor will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer or, as the case may be, the Guarantor is required to make (a) a deduction or withholding by or within the PRC in excess of the Applicable Rate, or (b) a deduction or withholding by or within the British Virgin Islands or Hong Kong, in such event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts ("**Additional Tax Amounts**") as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required. No withholding or deduction or additional tax amounts shall be payable in respect of any Bond (or the Guarantee, as the case may be):

(i) **Other connection:** to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having or having had some connection with the Relevant Jurisdiction, other than the mere holding of the Bond; or

(ii) **Surrender more than 30 days after the Relevant Date:** in respect of which the Certificate evidencing it is surrendered or presented for payment (where surrender or presentation is required) more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such Additional Tax Amounts on surrendering or presenting the Certificate evidencing such Bond for payment on the last day of such period of 30 days.

For the purposes of these Conditions, "**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further surrender or presentation of the Certificate evidencing such Bond being made in accordance with these Conditions, such payment will be made; provided that payment is in fact made upon such surrender or presentation.

9 Events of Default

If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided that in any such case the Trustee shall have first been indemnified and/or secured and/or pre-funded to its satisfaction), give written notice to the Issuer and the Guarantor that the Bonds are, and they shall immediately become, due and payable at 100 per cent. of their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment:** the Issuer fails to pay (i) principal, or premium (if any) on any Bond on the date such amount is due and payable or (ii) interest on any Bond within 30 days after the due date for such payment; or

(b) **Breach of Other Obligations:** the Issuer, the Guarantor or the Company does not perform or comply with any one or more of its other obligations in the Bonds, the Trust Deed or the Keepwell Deed (other than those referred to in Condition 9(a) or where such default gives rise to a right of redemption pursuant to Condition 6(c)), which default either (i) is in the opinion of the Trustee incapable of remedy or, (ii) if a default which is in the opinion of the Trustee remediable, is not remedied within 30 days after notice of such default shall have been given to the Issuer, the Guarantor or the Company by the Trustee (as the case may be); or

(c) **Cross-Acceleration:** (i) any failure to pay upon final maturity when due or, as the case may be, within any originally applicable grace period, the principal of any Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary, (ii) any other present or future Indebtedness of the Guarantor, the Issuer or any Principal Subsidiary for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual default or event of default or (iii) any failure to pay any amount payable by the Guarantor, the Issuer or any Principal Subsidiary under any guarantee or indemnity in respect of any Indebtedness of any other Person thereof, when such amount is due or within any originally applicable grace period (as the case may be); provided that the aggregate outstanding Indebtedness in respect of which one or more of the events mentioned above in this Condition 9(c) have occurred in aggregate equals or exceeds US$10,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this Condition 9(c) operates); or

(d) **Judgments, Enforcement Proceedings and Security Enforced:**

(i) any failure by the Guarantor, the Issuer or any Principal Subsidiary to pay one or more final judgments from a court of competent jurisdiction, with an aggregate amount equals or in excess of US$5,000,000 or its equivalent (on the basis of the middle spot rate for the relevant currency against the US dollar as quoted by any leading bank on the day on which this Condition 9(d) operates), and such judgments are not paid, discharged or stayed for a period of 60 days; or

(ii) (A) a distress, attachment, execution, any other legal process is levied, enforced or sued out on or against, or (B) any mortgage, charge, pledge, lien or other encumbrance, present or future, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person), in each case with respect to, a substantial part of the property, assets or revenues of the Guarantor, the Issuer or any Principal Subsidiary, as the case may be, and is not discharged or stayed within 60 days; or

(e) **Insolvency:** the Issuer, the Guarantor or any Principal Subsidiary is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any Principal Subsidiary; or

(f) **Winding-up:** the Guarantor, the Issuer or any Principal Subsidiary institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Guarantor, the Issuer or any Principal Subsidiary files a petition or answer or consent seeking reorganisation or relief for the winding up or dissolution of the Issuer or the Guarantor or any Principal Subsidiary under applicable bankruptcy, insolvency, reorganisation or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any substantial part of the property of any of the Guarantor, the Issuer or any Principal Subsidiary, or makes an assignment for the benefit of creditors, or takes corporate action in furtherance of any such action, except, in the case of any Principal Subsidiary, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders or (ii) whereby the assets or undertakings of such Principal Subsidiaries are vested in or otherwise transferred to the Guarantor, the Issuer or any Subsidiary; or

(g) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 9(d)(ii), 9(e) and 9(f); or

(h) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer, the Guarantor and the Company lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Bonds, the Trust Deed, the Agency Agreement and the Keepwell Deed (other than with regard to the performance of and compliance with the obligations under the Keepwell Deed), (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Trust Deed, the Agency Agreement and the Keepwell Deed admissible in evidence in the courts of Hong Kong is not taken, fulfilled or done; or

(i) **Illegality:** it is or will become unlawful for any of the Company, the Guarantor or the Issuer to perform or comply with any one or more of their respective obligations under any of the Bonds, the Trust Deed or the Keepwell Deed; or

(j) **Unenforceability of Guarantee:** the 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 Guarantor; or

(k) **Keepwell Deed:** the Keepwell Deed is not (or is claimed by the Company to not be) in full force and effect, or the Keepwell Deed is modified, amended or terminated, other than strictly in accordance with its terms.

In this Condition 9:

"**Indebtedness**" shall mean, in relation to any Person, without duplication, (i) any outstanding indebtedness for or in respect of money borrowed or raised (including bonds, debentures, notes or other similar instruments, whether or not listed) that is evidenced by any agreement or instrument (excluding trade payables) and (ii) all non-contingent obligations of such Person to reimburse any bank or other Person in respect of amounts paid under a letter of credit or similar instrument; and (iii) all Indebtedness of others guaranteed by such Person; and

"**Principal Subsidiary**" at any time shall mean any Subsidiary of the Guarantor:

(i) whose total assets or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) consolidated total assets attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10 per cent. of the consolidated total assets of the Guarantor and its Subsidiaries; or

(ii) whose net profits or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries) consolidated net profits attributable to the Guarantor (in each case after deducting minority interests in Subsidiaries) are at least 10 per cent. of the consolidated net profits of the Guarantor and its Subsidiaries, as calculated by reference to the then latest audited financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary of the Guarantor and the then latest audited consolidated financial statements of the Guarantor;

provided that:

(A) in the case of a Subsidiary of the Guarantor acquired after the end of the financial period to which the then latest consolidated audited accounts of the Guarantor relate, the reference to the then latest audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the acquisition is made are published, be deemed to be a reference to the accounts adjusted to consolidate the latest audited accounts of the Subsidiary in the accounts;

(B) if, in the case of a Subsidiary of the Guarantor which itself has one or more Subsidiaries, non-consolidated accounts are prepared and audited, its consolidated assets and consolidated net profits shall be determined on the basis of pro forma consolidated accounts of the relevant Subsidiary and its Subsidiaries prepared for this purpose and opined on by its auditors;

(C) if the accounts of a Subsidiary of the Guarantor (not being a Subsidiary referred to in paragraph (A) above) are not consolidated with those of the Guarantor then the determination of whether or not the Subsidiary is a Principal Subsidiary shall, if the Guarantor requires, be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the audited consolidated accounts of the Guarantor and its Subsidiaries; or

(iii) to which is transferred all or substantially all of the assets of a Subsidiary of the Guarantor which immediately prior to the transfer was a Principal Subsidiary; provided that, with effect from such transfer, the Subsidiary which so transfers its assets and undertakings shall cease to be a Principal Subsidiary (but without prejudice to paragraphs (i) or (ii) above of this definition).

10 Prescription

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

11 **Replacement of Certificates**

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent, 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, indemnity and otherwise as the Issuer may require (provided that, the requirement is reasonable in light of prevailing market practice) or as the Registrar and/or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12 **Meetings of Bondholders, Modification and Waiver**

(a) **Meetings of Bondholders:** The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed, or the Keepwell Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being outstanding and subject to it being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Bonds or the dates on which interest or premium (if any) is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on, the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, (v) to modify, amend or terminate the Keepwell Deed or the Guarantee (other than in accordance with their respective terms and subject to Condition 12(b)), or (vi) to pass an Extraordinary Resolution to direct the Trustee to institute proceedings in relation to the Keepwell Deed in accordance with Condition 13, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 33 per cent., in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate principal amount of the Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) **Modification of the Trust Deed and the Keepwell Deed:** The Trustee may, but is not obliged to, agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Keepwell Deed that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions and/or any of the provisions of the Trust Deed or the Keepwell Deed that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer, failing whom, the Guarantor, to the Bondholders 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 12) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require on behalf of the Bondholders, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee (as the case may be) any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

(d) **Directions from Bondholders:** Notwithstanding anything to the contrary in these Conditions, the Trust Deed, the Agency Agreement or the Keepwell Deed, whenever the Trustee is required or entitled by the terms of these Conditions, the Trust Deed, the Agency Agreement or the Keepwell Deed to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction or certification, to seek directions from the Bondholders by way of an Extraordinary Resolution and to have been indemnified, provided with security and/or pre-funded to its satisfaction against all action, proceedings, claims and demands to which it may be or become liable and all costs, charges, damages, expenses (including without limitation legal expenses) and liabilities which may be incurred by it in connection therewith, and the Trustee is not responsible for any loss or liability incurred by the Issuer, the Guarantor, the Company, the Bondholders or any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction or certification where the Trustee is seeking such directions from the Bondholders or in the event that no direction is given to the Trustee by the Bondholders (whether given by Extraordinary Resolution or otherwise as contemplated or permitted by the Trust Deed and/or the Bonds).

13 Enforcement

At any time after the Bonds become due and payable, the Trustee may, at its discretion and without further notice, take such actions and/or steps and/or institute such proceedings against the Issuer, the Guarantor and/or the Company as it may think fit to enforce the terms of the Trust Deed, the Bonds and/or the Keepwell Deed, but it need not take any such actions or steps and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. of the aggregate principal amount of the Bonds outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer, the Guarantor and/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.

14 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including, without limitation, provisions relieving it from taking any steps and/or actions and/or instituting proceedings to enforce its rights under the Trust Deed, the Agency Agreement, the Keepwell Deed and/or these Conditions unless first indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or the Company and any entity related (directly or indirectly) to the Issuer, the Guarantor and/or the Company without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor, the Company and any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same. None of the Trustee and the Agents need do anything to ascertain whether any Event of Default or Potential Event of Default has occurred and none of them will be responsible to Bondholders or any other person for any loss arising from any failure by it to do so. Unless it has written notice from the Issuer, the Guarantor or the Company to the contrary, the Trustee and each Agent shall be entitled to assume that the duties and obligations of the Issuer, the Guarantor, the Company and any other person appointed by the Issuer and/or the Guarantor in relation to the Bonds are being duly performed. None of the Trustee or any Agent shall be liable to the Issuer, the Guarantor, the Company and/or any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement, the Keepwell Deed or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Bondholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. The Trustee shall not be under any obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement, the Keepwell Deed or these Conditions.

The Trustee may rely without liability to Bondholders, the Issuer, the Guarantor, the Company and/or any other person on any report, confirmation, opinion, certificate, advice or information of or from any accountants, lawyers, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, opinion, certificate, information or advice, in which event such report, confirmation, opinion, certificate, information or advice shall be binding on the Issuer, the Guarantor, the Company, the Trustee and the Bondholders.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, the Guarantor, the Company and their respective Subsidiaries, and the Trustee shall not at any time have any responsibility for the same and each Bondholder shall not rely on the Trustee in respect thereof.

15 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, issue price, amount of the first payment of interest on them and the description of the Bonds (including the further Bonds), related corporate resolutions as set out in the introductory paragraphs to these Conditions and the timing for complying with the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. References in these Conditions to the Bonds include (unless the context requires otherwise) any other bonds issued pursuant to this Condition 15 and forming a single series with the Bonds. Any further bonds forming a single series with the outstanding Bonds constituted by the Trust Deed or any deed supplemental to it shall be constituted by a deed supplemental to the Trust Deed.

16 Notices

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

So long as the Global Certificate is held on behalf of Euroclear Bank SA/NV and/or Clearstream Banking S.A. or any alternative clearing system, any notice to the holders of the Bonds shall be validly given by the delivery of the relevant notice to Euroclear Bank SA/NV and/or Clearstream Banking S.A. or any alternative clearing system, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17 Contracts (Rights of Third Parties) Act 1999

Without prejudice to the rights of the Bondholders as contemplated in Condition 13, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

18 Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Agency Agreement, the Guarantee, the Keepwell Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with English law.

(b) **Jurisdiction:** The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Guarantee, the Trust Deed, the Agency Agreement and the Keepwell Deed and accordingly any legal action or proceedings arising out of or in connection with any Bonds, the Guarantee, the Trust Deed, the Agency Agreement or the Keepwell Deed ("**Proceedings**") may be brought in such courts. The Issuer and the Guarantor and the Company have in the Trust Deed and Keepwell Deed, as applicable, irrevocably submitted to the exclusive jurisdiction of such courts and waived any objection to Proceedings in any such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Agent for Service of Process:** The Issuer has irrevocably appointed the Guarantor (at the Guarantor's principal place of business at 19/F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong) to receive service of process in any Proceedings in Hong Kong based on any of the Bonds. If for any reason the Guarantor no long maintains a principal place of business in Hong Kong, the Issuer and the Guarantor will each promptly appoint a process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) **Waiver of Immunity:** To the extent that the Issuer or the Guarantor may in any jurisdiction claim for itself or its property immunity from any Proceedings, and to the extent that in any such jurisdiction there may be attributed to the Issuer or the Guarantor or its property such immunity (whether or not claimed), the Issuer or the Guarantor, as the case may be, hereby irrevocably agrees not to claim and hereby irrevocably waives and will waive such immunity in the face of the courts.

DESCRIPTION OF THE KEEPWELL DEED

The following contains summaries of certain key provisions of the Keepwell Deed. Such statements do not purport to be complete and are qualified in their entirety by reference to the Keepwell Deed.

Under the Keepwell Deed, the Company will undertake with the Issuer, the Guarantor and the Trustee that (i) it shall directly or indirectly own and hold all the outstanding shares of each of the Issuer and the Guarantor and will not directly or indirectly pledge, or in any way encumber or otherwise dispose of any such shares, unless required to dispose of any or all such shares pursuant to a court decree or order of any governmental authority and (ii) it shall procure the Guarantor to directly or indirectly own and hold all the outstanding shares of the Issuer.

In addition, the Company will undertake that it shall cause:

(i) each of the Issuer and the Guarantor to have a Consolidated Net Worth (as defined in the Keepwell Deed) of at least US$1.00 (or its equivalent in other currency) at all times; and

(ii) each of the Issuer and the Guarantor to have sufficient liquidity to ensure timely payment by each of them of any amounts payable in respect of the Bonds and the Guarantee in accordance with the Trust Deed and the Terms and Conditions of the Bonds and all payments due under the Trust Deed and the Agency Agreement.

If the Issuer or the Guarantor at any time determines that it will have insufficient liquidity to meet any of its payment obligations under the Bonds, the Guarantee or the Trust Deed as they fall due, then the Issuer and/or the Guarantor shall promptly notify the Company of the shortfall and the Company will make available, or procure the availability of, to the Issuer or the Guarantor, as the case may be, before the due date of the relevant payment obligations, sufficient funds by means as permitted by applicable laws and regulations so as to enable the Issuer or the Guarantor, as the case may be, to meet such payment obligations in full as they fall due, provided, however, that the Company shall not in any event be required to perform any part of the payment obligation under the Bonds, the Guarantee or the Trust Deed in lieu of the Issuer or the Guarantor, as the case may be. Each of the Issuer and the Guarantor shall use any funds it obtains in accordance with the Keepwell Deed solely for the payment, when due, of such payments obligations under the Bonds, the Guarantee or the Trust Deed, as the case may be.

For so long as the Bonds are outstanding, the Company will undertake to the Issuer, the Guarantor and the Trustee in the Keepwell Deed:

- to procure that the memorandum and articles of association of each of the Issuer and the Guarantor shall not be amended in a manner that is, directly or indirectly, materially adverse to Bondholders;

- to cause each of the Issuer and the Guarantor to remain in full compliance with the Terms and Conditions of the Bonds, the Guarantee, the Trust Deed, the Keepwell Deed and all applicable rules and regulations in the British Virgin Islands, Hong Kong and, in relation to the performance of each of the Issuer's and the Guarantor's obligations under the Bonds, the Guarantee, the Trust Deed and the Keepwell Deed, all applicable rules and regulations under English law; and

- promptly to do all such things and take any and all such actions necessary to comply with its obligations under the Keepwell Deed, and to cause each of the Issuer and the Guarantor to do all such things and take any and all such actions necessary in a timely manner to comply with its obligations under the Keepwell Deed.

The Keepwell Deed is not, and nothing therein contained and nothing done pursuant thereto by the Company shall be deemed to constitute, or shall be construed as, or shall be deemed evidence of, a guarantee by or any legally binding obligation of the Company of the payment of any obligation, indebtedness or liability, of any kind or character whatsoever, of the Issuer or the Guarantor under the laws of any jurisdiction, including the PRC.

The parties to the Keepwell Deed will acknowledge that in order for the Company to comply with its obligations under the Keepwell Deed, it may be subject to necessary regulatory or governmental approvals, consents, licences, orders, permits, registrations, clearances and any other authorisations or filings with the relevant approval authorities.

The Keepwell Deed may only be modified, amended or terminated by the written agreement of the parties thereto.

The Keepwell Deed will be governed by and construed in accordance with English law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

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

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

Under the Global Certificate, the Issuer, for value received, promises to pay such principal and interest on the Bonds to the holder of the Bonds on such date or dates as the same may become payable in accordance with the Terms and Conditions of the Bonds.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. In such circumstances, the Issuer will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

PAYMENT

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

CALCULATION OF INTEREST

So long as the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

TRUSTEE'S POWERS

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

NOTICES

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Bonds.

BONDHOLDER'S REDEMPTION

The Bondholder's redemption option in Condition 6(c) of the Terms and Conditions of the Bonds may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions of the Bonds.

ISSUER'S REDEMPTION

The option of the Issuer provided for in Condition 6(b) of the Terms and Conditions of the Bonds shall be exercised by the Issuer giving notice to the Bondholders within the time limits set out in and containing the information required by the Terms and Conditions of the Bonds.

TRANSFERS

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

CANCELLATION

Cancellation of any Bond by the Issuer following its redemption or purchase by the Issuer, the Guarantor, the Company or any of their respective subsidiaries will be effected by reduction in the principal amount of the Bonds in the register of Bondholders.

MEETINGS

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

DESCRIPTION OF THE ISSUER

OVERVIEW

The Issuer was incorporated as a business company with limited liability on 11 August 2014 under the laws of the British Virgin Islands. The Issuer's company number is 1836619. The registered office of the Issuer is Commerce House, Wickhams Cay 1, P.O. Box 3140, Road Town, Tortola, VG1110, British Virgin Islands.

The Issuer is authorised to issue a maximum of 50,000 ordinary shares of a single class without par value. The Issuer has one share in issue. None of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought.

BUSINESS ACTIVITIES

The Issuer is a wholly-owned subsidiary of the Guarantor. As at the date of this Offering Circular, the Issuer has not engaged in any material activities other than those relating to the issue of RMB1,500 million senior bonds in September 2014, the issue of US$200 million guaranteed bonds in February 2018, the issue of US$200 million guaranteed bonds in March 2019, the issue of three series of private placement guaranteed bonds in an aggregate principal amount of US$77 million in March 2020 and the proposed issue of the Bonds. The Issuer has no subsidiary.

DIRECTORS

As at the date of this Offering Circular, the board of directors of the Issuer consists of three members, namely Mr. Zhang Yanfeng, Mr. Han Dong and Mr. Geng Bofeng.

FINANCIAL INFORMATION

Under the laws of the British Virgin Islands, the Issuer is not required to publish interim or annual financial statements. As at the date of this Offering Circular, the Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep such accounts and records that are sufficient to show and explain the Issuer's transactions and will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

DESCRIPTION OF THE GUARANTOR GROUP

OVERVIEW

The Guarantor Group is an integrated securities group that offers a wide range of financial services and products in Hong Kong. The Guarantor was established in June 2011 by the Company with CSRC's approval to capture the growing cross-border business opportunities in offshore financial markets. The Guarantor serves as the principal overseas platform of the Company to implement its international expansion strategies. The Guarantor Group obtained its first licences from the SFC in November 2012 and December 2012, which allow it to engage in securities dealing transactions and futures contracts dealing transactions, respectively, in Hong Kong. The Guarantor was awarded "Top 3 Breakthrough Brokers of the Year" in the Stock Connect Awards 2019 by the Hong Kong Stock Exchange according to its total improvement of ranking in trading Northbound Stock Connect based on total turnover from 28 November 2018 to 29 November 2019. It was also named "Star Investment Bank in Capital Market" by China Financial Market Magazine and "Hong Kong Leading International Financial Services Brand" by Global Brands Magazine in 2019. In 2020, the Guarantor was named "Hong Kong Best Cross Border Financial Services Brand" by Global Brands Magazine. For the years ended 31 December 2017, 2018 and 2019, the Guarantor Group's revenue was HK$802.6 million, HK$991.4 million and HK$1,111.8 million, respectively. As at 31 December 2017, 2018 and 2019, the Guarantor Group's total current assets were HK$8,657.6 million, HK$10,610.5 million and HK$9,374.7 million, respectively.

The Guarantor Group has a diversified business portfolio and it manages its business mainly in seven segments. The following table sets forth a breakdown of the Guarantor Group's business segments and principal financial products and services:

Business Segments	Principal Financial Products and Services
Securities and futures brokerage	• Securities brokerage
	• Futures and options brokerage
	• Margin financing and securities lending and refinancing
	• Wealth management
	• Agency of financial products
Investment banking	• Equity placement and underwriting
	• Debt placement and underwriting
	• IPO sponsoring
	• Corporate finance advisory
	• Merger & Acquisition
Asset management.	• Collective and targeted asset management
	• Mutual funds management
	• Private equity fund management
	• Management of enterprise annuities
	• RQFII

Business Segments	Principal Financial Products and Services
FICC	• Debts, foreign exchange, stocks and derivatives and other securities proprietary trading business • OTC structured products brokerage and distribution • Cash and bonds market making transactions • Structural product trading and hedging transactions • Issue of bonds, stocks and other large commodities
Insurance brokerage	• Life insurance brokerage • Health insurance brokerage • Investment related insurance brokerage • General insurance brokerage
Finance lease	• Financial leasing • Factoring • Entrusted loans
Investment	• Equity and fixed income securities investment • Public and private funds investment • Structural financing

Set forth below is an overview of the Guarantor Group's major subsidiaries:

- *Zhongtai International Securities Limited* (中泰國際證券有限公司)(formerly known as Qilu International Securities Limited (齊魯國際證券有限公司)) – Zhongtai Securities was incorporated with limited liability in Hong Kong in May 2012 and is currently licensed under the SFO to engage in Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities.

- *Zhongtai International Futures Limited* (中泰國際期貨有限公司*)* (formerly known as Qilu International Futures Limited (齊魯國際期貨有限公司)) ("**Zhongtai Futures**") – Zhongtai Futures was incorporated with limited liability in Hong Kong in May 2012 and is currently licensed under the SFO to engage in Type 2 (dealing in future contracts) regulated activity.

- *Zhongtai International Asset Management Limited* (中泰國際資產管理有限公司)(formerly known as Qilu International Asset Management Limited (齊魯國際資產管理有限公司)) ("**Zhongtai Asset Management**") – Zhongtai Asset Management was incorporated with limited liability in Hong Kong in May 2012 and is currently licensed under the SFO to engage in Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

- *Zhongtai International Capital Limited* (中泰國際融資有限公司)(formerly known as Qilu International Capital Limited (齊魯國際融資有限公司)) ("**Zhongtai Capital**") – Zhongtai Capital was incorporated with limited liability in Hong Kong in May 2012 and is currently licensed under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities.

- *Zhongtai Financial Investment Limited* (中泰金融投資有限公司)(formerly known as Qilu International Investment Limited(齊魯國際投資有限公司)) – Zhongtai Investment was incorporated with limited liability in Hong Kong in August 2012 and is principally engaged in investment services.

- *Zhongtai International Wealth Management Limited* (中泰國際優越理財有限公司)(formerly known as Qilu International Wealth Management Limited(齊魯國際優越理財有限公司)) – Zhongtai Wealth Management was incorporated with limited liability in Hong Kong in April 2014 and is principally engaged in wealth management services. Zhongtai Wealth Management received the licence for proxy insurance products from Hong Kong Insurance Authority (formerly known as Hong Kong Professional Insurance Brokers Association) in August 2014 and the licence as a registered Mandatory Provident Fund ("**MPF**") principal intermediary for carrying on MPF sales and marketing activities from the Mandatory Provident Fund Schemes Authority (the "**MPFA**") in January 2020.

- *Zhongtai International Financial Products Limited* (中泰國際金融產品有限公司)(formerly known as Qilu International Financial Products Limited(齊魯國際金融產品有限公司)) ("**Zhongtai Financial Products**") – Zhongtai Financial Products was incorporated with limited liability in Hong Kong in December 2014 and is currently licensed under the SFO to engage in Type 1 (dealing in securities) regulated activity.

- *Zhongtai Financial Investment Management Consultation (Shenzhen) Co., Ltd.*(中泰金融投資管理諮詢(深圳)有限公司)(formerly known as Qilu Investment Management Consultant (Shenzhen) Co., Ltd.(齊魯投資管理諮詢(深圳)有限公司)) ("**Zhongtai Consultant**") – Zhongtai Consultant was incorporated with limited liability in Shenzhen Qianhai Free Trade Zone in February 2013 and primarily provides consultancy services for cross-border investments. Zhongtai Consultant is directly and wholly-owned by Zhongtai Investment.

- *Hongrun (Shanghai) Finance Leasing Co., Ltd.*(宏潤(上海)融資租賃有限公司)("**Hong Run**") – Hong Run was incorporated with limited liability in Shanghai Free Trade Zone in January 2014 and is principally engaged in finance leasing. Hong Run is directly and wholly-owned by Zhongtai Investment.

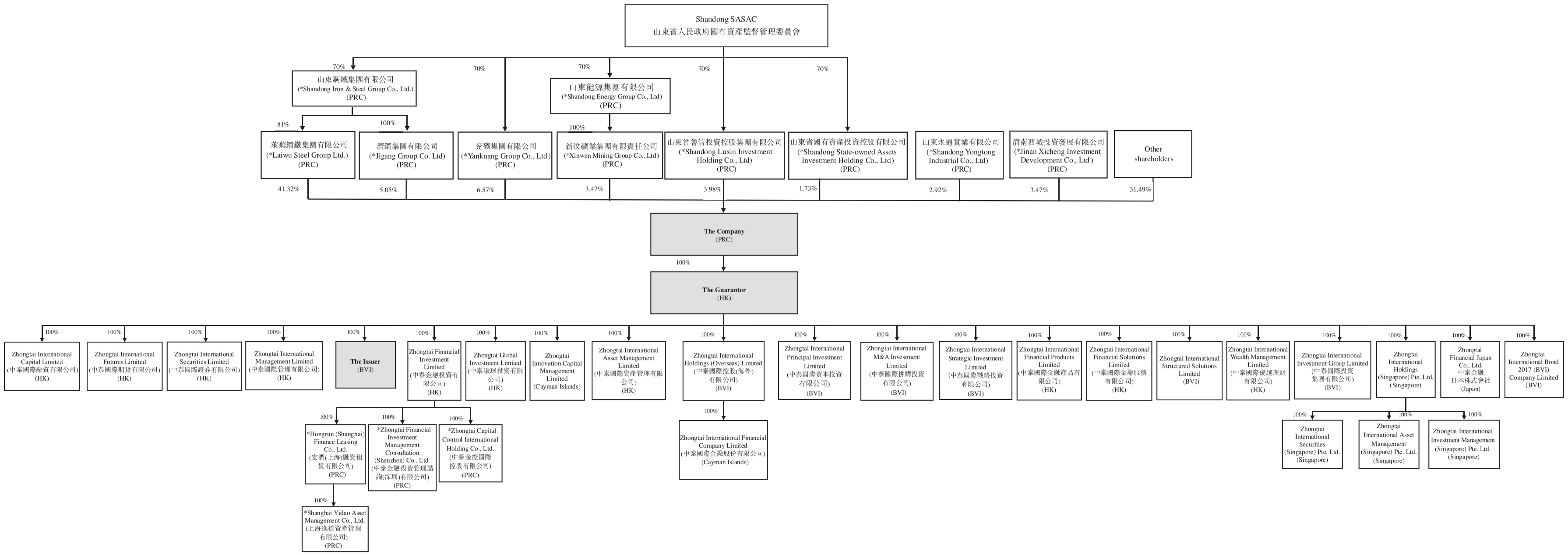
- *Zhongtai Capital Control International Holdings Co., Ltd.*(中泰金控國際控股有限公司) ("**Zhongtai Capital Control**") – Zhongtai Capital Control was incorporated with limited liability in Shanghai Free Trade Zone in April 2016 and is principally engaged in investment bank, debt issuing and onshore business development by the Company's Hong Kong subsidiaries. Zhongtai Capital Control is wholly-owned by Zhongtai Investment.

- *Zhongtai International Holdings (Singapore) Pte. Ltd.* ("**Zhongtai International Singapore**") – Zhongtai International Singapore was incorporated with limited liability in Singapore in April 2016 and is principally set up as a holding company. Zhongtai International Singapore is wholly-owned by the Guarantor.

- *Zhongtai International Investment Group Limited* (中泰國際投資集團有限公司)("**Zhongtai Investment Group**") – Zhongtai Investment Group was incorporated as a business company with limited liability in the British Virgin Islands in January 2018 and is wholly-owned by the Guarantor.

CORPORATE STRUCTURE

The following chart shows a simplified group structure of the Guarantor Group as at the date of this Offering Circular:



* For identification purposes only.

COMPETITIVE STRENGTHS

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

Well-established international platform, strong brand recognition and continuous shareholder support

The Guarantor Group is the principal overseas business platform of the Company to capture the growing cross-border business opportunities in international financial markets and to implement the Company's global expansion strategies. The Guarantor believes that it is well-positioned to develop its business and compete by leveraging the established market recognition, extensive sales network, strong research capability and cross-selling efforts of the Company.

The Company is one of the leading financial service providers in China and the largest financial services provider in Shandong Province in terms of revenue with full licenses required to conduct the relevant financial services in financial services industry in the PRC. According to the Business Performance and Ranking of Securities Companies in 2019 (2019年度證券公司經營業績排名情況) published by the Securities Association of China (中國證券業協會), the Company was ranked 16th in terms of total operating revenue, 17th in terms of total assets, 15th in terms of net assets and 15th in terms of net profit attributable to owners of the parent company in the PRC for the year. For more information of the Company Group, please see "*Description of the Company Group*".

Shandong SASAC is the Company's de facto controller and the latter is the only securities company under its direct supervision. Shandong SASAC closely supervises the strategic development of the Company. The Company has continuously received strong support from the PRC government in terms of business development and financial resources. In 2001, the CSRC approved of six OTC trading agencies to be merged into the Company Group as its securities operation branches to expand the Company Group's securities brokerage business. In 2006, the Company received approval from the CSRC of the acquisition of Luzheng Futures to develop the Company's futures brokerage business. In 2007, the Company received approval from the State Council for the acquisition of assets of Tiantong Securities Co., Ltd. (天同證券有限責任公司) (the "**Tiantong Securities**") to further expand its market position in the PRC. In the same year, the Company also invested in Wanjia Asset Management Co., Ltd. (萬家基金管理有限公司), the shareholder of which is Tiantong Securities, to expand the Company Group's business into asset management sector. These mergers and acquisitions and investments enabled the Company Group to become a full-fledge financial service provider and achieve a market leading position in Shandong Province.

In addition, the PRC government has provided support to the Company Group in the form of capital injections and various types of financial subsidies. Since the Company was incorporated in 2001 with an initial registered capital of RMB512 million, its registered capital had been increased by way of capital injections from the PRC government or entities controlled by the PRC government, namely by RMB300 million in 2004, RMB1.4 billion in 2006, RMB3 billion in 2008 and RMB5.83 billion in 2015.

The Guarantor Group believes that it can and will continue to leverage, and benefit from, the strong support from the Company Group and the PRC government to drive and realise long-term and sustainable development.

Well-positioned to leverage the strong economic growth of Shandong Province

As the principal overseas platform of the Company, the Guarantor has benefited and will continue to benefit from the strong economic development of Shandong Province. The Company, the sole shareholder of the Guarantor, is headquartered in Shandong Province and is one of the leading financial service providers in China. According to the State Bureau of Statistics of the PRC, Shandong Province ranked third in terms of total gross domestic product among all the provinces and municipalities in the

PRC since 2007. By promoting the business development of companies operating and investing in Shandong Province, such robust economic environment stimulates local financing activities, increases the financing needs of those companies and the growth of the financial sector in Shandong Province.

In recent years, the Shandong Provincial Government has paid increasing attention to developing its financial and securities industries. In August 2013, the Shandong Provincial Government issued the Certain Opinions on Accelerating the Financial Reform and Development in Shandong Province (山東省人民政府關於加快全省金融改革發展的若干意見), in which the provincial government demonstrated its support for financial development and innovation. As Shandong Province is geographically situated in a location of strategic importance to the "Belt and Road Initiative" promoted by the PRC government, the Guarantor believes that companies in Shandong Province have greater initiatives to take part in cross-border transactions, which creates increasing investment opportunities and financing needs. In addition, a number of favourable national and local strategic plans and policies relating to the financial industry have been recently introduced by the State and Shandong Provincial Government with respect to innovation and upgrading of regional financial services. In particular, in 2016, Shandong Provincial Government published the "13th Five Year Plan of the Development of Shandong Province Financial Industry 《山東省金融業發展第十三個五年規劃綱要》" affirming the importance of the reform of the province's financial industry and the development of financial companies, such as the Company, to increase their competitiveness. In 2018, Shandong Provincial Government also published the "Development Plan of Modern Financial Industry in Shandong Province (2018-2022) 《山東省現代金融產業發展規劃(2018-2022年)》 to establish a multi-functional and multi-layered financial market system in Shandong Province and foster the growth of leading securities companies in the PRC.

Given the Guarantor's role vis-à-vis the Company Group's business story, the competitive advantages and benefits that the Company can derive from such supportive sentiment of the central and provincial governments effectively translate into considerable growth prospects for the Guarantor. The Guarantor believes that there will be ample business opportunities presented in the future for its sustainable expansion.

Leading market position with continuous growth of synergistic business portfolio and earnings base

A key competitive edge the Guarantor has over other financial and securities companies is its access to the Company Group's abundant resources and the stable stream of benefits resulting from the Company's leading market position in the PRC as a large-scale conglomerate that provides comprehensive financial and securities products and services. According to the Business Performance and Ranking of Securities Companies in 2019 (2019年度證券公司經營業績排名情況) published by the Securities Association of China (中國證券業協會), the Company ranked 16th in terms of total operating revenue, 17th in terms of total assets, 15th in terms of net assets and 15th in terms of net profit attributable to owners of the parent company in the PRC for the year. It also ranked ninth in terms of the aggregate number of green bond issuances for which it acted as lead underwriter and third in terms of aggregate deal volume of green bonds issued for 2019.

The Guarantor Group has been able to develop its business portfolio in a synergistic and complementary manner alongside the growth of the Company Group's domestic operations beyond traditional service offerings such as underwriting equity listings. Its product suite now spans a broad spectrum from securities and futures brokerage, investment banking services, asset management, FICC services, insurance brokerage, finance lease services to investments. All of its businesses are conducted through multiple subsidiaries with an ever-expanding list of requisite licences issued by relevant authorities, for example, Zhongtai Wealth Management, the Guarantor's primary subsidiary for its insurance business, received the licence as a registered MPF principal intermediary for carrying on MPF sales and marketing activities from the MPFA in January 2020. This has enabled the continuous diversification of the Guarantor Group's earning bases and created new revenue growth drivers for it. A diversified earnings base, in the Guarantor's view, helps provide income stability and mitigate industry volatility, notably in the wake of uncertainties and volatility experienced with respect to the financial and securities markets, and particularly in light of the current macroeconomic landscape.

Comprehensive risk management system with effective internal controls and monitoring processes

The Company Group recognises the critical importance of risk management in its line of business and has established a comprehensive system to control and monitor its exposure to market risk, liquidity risk, credit risk and operational risk. This system is underpinned by a multi-level management structure with the Company's board of directors as the ultimate decision-making body and the senior management team responsible for the day-to-day implementation of risk management policies and internal control processes, while the board of supervisors exercises regular monitoring to ensure accountability and sound corporate governance. The dedicated risk management department led by the Company's chief risk officer, who reports directly to the chief executive officer, facilitates the carrying out and compliance by the other departments, branches and subsidiaries, including the Guarantor Group. All members of the Company Group and the Guarantor Group, including their officers and employees, are well-briefed on and familiar with the relevant risk management policies and procedures, review and control processes as well as reporting obligations and responsibilities.

The Company has formulated an extensive set of internal risk management policies, such as the "Company Comprehensive Risk Management Basic Rules《公司全面風險管理基本制度》" which specifies the objectives, principles, organisational structure, responsibilities and duties and other fundamental procedures. Such clear-cut internal guidelines and rule manuals enable better understanding and in turn, compliance, by employees at various operational levels and across business lines. Furthermore, the Company has established all-encompassing procedures in respect of risk identification, risk assessment, risk control and monitoring, risk response and risk reporting, with more than 50 work processes addressing all aspects ranging from risk information reporting, design and allocation of annual risk limit, stress testing, valuation of financial instruments and review of risk measurement models, and risk assessment of new products or businesses. In addition, the Company set up a real-time risk indicator monitoring system based on its net capital and liquidity, which allows it to run timely stress tests and ensure compliance with applicable regulatory requirements. The effectiveness of the Company Group's risk management approach and measures is evident from its perfect scores achieved in the performance reviews of PRC securities companies conducted by relevant PRC industry authorities in past years. For more details, see "*Description of The Company Group – Risk Management*".

Diversified financing channels and strong credit profile

The Guarantor has a proven track record of raising finance through diverse channels, including bank borrowings and issuance of securities in the capital markets. However, it also practises prudency in its debt management and has built a robust credit profile. As at 31 December 2019, total indebtedness of the Guarantor Group amounted to approximately HK$8,488 million, comprising 54.0 per cent. of short-term borrowings, 45.8 per cent. of debt securities and 0.2 per cent. of long-term borrowings. It has maintained close working relationships with many major banks (including without limitation, Industrial and Commercial Bank of China Limited, Bank of Shanghai, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank Co., Ltd., China Construction Bank (Asia), Wing Lung Bank, China Minsheng Bank, Luso International Banking Ltd., Nanyang Commercial Bank and Huaxia Bank), with a total approved credit line of approximately HK$563.3 million, of which 31.0 per cent. has not been utilised. The Guarantor believes that this speaks volumes of its strong credit worthiness and with such varied sources of funding, it will continue to have access to sufficient capital to support the repayment of its debt and expansion of its business.

Dedicated senior management with extensive industry experience and expertise

The Guarantor Group is led by dedicated senior management teams with support from talented and capable professionals possessing extensive industry experience and expertise. Under their leadership, the Guarantor Group has been steadily expanding the Company Group's footprint to Hong Kong as the Company's principal overseas platform to capture the growing cross-border business opportunities in the international financial markets. With their in-depth industry knowledge and management experience, close working relationships with governments and relevant agencies, as well as keen insight about local and international economic and financial developments, senior management members are capable of identifying key industry and market trends and ensuring the Guarantor Group is always well-positioned to capitalise on and capture strategic business opportunities, especially in Hong Kong. For details of the Guarantor's directors and senior management, see "*Directors and Management of the Guarantor*".

BUSINESS STRATEGIES

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

Continue to explore business opportunities in the PRC domestic and overseas markets

The Guarantor intends to continue to leverage the potential of the local securities and financial companies and enterprises located in Shandong Province to strengthen its foundation and explore additional business opportunities. The Guarantor believes that such local securities and financial companies and enterprises in Shandong Province will have a robust demand for outbound and overseas investment and will offer a large number of business opportunities. The Company has entered into strategic cooperation agreements with local governments in various cities within Shandong Province, which have agreed to support the Company to represent companies in their local cities in various financing transactions. Many of those financing transactions will require the engagement and expertise of the Guarantor Group, such as overseas securities offering, stock and futures trading. The Guarantor believes that its relationship with the Company will place it in a more competitive position to access to and capitalise these growth opportunities.

Continue to develop an integrated international business platform to provide its clients with comprehensive financial services with one-stop shop experience

The Guarantor is committed to developing itself into a leading international business platform that provide its clients with comprehensive financial services with one-stop shop experience. The Guarantor Group is currently licensed under the SFO to conduct securities and futures contracts dealing, advising on securities and corporate finance and asset management activities. The Guarantor Group received the licence for proxy insurance products from Hong Kong Insurance Authority (formerly known as Hong Kong Professional Insurance Brokers Association) in August 2014 and the licence as a registered MPF principal intermediary for carrying on MPF sales and marketing activities from the MPFA in January 2020. In the meantime, the Guarantor will continue to integrate its existing resources to improve the quality of its financial services and products. In addition, the Guarantor will continue to improve its trading system to cover more international stock markets and to accommodate the trading habit of PRC domestic investors as well as the local Hong Kong market. Furthermore, the Guarantor is also actively seeking appropriate platforms to partner with or acquire for its future expansion.

Develop internet finance

Adhering to the value of a market-driven and liberalised financial industry, the Guarantor plans to develop internet finance by making use of its online trading platform which supports multiple markets and financial products. The Guarantor Group will focus on large-data collection and analysis to improve its services and offer more tailored made products for its clients. It will continue to proactively collaborate with leading internet companies and consulting firms to create new securities products and business opportunities in light of the growth of internet finance.

Capture the opportunities presented by the reform of the securities sector in Hong Kong and the PRC to further develop cross-border businesses

In November 2014, CSRC and SFC launched the Shanghai-Hong Kong Stock Connect program. Subsequently, in December 2016, CSRC and SFC launched the Shenzhen-Hong Kong Stock Connect program. Under the Shanghai-Hong Kong Stock Connect program and the Shenzhen-Hong Kong Stock Connect program, the Hong Kong Stock Exchange along with Shanghai Stock Exchange and Shenzhen Stock Exchange have established mutual order-routing connectivity and related technical infrastructure to enable investors in their respective markets to trade designated equity securities listed in the other's market. In May 2017, the Hong Kong Monetary Authority and the PBOC launched the Bond Connect program. Bond Connect program would be implemented in phases, with northbound trading to start first in the initial phase, allowing Hong Kong and other overseas investors to invest in the China Interbank Bond Market through mutual access. Such programs have introduced diversified investment portfolios of shares from both markets, bring additional capital into Hong Kong and the PRC stock markets as well as provide new opportunities to invest with Renminbi. As the only international business platform of the Company based in Hong Kong, the Guarantor Group is well-positioned to capture the increasing business opportunities presented by the cooperation between the PRC stock markets and the Hong Kong stock market. The Guarantor intends to enhance the cooperation with the Company to take advantage of its brand recognition, expertise on the domestic securities market, diversified sales and client network and strong research capability.

The Guarantor intends to leverage Hong Run, its capital operation platform established in China (Shanghai) Pilot Free Trade Zone, to further grow its cross-border business. Hong Run is one of the earliest finance leasing companies established by a PRC securities firm in China. With the benefit of the applicable financial policies in China (Shanghai) Pilot Free Trade Zone, the Guarantor Group provides finance leasing services to companies in various industries, including industrial equipment, logistics, medical equipment, energy and environmental protection industries in the PRC. The Guarantor believes that this new funding route as a result of the reform of the PRC financial sector will complement the business operations of the Guarantor Group and the Company and provide more effective support to their clients.

Continue to enhance capital management, risk management, internal control and IT capabilities and improve operation efficiency

The Guarantor plans to enhance its internal control and risk management framework, strengthen its risk management capabilities through classification of risk profile, and enhance the monitoring system and optimise capital allocation among different business segments. Further, the Guarantor intends to strengthen its compliance and audit functions to ensure full compliance with applicable laws and regulations. The Guarantor plans to devote more resources to enhance its IT systems by way of system upgrade and cooperation with leading IT solution companies to provide efficient, secure and stable technology services to support its business operations.

Continue to attract high-quality professionals with in-depth business and industry knowledge in Hong Kong and the PRC

The Guarantor believes that its business growth and future success depend on its ability to attract, motivate and retain professional and experienced personnel. In order to maintain its competitive advantage in the market, the Guarantor intends to continue its expansion, particularly sales force team. To motivate its employees, factors like growth in the number of new customers, trading volume and asset value of its international business, will be included in the Guarantor Group's employee incentive scheme. It also plans to continue to attract and retain qualified professionals, such as licensed sponsor representatives and experienced investment managers with international vision, offer professional training, career advancement path and comprehensive development opportunities to its employees, promote a merit-based compensation system across all business segments and continue to support a market-driven compensation system that rewards performance and results.

DESCRIPTIONS OF THE GUARANTOR GROUP'S BUSINESSES

The Guarantor Group received its first licences, which allow it to engage in securities dealing transactions and futures contracts dealing transactions in Hong Kong in November 2012 and December 2012, respectively, and received the licences for its asset management and investment banking businesses in December 2013 and January 2014, respectively. The Guarantor now operates and manages its business principally in seven segments, namely (i) securities and futures brokerage, (ii) investment banking, (iii) asset management, (iv) FICC, (v) insurance brokerage, (vi) finance lease and (vii) investment.

The following table sets forth a breakdown of the Guarantor Group's revenue contributed by each business segment for the periods indicated:

	Year ended 31 December		
	2017	**2018**	**2019**
	(HK$)	*(HK$)*	*(HK$)*
Securities and Futures Brokerage	**201,859,002**	**212,291,730**	**176,830,378**
Commission income from dealing in securities	38,084,660	42,177,671	29,479,184
Commission income from dealing in futures contracts	2,933,969	6,044,898	5,000,709
Interest income from clients	153,510,236	154,984,235	128,721,075
Handling fee income	7,330,137	9,084,926	13,629,410
Investment Banking	**64,184,325**	**113,400,883**	**178,428,649**
Underwriting and placing commission income	40,395,888	87,179,809	134,049,757
Sponsor, financial advisory and consultation income	23,788,437	26,221,074	44,378,892
Asset Management	**57,868,293**	**54,302,875**	**55,860,413**
Management fee income	36,269,363	39,885,059	45,501,045
Advisory fee income	21,598,930	14,099,710	10,359,368
Handing fee income	–	318,106	–
FICC	**190,831,638**	**211,725,455**	**391,920,484**
Handling fee income	550,011	757,556	1,498,625
Interest income from investment	144,063,437	222,988,279	308,944,489
Net Investment	46,218,190	(12,020,380)	81,477,370
Insurance Brokerage	**22,752,425**	**36,308,674**	**16,729,396**
Insurance brokerage income	22,603,890	36,308,674	16,729,396
Loan interest income	148,535	–	–
Finance Lease	**68,893,092**	**65,868,148**	**29,098,204**
Finance lease interest income	68,893,092	29,754,785	14,218,100
Factoring interest income	–	8,661,183	6,144,609
Entrust loan interest income	–	3,080,145	1,378,564
Financial advisory income	–	24,372,035	7,356,931
Investment	**230,402,312**	**335,544,609**	**308,702,441**
Loan interest income	68,724,943	–	–
Dividend income	4,267,658	3,573,151	6,310,219
Interest income from investment	107,493,315	236,810,362	222,668,123
Arrangement fee	30,196,749	27,882,150	6,500,000
Net investment	19,719,647	67,278,946	73,224,099
Elimination	**(34,141,800)**	**(38,001,274)**	**(45,790,573)**
Management fee	(34,141,800)	(38,001,274)	(45,790,573)
Total	**802,649,287**	**991,441,100**	**1,111,779,392**

Securities and Futures Brokerage

The Guarantor Group's securities and futures brokerage business has contributed a significant portion of its total revenue for the past three years. For the years ended 31 December 2017, 2018 and 2019, the Guarantor Group's revenue from securities and futures brokerage represented 25.2 per cent., 21.4 per cent. and 15.9 per cent. of the Guarantor Group's total revenue, respectively.

The Guarantor Group's securities and futures brokerage business primarily includes (a) securities and futures brokerage and (b) margin financing.

Securities and futures brokerage

Overview

The Guarantor Group's brokerage services cover all the stocks and derivatives listed on the Hong Kong Stock Exchange as well as stocks listed on New York Stock Exchange and NASDAQ. Through the Guarantor Group's brokerage services, the Guarantor Group's clients are able to participate in initial public offerings and rights issues in Hong Kong and the United States stock markets. As at 31

December 2019, the Guarantor Group provided securities and futures brokerage services to its clients with total assets of approximately HK$22.8 billion under custody and the Guarantor Group maintained 4,587 active securities and futures trading accounts in total.

The Guarantor, through Zhongtai Securities, engages in the trading of a wide range of financial products on behalf of its customers in Hong Kong and the PRC, including shares of listed companies on the Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange, New York Stock Exchange and the OTC markets, listed funds (such as ETFs), warrants, various bonds and derivative products (such as warrants). For the years ended 31 December 2017, 2018 and 2019, total trading volume of the Guarantor Group's securities brokerage was HK$31.1 billion, HK$26.8 billion and HK$19.8 billion, respectively.

The Guarantor provides futures and options brokerage services through Zhongtai Futures. As at 31 December 2019, the Guarantor Group's futures products included stock index futures, commodity futures and foreign exchange futures. The Guarantor Group's futures trading platform is connected with 14 major futures exchanges in the world and allows its clients to conduct trading of more than 111 different types of future products. For the years ended 31 December 2017, 2018 and 2019, total trading volume of the Guarantor Group's futures and options brokerage was 117,174 options and futures contracts traded, 169,744 options and futures contracts traded and 116,678 options and futures contracts traded, respectively. As at 31 December 2019, the Guarantor Group maintained over 3,882 futures brokerage accounts.

The Guarantor Group has established a client due diligence process in accordance with the relevant laws and SFC guidelines, which is applicable to all the Guarantor Group's clients, both institutional clients and retail clients.

Commissions and administrative fees

The Guarantor Group charges commissions and administrative fees for transactions executed through its physical and online trading platforms. As the Guarantor Group's revenue is directly affected by the level of market activity and trading volume through its trading platforms, its securities and futures brokerage business is dependent upon the prevailing economic environment and general market sentiment.

Online and mobile trading platforms

The Guarantor Group has established online and mobile trading platforms to support securities trading on the Internet. Clients may install terminal software on local computers or a mobile application to use the Guarantor Group's online and mobile trading platforms to conduct real-time trading in securities, as well as to subscribe for shares in initial public offerings in Hong Kong and the United States. The online trading platform allows clients to place orders, view account information and balances and check trading positions, transaction status and trading history. The Guarantor Group's online trading system sends electronic notification of executed orders and generates order confirmations. Online brokerage clients of the online trading system can give instructions to transfer funds to and from their own accounts maintained with certain designated banks. The system also offers electronic IPO services, through which the clients may view the electronic file of an offering circular on its website or through a hyperlink, and file an electronic application for IPOs (and at the same time apply for margin financing for IPOs).

The Guarantor Group maintains a technology team comprising seven members to maintain and improve the proprietary online securities trading system. The Guarantor Group is also dedicated in enhancing the cooperation with certain leading internet and telecommunication companies to further develop online and mobile trading platforms. In 2014, the Guarantor Group became the first Hong Kong based securities firm to open an official account on the Wechat platform to provide push notification services.

The Guarantor Group uses a combination of proprietary and industry standard security measures to prevent unauthorised access and protect clients' data integrity, for instance, by adoption of 128 bits secure sockets layer technique for data encryption.

Margin financing

Overview

The Guarantor Group offers margin financing to the Guarantor Group's clients to increase their funding flexibility and leverage for their investment. Margin financing contributes a significant portion of the Guarantor Group's revenue from securities and futures brokerage. For the years ended 31 December 2017, 2018 and 2019, the Guarantor Group's interest income from margin financing represented approximately 76.1 per cent., 73.0 per cent. and 72.3 per cent., respectively, of the Guarantor Group's total revenue from the securities and futures brokerage business. As at 31 December 2019, the amount of margin loan advances outstanding (after deducting impairment allowance) was HK$1,319,266.4 million.

The Guarantor Group adopts strict criteria to assess new customers and has established a sound risk management system to support its margin financing business. The Guarantor Group requires the customers of its margin financing services to maintain a brokerage account with it before their eligibility is confirmed for applying for margin financing and securities lending services. In addition, the Guarantor Group requires its customers to have sound credit history and strong risk tolerance. The Guarantor Group requires its customers to maintain deposit with it a portion of the cash or securities in their accounts. The margin financing provided by the Guarantor Group are typically secured by the securities of relevant customers purchased with margin financing. Each client has a maximum credit limit based on the quality of collateral held and the financial background of the client. The Guarantor Group determines the credit limit it extends to its customers based on various factors, such as the value of their total assets maintained with the Guarantor Group and their creditworthiness.

Interest rate

The Guarantor Group's agreements with its customers relating to margin financing typically include terms such as margin loan or securities lending amount, maturity date and interest rate which represents a percentage of its customers' margin loan balance and the market value of the securities it lent. The Guarantor Group also charges brokerage commission fees on margin financing and securities lending.

In determining the interest rate, reference will be made to the credit standing of the relevant clients and the quality of the securities pledged. The average interest rate (calculated by dividing the Guarantor Group's interest income from margin financing by the average of the opening and closing outstanding margin loan balances (after deducting impairment allowance) in respect of the relevant year) charged by the Guarantor Group for the years ended 31 December 2017, 2018 and 2019 was approximately 8.7 per cent. per annum, 9.2 per cent. per annum and 9.0 per cent. per annum, respectively.

Investment Banking

The Guarantor Group engages in equity and debt securities underwriting and placing activities, including sponsoring and underwriting IPOs, follow-on offerings and rights issues on the Hong Kong Stock Exchange and also provides corporate finance services and advisory services for mergers and acquisitions. The Guarantor Group is committed to offering its clients high quality and customised corporate finance services while exploring cross-selling opportunities across multiple business segments through its integrated investment banking platform. The recent landmark corporate finance transactions of the Guarantor Group include acting as:

- a sole sponsor, a sole global coordinator, a sole bookrunner and a joint lead manager on the HK$125.0 million IPO of MOG Holdings Limited (stock code: 1942.HK) in April 2020;

- a sole sponsor, a sole global coordinator, a joint bookrunner and a joint lead manager on the HK$199.0 million IPO of Xingye Wulian Service Group Co. Ltd. (stock code: 9916.HK) in March 2020;

- a sole sponsor, a sole global coordinator, a joint bookrunner and a joint lead manager on the HK$125.0 million IPO of Values Cultural Investment Limited (stock code: 1740.HK) in January 2020;

- a joint bookrunner and a joint lead manager on the HK$262.0 million IPO of Newborn Town Inc. (stock code: 9911.HK) in December 2019;

- a joint bookrunner and a joint lead manager on the HK$1.638 billion IPO of Powerlong Commercial Management Holdings Limited (stock code: 9909.HK) in December 2019;

- a lead manager on the HK$105.0 million IPO of 360 Ludashi Holdings Limited (stock code: 3601.HK) in October 2019;

- a joint bookrunner and a joint lead manager on the HK$3.009 billion IPO of Shanghai Henlius Biotech, Inc. (stock code: 2696.HK) in September 2019;

- a joint global coordinator, a joint bookrunner and a joint lead manager on the HK$600.0 million IPO of Rizhao Port Jurong Co., Ltd. (stock code: 6117.HK) in June 2019;

- a joint bookrunner and a joint lead manager on the HK$10.453 billion IPO of Shenwan Hongyuan Group Co., Ltd. (stock code: 6806.HK) in April 2019;

- a joint sponsor, a joint global coordinator, a joint bookrunner and a joint lead manager on the HK$577.0 million IPO of Aoyuan Healthy Life Group Company Limited (stock code: 3662.HK) in March 2019;

- a joint bookrunner and a joint lead manager on the HK$1.183 billion IPO of Yancoal Australia Ltd (stock code: 3668.HK) in December 2018;

- a joint lead manager on the HK$3.209 billion IPO of Fosun Tourism Group (stock code: 1992.HK) in December 2018;

- a joint lead manager on the HK$4.638 billion IPO of Shandong Gold Mining Co., Ltd. (stock code: 1787.HK) in September 2018;

- a joint global coordinator and a joint bookrunner on the HK$150.0 million IPO of Xin Yuan Enterprises Group Limited (stock code: 1748.HK) in September 2018;

- a joint sponsor, a joint global coordinator and a joint bookrunner on the HK$1.25 billion IPO of Qilu Expressway Company Limited (stock code: 1576.HK) in July 2018;

- a joint lead manager on the HK$667.0 million IPO of 7Road Holdings Limited (stock code: 797.HK) in July 2018;

- a joint bookrunner on the HK$24.0 billion IPO of Xiaomi Corporation (stock code: 1810.HK) in July 2018;

- a joint bookrunner and a joint lead manager on the HK$127.0 million IPO of Tian Yuan Group Holdings Limited (stock code: 6119.HK) in June 2018;

- a joint bookrunner on the HK$600.0 million IPO of China Boqi Environmental (Holding) Co., Ltd. (stock code: 2377.HK) in March 2018;

- a joint global coordinator and a joint bookrunner on the HK$160.0 million IPO of ZACD Group Ltd. (stock code: 8313.HK) in January 2018;

- a joint global coordinator, a joint bookrunner and a joint lead manager on the HK$1.4 billion IPO of Kunming Dianchi Water Treatment Co., Ltd. (stock code: 3768.HK) in April 2017; and

- a joint bookrunner and a joint lead manager on the HK$16.5 billion IPO of Guotai Junan Securities Co., Ltd. (stock code: 2611.HK) in April 2017.

Zhongtai Capital, who holds Type 1 (dealing in securities) and Type 6 (advising on corporate finance) licences under the SFO, is qualified to act as a sponsor in relation to the listing of securities on the Main Board of the Hong Kong Stock Exchange and Growth Enterprise Market, to provide corporate finance, compliance advisory services and other capital raising solutions services. It has the expertise and experience to act as a pre-IPO financial advisor, sponsor, global coordinator, bookrunner, underwriter and post-IPO compliance advisor for its clients.

Zhongtai Capital received the licence to carry out its corporate finance and other investment banking businesses in January 2014. For the years ended 31 December 2017, 2018 and 2019, revenue generated from the Guarantor Group's investment banking business represented approximately 8.0 per cent., 11.4 per cent. and 16.1 per cent. of the Guarantor Group's total revenue, respectively.

Asset Management

The Guarantor Group provides asset management services to its clients through its wholly-owned subsidiary, Zhongtai Asset Management, a corporation licensed under the SFO to engage in Type 4 (advising on securities) and Type 9 (asset management) regulated activities. Zhongtai Asset Management provides a wide range of traditional and alternative asset management products and services, including fund management, discretionary portfolio management, RQFII products, direct investment and cross-border investment advisory services. As at 31 December 2019, the assets under the management of Zhongtai Asset Management reached HK$4,962.9 million. In June 2014, Zhongtai Asset Management was granted the qualification of RQFII, which allows itself, as a Hong Kong based subsidiary of a PRC securities company, to use Renminbi funds raised in Hong Kong to invest in the PRC securities market. The Guarantor Group has established a RQFII private fund. As at 31 December 2019, the RQFII fund managed by Zhongtai Asset Management reached HK$75.5 million.

In recent years, PRC regulatory authorities expanded the type and scope of RQFII investments to further promote the liquidity of Renminbi on the global financial markets. Most stocks, bonds, notes, short-term financing products, asset-backed securitisation products listed on a stock exchange or traded on the inter-bank market can be offered as RQFII investments, satisfying the needs of offshore RMB holders. By matching funding needs of qualified companies through the offering of offshore funds in its RQFII accounts in Zhongtai Asset Management, the Guarantor Group believes that this helps to decrease the cost of financing for its clients and expand the customer base of its asset management business.

Based in Hong Kong, Zhongtai Asset Management provides services to institutional investors, corporate investors and high-value individuals.

Zhongtai Asset Management received the licence to carry out its asset management businesses in December 2013. For the years ended 31 December 2017, 2018 and 2019, revenue generated from the Guarantor Group's asset management business represented approximately 7.2 per cent., 5.5 per cent. and 5.0 per cent. of the Guarantor Group's total revenue, respectively.

FICC

The Guarantor Group received the licence to carry out a portion of FICC business, i.e. OTC structured products brokerage and distribution businesses, in November 2016. It provides FICC services to its clients through its wholly-owned subsidiaries, Zhongtai Financial Products, Zhongtai International Financial Solutions Limited (中泰國際金融服務有限公司) and Zhongtai International Structured Solutions Limited. Its FICC business include debts, foreign exchange, stocks and derivatives and other securities proprietary trading business, OTC structured products brokerage and distribution, cash and bonds market making, structural product trading and hedging transactions and issue of bonds, stocks and other large commodities. All of its FICC clients are professional investors. For the years ended 31 December 2017, 2018 and 2019, the Guarantor Group's revenue generated from FICC services represented approximately 23.8 per cent., 21.4 per cent. and 35.3 per cent. of the Guarantor Group's total revenue, respectively.

Insurance Brokerage

The Guarantor Group offers a diversified portfolio of insurance products in Hong Kong through its wholly-owned subsidiary, Zhongtai Wealth Management. Established in April 2014, Zhongtai Wealth Management provides independent financing consultancy services and offers comprehensive insurance product lines, including long-term insurance products (such as life insurance product and health insurance product), investment related insurance products and general insurance products (such as commercial insurance product, housing insurance product and travelling insurance product). Zhongtai Wealth Management received the licence for proxy insurance products from Hong Kong Insurance Authority (formerly known as Hong Kong Professional Insurance Brokers Association) in August 2014 and the licence as a registered MPF principal intermediary for carrying on MPF sales and marketing activities from the MPFA in January 2020.

Zhongtai Wealth Management has cooperation with internationally recognised insurance companies as well as some domestic recognised insurance companies' overseas subsidiaries. Zhongtai Wealth Management generated profits by receiving commissions from the insurance companies through referring customers to such insurance companies based on the type and term of the insurance products. As at 31 December 2019, all the customers of Zhongtai Wealth Management were individual customers. For the years ended 31 December 2017, 2018 and 2019, the Guarantor Group's revenue generated from insurance brokerage represented approximately 2.8 per cent., 3.7 per cent. and 1.5 per cent. of the Guarantor Group's total revenue, respectively.

Finance Lease

The Guarantor Group engages in the provision of financial leasing services through its wholly-owned subsidiary, Hong Run, in China (Shanghai) Pilot Free Trade Zone. Hong Run primarily serves as a platform of the Guarantor Group's finance leasing business. Hong Run is one of the earliest finance leasing companies established by a PRC securities firm in China. With the benefit of the applicable financial policies in China (Shanghai) Pilot Free Trade Zone, the Guarantor Group provides finance leasing services to companies in various industries, including industrial equipment, logistics, medical equipment, energy and environmental protection industries in the PRC. In addition, the Guarantor Group is able to capture opportunities arising from the cross-border operations of the Guarantor Group.

For the years ended 31 December 2017, 2018 and 2019, revenue generated from the Guarantor Group's finance lease represented approximately 8.6 per cent., 6.6 per cent. and 2.6 per cent. of the Guarantor Group's total revenue, respectively.

Investment

The Guarantor Group invests in equity and fixed income securities as well as public and private funds on a proprietary basis. In addition, the Guarantor Group provides structural financing to its clients to meet their various financing needs, including but not limited to, mergers and acquisitions activities, management buy-outs and other investment banking related activities. For the years ended 31 December 2017, 2018 and 2019, revenue generated from the Guarantor Group's investment business represented approximately 28.7 per cent., 33.8 per cent. and 27.8 per cent. of the Guarantor Group's total revenue, respectively.

RESEARCH

The Guarantor Group has an in-house research team in Hong Kong which supports the Guarantor Group's main business segments. Its research team carries out and publishes research on, and analysis of, the securities market in Hong Kong, focusing on listed companies with a coverage of approximately 48 companies listed in Hong Kong. The Guarantor Group has subscriptions to financial databases published by leading institutions in the market to access the latest market data on various financial products, major indices, economic indicators and other market intelligence.

The Guarantor Group's research team provides support and creates synergies with its businesses by (i) offering assessment and opinions on the secondary market and analysis of individual stocks to its securities brokerage business in response to its clients' queries, (ii) assisting the preparation of non-deal road shows for institutional clients, (iii) providing analysis on company research and industry overview, building valuation model and issuing research reports for the IPO projects of its investment banking businesses and (iv) participating in institutional client meetings hosted by its account executives to market its research products and enhance its brand recognition.

The Guarantor Group's research capability is further supported by its information exchange on general industry and market trends with the Company, which conducts in-depth analysis and studies on companies listed in the PRC and in other major industry sectors.

SALES AND MARKETING

The Guarantor Group's sales and marketing strategy focuses on the promotion of its corporate name and brand awareness of its products and services. As part of its branding efforts, the Guarantor Group regularly launches advertising campaigns in Hong Kong, conducts and hosts road- shows and public relations events and issues publications to generate publicity. Prospective customers can obtain detailed information on the Guarantor Group's products and services from its official website and request additional information. The Guarantor Group has also established a customer service team to handle client enquiries, account opening procedures and provide after sales services and technical support.

The Guarantor has established marketing teams in Beijing, Shanghai, Shenzhen and Jinan which are directly connected with its operation teams in Hong Kong. The marketing teams in these cities consist primarily of sales personnel, who are familiar with the local market as well as the business and products of the Guarantor Group. The Guarantor believes that its local marketing teams help to provide timely post-sales services, maintain client relationships and enhance the Guarantor Group's brand awareness in general.

The Guarantor Group's clients consist of institutional and retail clients. As at 31 December 2019, the Guarantor Group had approximately 7,343 securities trading accounts (normal status) in total. The Guarantor Group's corporate finance clients consist mainly of listed companies in Hong Kong and private corporations in the PRC.

REGULATORY REQUIREMENTS

Pursuant to the licensing regime of the SFC, in order to engage in the core businesses of the Guarantor Group, such as providing securities and futures brokerage, asset management and corporate finance services, the relevant subsidiaries of the Guarantor Group and its responsible personnel are required to obtain and hold the relevant licences and to be in compliance with the relevant regulatory requirements from time to time.

Set forth below is a summary of the relevant licences currently held by the relevant licensed subsidiaries of the Guarantor Group as at the date of this Offering Circular:

Name of licensed subsidiary	Type 1 (Dealing in securities)	Type 2 (Dealing in future contracts)	Type 4 (Advising on securities)	Type 6 (Advising on corporate finance)	Type 9 (Asset management)
Zhongtai Securities	Yes		Yes		
Zhongtai Futures		Yes			
Zhongtai Asset Management			Yes		Yes
Zhongtai Capital	Yes			Yes	
Zhongtai Financial Products	Yes				

Apart from the SFO, the operation of the securities market is also governed by the subsidiary legislations and regulations, administrative procedures and guidelines developed by the SFC, as well as by the rules and regulations introduced and administered by the Hong Kong Stock Exchange and the Hong Kong Futures Exchange Limited ("**Futures Exchange**"). Any broker-dealer that operates a brokerage business for products available on Hong Kong Exchanges and Clearing Limited, using the trading facilities of the Hong Kong Stock Exchange and/or Futures Exchange, must be admitted and registered as an Exchange Participant (as defined in the SFO) of the Hong Kong Stock Exchange and/or Futures Exchange. Zhongtai Securities is an Exchange Participant of the Hong Kong Stock Exchange, and is entitled to deal in securities products including, amongst others, equity securities and warrants, while Zhongtai Futures is an Exchange Participant of Futures Exchange, and is entitled to deal in all futures and options, other than stock options.

RISK MANAGEMENT

The Guarantor Group's activities expose it to credit risk, market risk (which includes interest rate risk, price risk and liquidity risk) and operational risk. The Guarantor Group's overall risk management programme focuses on the reporting, analysis, evaluation, acceptance and monitoring of such risks which are an inevitable consequence of being in the businesses. The Guarantor Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Guarantor Group's financial performance. The Guarantor Group has established an effective and comprehensive risk management and internal control system to identify, evaluate and manage the risks in its business operations.

The Guarantor Group's risk management policies are approved by the management of the Guarantor and aim to identify and analyse the relevant risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information. The Risk Management Department is responsible for providing written principles for overall risk management and execution of monitoring controls and regularly reviews its risk management policies to reflect any change in markets and clients.

Credit Risk

Credit exposures arise principally from the Guarantor Group's loans and interest receivable which comprises margin loans receivable, secured loans receivable and unsecured loans receivable.

The Risk Management Department is responsible for approving credit limits and margin limits of each client, arranging and administrating settlement calls when the trades of margin clients exceed their respective limits, and approval of stock acceptable for margin lending at a specified ratio. The approved stock list is revised by the Risk Management Department as and when deemed necessary. The Risk Management Department will prescribe from time to time lending limits on individual stock or on any individual client based on regular analysis of the borrower's repayment ability. The Guarantor Group currently employs a range of policies and practices to mitigate excessive credit risk. For example, maximum margin limit will be set on individual margin client in order to avoid building up excessive margin exposure from individual margin client; and for securities margin financing, margin calls will be executed if the total outstanding amount of a margin client exceeds either of the credit line granted by the Risk Management Department or the acceptable value of margin stocks, whichever is lower. Force-sell action will be taken if the clients fail to settle the outstanding amount. For clients having open positions in futures contracts, margin calls will be executed if the client's net equity with the Guarantor Group falls below the maintenance margin amount of their open positions. For other financing, margin calls will be executed if the ratio of the collateral value to the aggregate amount of loans to a client falls to a certain level, set by the Risk Management Department and approved by the credit committee. The Guarantor Group provides other financing services in the form of secured and unsecured term loan facilities and convertible securities to third party borrowers. These other financing services are also subject to credit risks.

For secured lending, the Guarantor Group mitigates credit risk exposure mainly by requiring the outstanding loan amounts to be fully collateralised by listed and unlisted equities securities provided by the borrowers at all times. For unsecured lending the Guarantor Group manages credit risk exposure mainly by performing detailed due diligence procedures on the borrowers' repayment ability, limiting the tenure of the loans, requesting financially-sound parties to act as guarantors of the loans, requiring upfront payments of interest expenses. The above monitoring controls are performed by the Risk Management Department.

Market Risk

The Guarantor Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Guarantor Group's main market risks include cash flow interest rate risk and liquidity risk as described below. The Guarantor Group has established policies and procedures for monitoring and controlling these risks arising from its operations.

Interest rate risk

The Guarantor Group's exposure to the risk of changes in market interest rates relates primarily to the Guarantor Group's loans and advances to clients, client trust bank balances, and bank balances. The Guarantor Group's loans and advances to clients at floating/variable rates (such as margin loans) expose it to interest rate risk. The Guarantor Group mitigates its interest rate risk related to its bank balances by depositing money with banks on a short term basis.

Liquidity risk

Due to the dynamic nature of the underlying business, the Guarantor Group's finance department maintains flexibility in funding and exercises prudent liquidity risk management by maintaining sufficient cash reserves, adequate amounts of committed credit facilities and the ability to close out market positions

Sources of liquidity are carefully examined by the finance department on a daily basis to ensure the availability of sufficient liquid funds to meet the Guarantor Group's funding obligations. Management monitors rolling forecasts of the Guarantor Group's liquidity reserve (which comprises undrawn borrowing facilities) and cash and cash equivalents on the basis of expected cash flow. This is mainly done on a daily basis to ensure the subsidiaries of the Guarantor which are licensed corporations in Hong Kong have sufficient liquid funds to meet all obligations and comply with the Hong Kong Securities and Futures (Financial Resources) Rules. To address this risk, the Guarantor Group's finance and accounting department works closely with the settlement department on monitoring the liquidity gap. To better manage the Guarantor Group's overall liquidity position, daily reports are prepared to monitor cash deposits on hand and the level of bank facilities utilisation. For contingency purposes, unutilised loan facilities are obtained as additional precautions.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Guarantor Group's financial results and its cash flows. The Guarantor Group's main exposure to currency risk is in respect of the net assets in Renminbi. Foreign exchange risk, if any, arising from broking in foreign shares and commodities, is closely monitored by the Guarantor Group's finance department.

Operational Risk

The Guarantor Group's management regularly reviews the Guarantor Group's operations to ensure that the risk of losses, whether financial or otherwise, resulting from fraud, errors, omissions and other operational and compliance matters, are adequately managed.

COMPETITION

The financial services sector in Hong Kong is highly competitive due to the vast number of market players in providing securities and futures brokerage services, financing services, corporate finance services and asset management services. The Guarantor believes that its main competitors are other securities houses based in Hong Kong established by PRC corporations.

To compete effectively, the Guarantor Group strives to keep abreast of market trends and information on its clients' demands and its competitors. The Guarantor Group continues to maximise opportunities by meeting new clients and delivering competitive products and services. The Guarantor Group also recruits, trains and retains suitable professionals and management personnel to improve its corporate control, IT infrastructure and marketing strategies to cater dynamics in market conditions.

LEGAL PROCEEDINGS

For the 12 months preceding the date of this Offering Circular, there was no pending or outstanding litigation, arbitration or claims of significance against the Guarantor Group or any of its senior management team members that could have a material adverse effect on the Guarantor Group's business, financial condition and results of operations.

EMPLOYEES

As at 31 December 2019, the Guarantor Group had approximately 324 employees in Hong Kong and the PRC , among which 176 employees possessed the requisite licenses to provide relevant financial services to the Guarantor Group's clients. The Guarantor Group has maintained good working relationships with its employees and does not foresee any difficulties in the recruitment and retention of experienced staff. As at the date of this Offering Circular, there has not been any material interruption to the Guarantor Group's operations as a result of labour disputes.

DESCRIPTION OF THE COMPANY GROUP

The information included in this Offering Circular regarding the Company Group (other than the Guarantor Group) is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. The Issuer and the Guarantor have taken reasonable care in the compilation and reproduction of the information. None of the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers has independently verified such information. No representation or warranty, express or implied, is made or given by the Joint Lead Managers, the Trustee, the Agents or any of their affiliates, employees or professional advisers as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon. In addition, the Company's financial statements have not been included or incorporated by reference in this Offering Circular and the Terms and Conditions of the Bonds do not require or oblige the Company to provide or deliver to the Trustee or holders of the Bonds any information, whether financial or otherwise, at all. In making an investment decision, investors must rely upon their own examination of the Terms and Conditions of the Bonds, the terms of the offering, the credit strength of the Guarantor Group and not unduly rely upon the Keepwell Deed and/or the credit strength of, or information contained in this Offering Circular related to, the Company Group.

OVERVIEW

Headquartered in Shandong Province and established in 2001, the Company Group is one of the leading financial service providers in China. The shares of the Company were listed on the Shanghai Stock Exchange in June 2020 (stock code: 600918). The Company Group offers a wide range of securities financial services to its clients, including securities and futures brokerage, underwriting, financial advisory, private equity, listing sponsorship and asset management. Anchored by the Company, a prominent state-owned enterprise that is indirectly majority-owned by and under the control of Shandong SASAC, the Company Group has an extensive business network in China, comprising 41 branch companies and approximately 284 securities operations offices in China as at 31 December 2019. In 2011, the Company Group extended its footprint to Hong Kong by establishing the Guarantor as its principal overseas platform with a view to capture the growing cross-border business opportunities in the international financial markets.

According to the Business Performance and Ranking of Securities Companies in 2019（2019年度證券公司經營業績排名情況）published by the Securities Association of China（中國證券業協會）, the Company was ranked 16th in terms of total operating revenue, 17th in terms of total assets, 15th in terms of net assets and 15th in terms of net profit attributable to owners of the parent company in the PRC for the year. In addition, according to the 2019 Specialised Statistics regarding Bond Underwriting Business of Securities Companies（2019年證券公司債券承銷業務專項統計）published by the Securities Association of China, the Company was ranked ninth in terms of aggregate number of green bonds transactions (including asset-back securities) and third in terms of aggregate deal volume of green bonds issued (including asset-back securities) in the PRC for the year.

The Company Group's businesses and financial services primarily include:

- ***Securities brokerage*** – The securities brokerage business of the Company Group accounted for the largest portion of its total revenue for the past three years. As at 31 December 2019, the Company Group provided securities brokerage services to approximately 5.1 million customers. For the years ended 31 December 2017, 2018 and 2019, revenue from the Company Group's securities brokerage business amounted to RMB2,601.2 million, RMB1,913.5 million and RMB2,466.8 million, respectively, representing 31.8 per cent., 27.2 per cent. and 25.4 per cent. of its total revenue, for the same periods.

- ***Investment banking*** – The Company Group engages in equity and debt securities underwriting and placing, sponsors initial public offerings on the Main Board and Growth Enterprises Markets of the Shanghai Stock Exchange and Shenzhen Stock Exchange and on the National Equities Exchange and Quotations (the "**NEEQ**"), and provides financial advisory services to mergers and acquisitions. The Company Group is committed to offering its clients high quality corporate finance services and exploring cross-selling opportunities across multiple business segments through its integrated investment banking platform. For the years ended 31 December 2017, 2018 and 2019, the Company Group's revenue from investment banking amounted to RMB833.0 million, RMB590.0 million and RMB969.3 million, respectively, representing, 10.2 per cent., 8.4 per cent. and 10.0 per cent. of its total revenue, for the same periods.

- ***Asset management*** – The Company Group has engaged in asset management services since 2010. Currently, its asset management business is mainly conducted through its subsidiary, Zhongtai Securities (Shanghai) Asset Management Co., Ltd. (中泰証券(上海)資產管理有限公司). As at 31 December 2019, total assets under management ("**AUM**") of the Company Group's asset management business amounted to approximately RMB121.1 billion.

  For the years ended 31 December 2017, 2018 and 2019, the Company Group's revenue from its asset management business amounted to RMB832.7 million, RMB499.8 million and RMB480.0 million, respectively, representing 10.2 per cent., 7.1 per cent. and 4.9 per cent. of its total revenue, for the same periods.

- ***Portfolio investment*** – The Company Group engages in portfolio investment in equity, fixed-income and derivative securities. For the years ended 31 December 2017, 2018 and 2019, the Company Group's revenue from its portfolio investment business amounted to RMB160.2 million, RMB405.2 million and RMB893.5 million, respectively, representing 2.0 per cent., 5.8 per cent. and 9.2 per cent. of its total revenue for the same periods.

- ***Credit*** – The Company Group engages in margin financing and securities lending, margin and securities refinancing, agreed repurchase type securities trading business, stock pledged repo business and other credit business. For the years ended 31 December 2017, 2018 and 2019, revenue from the Company Group's credit business amounted to RMB1,045.4 million, RMB919.0 million and RMB1,119.5 million, respectively, representing 12.8 per cent., 13.1 per cent. and 11.5 per cent. of its total revenue, for the same periods.

- ***Futures brokerage*** – The Company Group engages in futures brokerage, commodity trading and related-risk management mainly through LUZHENG FUTURES Company Limited (魯証期貨股份有限公司) ("**Luzheng Futures**"). For the years ended 31 December 2017, 2018 and 2019, revenue from the Company Group's futures brokerage business amounted to RMB1,502.7 million, RMB1,140.6 million and RMB1,838.9 million, respectively, representing 18.4 per cent., 16.2 per cent. and 19.0 per cent. of its total revenue, for the same periods.

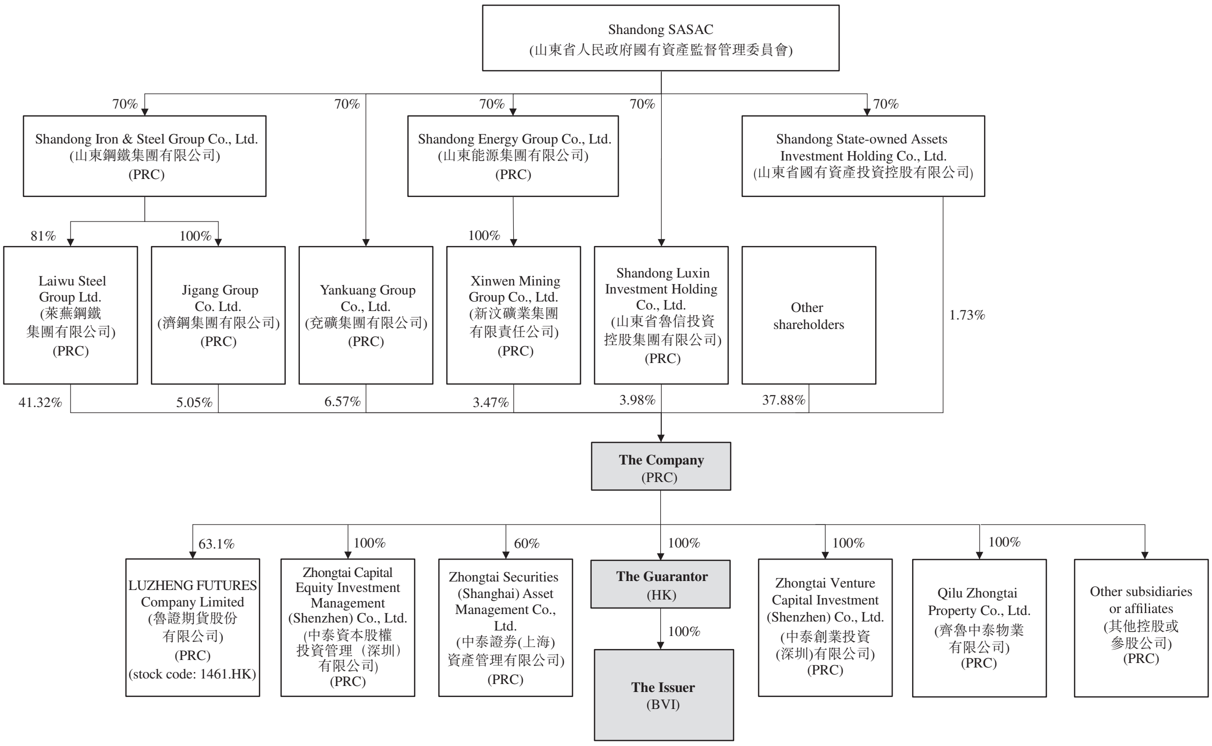
- ***Offshore business*** – The Company Group conducts its offshore business mainly through the Guarantor and its overseas subsidiaries. The Guarantor Group mainly engages in securities and futures brokerage, investment banking, asset management, FICC, insurance brokerage, finance lease and investment in Hong Kong. For the years ended 31 December 2017, 2018 and 2019, revenue from its offshore business amounted to RMB435.4 million, RMB492.9 million and RMB543.2 million, respectively, representing 5.3 per cent., 7.0 per cent. and 5.6 per cent. of its total revenue, for the same periods. See "*Description of the Guarantor Group*".

- ***Others*** – The Company Group engaged in research, alternative investment and private equity fund management. For the years ended 31 December 2017, 2018 and 2019, revenue from its other business amounted to RMB758.3 million, RMB1,064.2 million and RMB1,397.8 million, respectively, representing 9.3 per cent., 15.2 per cent. and 14.4 per cent. of its total revenue, for the same periods.

For the years ended 31 December 2017, 2018 and 2019, revenue of the Company Group was RMB8,168.9 million, RMB7,025.2 million and RMB9,709.0 million, respectively, and its net profit was RMB1,895.9 million, RMB1,070.1 million and RMB2,294.0 million, for the same periods. As at 31 December 2017, 2018 and 2019, the Company Group had total assets of RMB132.2 billion, RMB136.1 billion and RMB146.6 billion, respectively. As at 31 December 2017, 2018 and 2019, the Company Group had total net assets of RMB34.1 billion, RMB32.9 billion and RMB35.0 billion, respectively.

CORPORATE CHART

The following chart shows a simplified structure of the Company and its shareholders as at the date of this Offering Circular:



MILESTONES OF THE COMPANY GROUP

The following highlights the key milestone events of the Company Group:

Year	Key Milestones
2001	In May, the Company was founded under the name "Shandong Qilu Securities & Brokerage Co., Ltd." with an initial registered capital of RMB512 million. The CSRC approved the merger of six OTC Trading agencies (namely, Dongying Joint-stock System Development Service Centre, Liaocheng Enterprise Property Rights Transaction Service Centre, Zaozhuang Enterprise Property Rights Transaction Department, Rizhao Property Rights Exchange, Binzhou Joint-stock System Development Service Centre and Laiwu Equity Certificate Trusteeship Centre) into the Company Group.

Year	Key Milestones
2004	The Company increased its registered capital to RMB812 million and became a comprehensive securities company upon obtaining approval from the CSRC. The Company's name was changed to "Qilu Securities Co., Ltd."
2006	The Company's registered capital was increased to RMB2,212 million. In May, the Company obtained approval from the CSRC for its sponsor institution status to, among other things, act as a sponsor in initial public offerings and listings. In June, the Company acquired a majority equity interest in Luzheng Futures
2007	In May, the Company acquired a majority equity interest in Wanjia Fund Management Co., Ltd. (萬家基金管理有限公司). In June, the Company was designated by the CSRC as one of the pilot securities companies to implement compliance management of securities companies as promulgated by the CSRC. In August, the Company was appraised as an innovative pilot securities company by the Securities Association of China. In November, the Company obtained approval from the National Equities Exchange and Quotations System Co., Ltd. to engage in the businesses relating to securities transfer agency services and securities quotation transfers.
2008	The Company's registered capital was increased to RMB5,212 million and received "A" rating in Category A from the CSRC. The Company obtained the asset management qualification from the CSRC.
2010	In April, the Company received the qualifications for trial services of portfolio investment and margin financing and securities lending from the CSRC. Luzheng Venture Capital Investment Co., Ltd., a wholly-owned subsidiary of the Company, and its asset management branch in Beijing began operation.
2011	In June, Qilu International Holdings Limited was incorporated in Hong Kong. The Company Group had five branches in Shandong Province by December.

Year	Key Milestones
2012	The Company obtained the qualification from China Insurance Regulatory Commission to provide comprehensive services to insurance institutional investors, the qualification from Securities Association of China to engage in small and medium enterprises private bond underwriting business in July, the qualification from Shanghai Stock Exchange to engage in stock repo trading business and the qualification from the CSRC to engage in stock pledge financing business.
2013	The Company obtained the qualification for proxy sales of financial products from the CSRC Shandong Branch and the qualification for OTC trading from Securities Association of China.
	The Company obtained the qualification for interest rate swap from the CSRC Shandong Branch, the qualification for stock pledged repo from Shanghai Stock Exchange and Shenzhen Stock Exchange.
	The Company received "A" rating, the top rating, in Category A for its mergers and acquisitions business from the CSRC and has received "A" rating, the top rating, in Category A securities firm or higher rating since 2008.
	The Guarantor and other overseas subsidiaries of the Company in Hong Kong obtained necessary licenses to engage in various types of financial services in Hong Kong by July, including securities and futures brokerage, investment banking, asset management, FICC, insurance brokerage, finance lease and investment.
	The Company Group achieved a leading position as lead underwriter in debt securities offerings and was a top tier lead underwriter in the debt underwriting market in the PRC.
2014	The Company began engaging in equity return swap transactions.
	In 2013 and 2014, the Company received securities firm ratings of "AA" and "A", respectively, from the CSRC.
	In April, Qilu Securities (Shanghai) Asset Management Co., Ltd. (now known as Zhongtai Securities (Shanghai) Asset Management Co., Ltd.) was incorporated to commence and operate the asset management business of the Company Group.
	In June, the Company Group obtained the market maker qualification approval by the NEEQ.
	In November, the Company Group was one of the pioneer securities brokers in the market of Shanghai-HK Stock Connect and its ranking for securities brokerage moved up in the PRC securities brokerage industry in terms of revenue derived from brokerage fees.
2015	In July, the Company's shareholders passed the resolutions to transform the Company from a limited liability into a joint stock company.
	In September, the registered capital of the Company was increased to RMB6.3 billion.

Year	Key Milestones
	In September, the Company's name was changed to "Zhongtai Securities Co., Ltd.". The Company received securities firm ratings of "A" from the CSRC.
	In July, the shares of Luzheng Futures were listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01461).
	The Company Group entered into strategic cooperation agreements with local governments within and outside Shandong Province and private entities for provision of services in relation to, among other things, initial public offerings, financial advisory and stock listing on the NEEQ.
2016	In October, Shandong Trading Market Clearing House Co., Ltd (山東交易市場清算所有限公司) was incorporated as a subsidiary of Luzheng Futures.
2017	The Company received securities firm rating of "A" from the CSRC.
	The Company's research team was ranked first in the category of "Most Improved Research Team" by New Fortune Magazine.
	Luzheng Futures achieved a leading position in the PRC in terms of options trading volume.
	Zhongtai Securities (Shanghai) Asset Management Co., Ltd. received approval from the CSRC to engage in management of publicly offered securities investment funds.
2018	According to the Business Performance and Ranking of Securities Companies in 2017 (2017年度證券公司經營業績排名情況) published by the Securities Association of China (中國證券業協會), the Company was ranked 16th in terms of total operating revenue, 16th in terms of total assets, 15th in terms of net assets and 16th in terms of net profit attributable to owners of the parent company in the PRC for the year.
	In November, Zhongtai Securities (Shanghai) Asset Management Co., Ltd. successfully launched its first publicly offered securities investment fund and the initial fund size was substantially larger than similar fund products in the PRC.
	By December, the Company achieved a record high since its establishment in terms of the aggregate number and deal size of debt securities underwritten by it. Furthermore, some of its financial products had amassed a leading market position in the PRC.
2019	In April, the Company submitted the application for its IPO to the CSRC.
	In December, the Company successfully passed the CSRC's regulatory review of its IPO application.
2020	In April, the Company received the CSRC's approval for its IPO application.
	In June, the Company completed its IPO and raised funds totaling RMB3,052 million.

HONOURS AND AWARDS

The Company Group has received a number of awards from governmental authorities and industry associations and agencies as recognition of its market position, strong capabilities and innovation, and set forth below is a summary of the key honours and awards the Company Group received in recent years:

- "Best Information Services Securities Broker of Hong Kong Stock Connect"(港股通傑出信息服務商) by the Hong Kong Stock Exchange in 2019;
- "Emerging Investment Bank in China", "Investment Bank for Exchange Bonds in China", "Investment Bank for Assets Securitisation in China" and "Retail Broker of Securities in China" in Jun Ding Awards (君鼎獎) by Securities Times (證券時報) in 2019;
- "Charity Award for Securities Brokers"(券商公益獎) in the China Financial Influential Annual List awarded by Hexun.com in 2019;
- The Company received "A" rating, the top rating, in Category A securities firms from the CSRC in 2019;
- "The Asset Management Company of the Year" in Finance Value Award granted by First Financials (2018年度第一財經金融價值榜年度資管公司); the Company was the only securities and asset management company to receive this award in 2018;
- "Outstanding Financial Products Award"(優秀金融產品獎) of "Shandong Province – Replacement of Old Economic Growth Drivers with New Ones (山東省新舊動能轉換)" jointly awarded by the People's Bank of China, Shandong Provincial Department of Finance and Shandong Provincial Finance Office in 2018;
- "Research Team with Most Potentials"(最具潛力研究團隊) awarded by Securities Times in 2017;
- "2016 Best Investment Bank in the PRC Capital Market" (2016中國資本市場最佳投行) in the third session of the Future Value of the Listed Company Ranking in 2016 (2016 第三屆上市公司未來價值排行榜) hosted by China Reform Daily (中國改革報);
- "First Prize in the First Securities Industry Case Study Competition"(第一屆證券行業案例大賽) held by the CSRC awarded to the "Tianfeng-Zhonghang Hongxing Aegean Commercial Property Trust Benefit Right Asset Support Special Plan"(天風 – 中航紅星愛琴海商業物業信託受益權資產支持專項計劃) of the Company in 2016;
- "Best NEEQ Recommendation Team in China in 2016"(2016中國區最佳股轉系統挂牌推薦團隊) awarded by Securities Times; and
- "Most Influential Underwriter"(新三板最具影響力挂牌券商) in Huaxin Award (華新獎) granted by First Financials (第一財經) in 2016.

DESCRIPTION OF THE COMPANY GROUP'S BUSINESS

The Company manages its business mainly in eight segments, namely securities brokerage, investment banking, asset management, portfolio investment, credit, futures brokerage, offshore business and others.

The following table sets forth a breakdown of the Company Group's total revenue by business segments for the periods indicated:

	Year ended 31 December					
	2017		2018		2019	
	Revenue	Percentage of Total	Revenue	Percentage of Total	Revenue	Percentage of Total
	(RMB in millions)		*(RMB in millions)*		*(RMB in millions)*	
Business Segments						
Securities brokerage	2,601.2	31.8	1,913.5	27.2	2,466.8	25.4
Investment banking	833.0	10.2	590.0	8.4	969.3	10.0
Asset management	832.7	10.2	499.8	7.1	480.0	4.9
Portfolio investment	160.2	2.0	405.2	5.8	893.5	9.2
Credit	1,045.4	12.8	919.0	13.1	1,119.5	11.5
Futures brokerage	1,502.7	18.4	1,140.6	16.2	1,838.9	19.0
Offshore business	435.4	5.3	492.9	7.0	543.2	5.6
Others	758.3	9.3	1,064.2	15.2	1,397.8	14.4
Total	**8,168.9**	**100.0**	**7,025.2**	**100.0**	**9,709.0**	**100.0**

Securities Brokerage

The Company Group engages in the securities brokerage business, including securities trading brokerage, leasing of trading booths and proxy sale of financial products. The securities brokerage business of the Company Group accounted for the largest portion of its total revenue for the past three years. As at 31 December 2019, the Company Group provided securities brokerage services to approximately 5.1 million customers through its 41 branch offices and approximately 284 securities brokerage offices in China. The Company Group also provides overseas customers with securities brokerage services outside the PRC through the Guarantor Group and revenue from this operation is recorded as revenue from offshore business.

In recent years, the Company Group received the following major awards to recognise the growth and market position of its securities brokerage business:

- "Top 10 Securities Trading Applications of the Year" awarded by Sina Finance in 2019;
- "Top 10 Securities Trading Applications approved by Investors" awarded by Securities Times in 2019;
- "Top 10 Securities Trading Applications of the Year" awarded by Sina Finance in 2018;
- "2017 Outstanding Securities Company According to the Investors' Survey" awarded by China Securities Investor Protection Fund Co., Ltd. in 2018;
- "Best China Customer Contact Centre", "Best Service Experience" and "Best Employee Management" for 2017 and 2018 awarded by the Customer Relationship Management Special Committee of China Federation of IT Promotion and the Customer Contact Centre Standard Committee in 2018;
- "Securities Information Service Development Progress Award" awarded by Shanghai Stock Exchange Information Network Company and Shenzhen Securities Information Co., Ltd. in 2017;
- "Top 10 Securities Trading Applications of the Year" awarded by Sina Finance in 2017;
- "Best China Customer Contact Centre", "Best Smart Service Application" and "Best Management Innovation" for 2016 and 2017 awarded by the Customer Relationship Management Special Committee of China Federation of IT Promotion and the Customer Contact Centre Standard Committee in 2017;

- "Top 10 Securities Trading Applications of the Year" awarded by Sina Finance in March 2016;

- "2014-2015 Best China Customer Contact Centre" awarded by the Customer Relationship Management Special Committee of China Federation of IT Promotion and the Customer Contact Center Standard Committee in July 2015;

- "Outstanding Securities Company for the Year of 2014" awarded by China Securities Investor Protection Fund Corporation in June 2015;

- "Investment Bank with Strongest Investment Consultancy Capability" at the third National Investment Advisors Competition awarded by Sina Finance in January 2015;

- "Outstanding Securities Company for the Year of 2013" awarded by China Securities Investor Protection Fund Corporation in June 2014;

- "Best China Call Centre for the Years of 2013-2014" awarded by the Customer Relationship Management Special Committee of China Federation of IT Promotion and the Customer Contact Center Standard Committee in April 2014; and

- "Outstanding Member", "Outstanding Compliance Management Member" and "Outstanding Investor Education Member" for 2013 awarded by Shanghai Stock Exchange and Shenzhen Stock Exchange in January 2014.

Investment Banking

The Company Group engages in equity and debt securities underwriting and placing, sponsors initial public offerings on the Main Board and Growth Enterprises Markets of the Shanghai Stock Exchange and Shenzhen Stock Exchange and on the NEEQ, and provides financial advisory services to mergers and acquisitions. The Company Group is committed to offering its clients high quality corporate finance services and exploring cross-selling opportunities across multiple business segments through its integrated investment banking platform.

The Company Group's investment banking division has more than 500 employees (not including employees of NEEQ subdivision), many of whom have acquired the qualification of sponsor representatives and the certification of chartered financial analysts (CFA), certified international investment analysts (CIIA) and certified public accountants (CPA).

In recent years, the Company Group has received the following awards for its investment banking business:

- "2019 Emerging Investment Bank in China" in Jun Ding Awards hosted by Securities Times;

- "2017 Best Growth Investment Bank" in the "Reverse Growth, New Blue Chip – 2017 Best Listed Company and Best Investment Bank Award" jointly hosted by Value Line and China Economic Net;

- "Best Investment Bank in the PRC Capital Market for the Year of 2016" in the Third Listed Company's Future Value Ranking;

- "Best Refinancing Project" for "Meinian Healthcare" Project in the Ninth New Wealth Chinese Best Investment Bank in 2016;

- "Top 10 China Investment Banks for the Year of 2015" in the "2015 Most Valuable Chinese A-share Listed Companies Competition" hosted by Value Line;

- "Best Re-financing Deal" for the private placement of Cangzhou Mingzhu in the "The Eighth New Fortune Best Investment Bank Ceremony" in 2015; and

- "Best China SME Board and Growth Enterprise Market Sponsor" in the "First Most Valuable Chinese Listed Company Ranking" hosted by Value Line in 2014.

Equity Underwriting

Equity underwriting is the core strength of the investment banking business of the Company Group in the PRC. The Company Group sponsors and underwrites initial public offerings and secondary offerings on the A share market. For the years ended 31 December 2017, 2018 and 2019, the Company completed in aggregate 31 projects acting as sponsor and/or lead underwriter with aggregate funds raised of RMB25.6 billion.

Debt Underwriting

The Company Group underwrites and places enterprise bonds, corporate bonds, financial bonds and asset-backed securities in China. For the years ended 31 December 2017, 2018 and 2019, the Company completed in aggregate 330 projects acting as lead underwriter.

The Company believes that its marketing and innovation capabilities provides a competitive advantage to its debt underwriting business. The Company Group has established a nationwide distribution network for fixed income products that covers investors such as large commercial banks, insurance companies, fund management companies and rural credit cooperation associations.

Financial Advisory Services

The Company Group provides financial advisory services on merger and acquisition. The Company Group identifies and understands customers' needs through its branch network nationwide and provides customised financial advisory services. For the years ended 31 December 2017, 2018 and 2019, the Company advised on three merger and acquisition projects in aggregate.

NEEQ

The Company Group provides a variety of financial services for companies who seek to list their stocks on the NEEQ and whose stocks have been listed on the NEEQ, such as listing referral and ongoing supervision, market making, securities placement and advisory and consulting. The Company Group has been active in this business line since it acquired the sponsor qualification in March 2013 and the market maker qualification in June 2014, both upon approval by the NEEQ. The Company has a dedicated NEEQ team with experienced staff with relevant qualifications. In recent years, the Company Group has received "Top 10 China Outstanding NEEQ Market Makers for the Year of 2015" awarded by China Internet News Centre in 2016, "Best NEEQ Recommendation Team in China in 2016" awarded by Securities Times in 2016, "Most Influential Underwriter" in Huaxin Award granted by First Financials in 2016, "Jun Ding Award for Sponsoring Broker for NEEQ in China for the Year of 2017" awarded by Securities Times in 2017 and "Outstanding Market Maker of the Year", "Outstanding Market Maker in Terms of Market Size of the Year" and "Outstanding Market Maker in Terms of Liquidity Support of the Year" awarded by the NEEQ in 2019, in recognition of its achievements in its NEEQ business.

On 1 September 2016, the Company received a notice from the CSRC that the CSRC decided to initiate an investigation against the Company relating to a NEEQ listing transaction in which the Company acted as market maker. On 22 December 2017, the CSRC notified the Company in writing that it had concluded the investigation and determined that the Company's actions constituted market-making with a penalty of RMB1 million consequently levied on the Company.

Asset Management

The Company Group has engaged in providing asset management services since 2009. As at 31 December 2019, total AUM of the Company Group's asset management business amounted to approximately RMB121.1 billion. Currently, the Company Group's asset management business is mainly conducted by Zhongtai Securities (Shanghai) Asset Management Co., Ltd. (中泰証券(上海)資產管理有限公司) and comprises the management of collective asset management products, targeted asset management products and specialised asset management products.

Zhongtai Securities (Shanghai) Asset Management Co., Ltd.'s collective asset management products primarily include equity, hedge quantisation and fixed incomes products. Since 2014, Zhongtai Securities (Shanghai) Asset Management Co., Ltd. has launched series of products by its specialised investment management team, covering, among other things, bonds, equity, futures other types of products and collective asset management products. Its clients include both institutional clients and retail clients.

In addition to traditional collective asset management products, Zhongtai Securities (Shanghai) Asset Management Co., Ltd. provides specialised asset management products and customised services, covering bonds, asset securitisation, equity, and hedge funds based on the asset allocation requirements of different customers. Zhongtai Securities (Shanghai) Asset Management Co., Ltd.'s targeted asset management business has grown steadily and its comprehensive financial service solution capability has improved continuously.

In recent years, the Company Group received the following major awards for its asset management business:

- "China Tripod – Most Influential Asset Management Securities Company" and "China Tripod – Best Equity Products" by Daily Economic News in 2019;
- "Yinghua Award – Best Asset Management Securities Company in Equity Category in China" and "Yinghua Award – Best Asset Management Securities Company in Quant Category in China" by China Funds News in 2019;
- Ranked ninth in terms of asset management revenue in the 2017 Business Performance and Ranking of Securities Companies published by Securities Association of China in 2018;
- "2016 Outstanding Asset Management Leading Person with Great Contribution" awarded to Zhang Biao;
- "2016 Outstanding Asset Management Leading Person" awarded to Zhang Biao;
- "China Tripod – Top Asset Management Securities Company" in 2016;
- "China Porter Feller Award – Top Brand Building Securities and Asset Management Company" in 2016;
- "Top Asset Management Company in China" in 2016;
- "Top Asset Management Leading Person in China" awarded to Zhang Biao in 2015 and in 2016;
- "2015 Golden Bulls Award for Collective Asset Management Person" awarded to Ye Zhan;
- "2015 Golden Bulls Award for Collective Asset Management Scheme";
- "Top Award" in the equity product category by the 2015 China private equity fund annual meeting;

- "2015 Shanghai Leading Person" awarded to Huang Wenqin;
- "2015 Top Alternative Investment Team"; and
- "2015 Top Underwriter Asset Management Team".

Portfolio Investment

The Company Group engages in portfolio investment in equity, fixed-income and derivative securities.

Equity Securities Investment

The Company Group derived investment income from its equity securities investment by making use of its advantage in investment research. Its securities investment department is responsible for carrying out equity securities investment, covering equity, equity funds, collective financial management products and other equity securities products approved by CSRC.

Fixed-income Securities Investment

The fixed-income securities investment of the Company Group has developed steadily in recent years. The Company Group is a trading and clearing member of the National Inter-bank Bond Market (全國銀行間債券市場) and is licensed to carry out interest rate swaps and government bond futures business. The Company Group is also a dealer of the Integrated Electronic Platform of Fixed-income Securities of Shanghai Stock Exchange (上海証券交易所固定收益証券綜合電子平台) and is able to carry out business on the National Inter-bank Bond Market, Shanghai Stock Exchange and Shenzhen Stock Exchange. The Company Group has a full range of investment products in its fixed-income securities investment, enabling it to hedge against various risks and to maintain steady income.

The fixed-income department is responsible for carrying out fixed-income securities investment, covering government bonds, corporate bonds and bond funds.

Derivative Securities Investment

The Company Group has been developing the low-risk arbitrage business in its derivative securities investment business. Since the establishment of its derivative department in 2014, the Company Group commenced carrying out futures procedural trading, option proprietary trading and structured funds under stringent risk management control. The Company Group became one of the first market makers for the 50 ETF and acquired the qualification for carrying out OTC option business in 2014.

The derivative product department is responsible for exploring investment opportunities with advantages in risk-return characteristics in the financial market and by hedging against the investment risks of equity products with derivatives, covering options, stock index futures and other derivative securities.

Credit

The Company Group engages in margin financing and securities lending, margin and securities refinancing, agreed repurchase type securities trading business, stock pledged repo business and employee stock options financing. The Company Group has established decision-making and authorisation system for its credit business. There are clear separation of responsibilities among relevant teams and branches involving in the credit business and among front, middle and back offices, ensuring continuous and healthy development of credit business of the Company Group.

Margin Financing and Securities Lending

The Company Group received the licence to carry out margin financing and securities lending in November 2010. The Company Group carries out margin trading by lending money to customers to trade in securities, who shall repay the Company Group the principal and interests when the debt is due. The Company Group carries out short selling by lending the securities to customers to sell to others, who shall transfer the same category and quantity of securities to the Company Group and repay interests when the deadline is due. For the years ended 31 December 2017, 2018 and 2019, the Company Group had an outstanding margin financing and securities lending amount of RMB27.4 billion, RMB19.3 billion and RMB22.6 billion, respectively.

Margin and Securities Refinancing

The Company Group received the licence to carry out margin refinancing in November 2012 and to carry out securities refinancing in September 2013. The Company Group engages in margin and securities refinancing by way of borrowing monies or securities from other securities companies and then on-lending those monies or transferring the securities to customers to conduct margin financing and securities lending.

Agreed Repurchase Type Securities Trading Business

The Company Group received the licence to carry out agreed securities repurchase trading business on the Shanghai Stock Exchange in September 2012 and on the Shenzhen Stock Exchange in February 2013.

Stock Pledged Repo Business

The Company Group received the licence to carry out stock pledged repo business in June 2013. As at 31 December 2019, the transaction amount of securities-backed business to be repurchased by the Company Group amounted to RMB12.9 billion.

Futures Brokerage

The Company Group engages in futures brokerage, commodity trading and related-risk management mainly through Luzheng Futures. The Company Group provides customers with products and services relating to futures and derivatives, mainly including futures brokerages, futures, asset management and commodity trading and risk management. As at 31 December 2019, the Company Group had a total of 27 branches, of which ten were located in Shandong Province and the remaining were situated in other cities and provinces, including Shanghai, Wuhan, Jinan, Nanjing, Beijing, Tianjin, Zhejiang and Guangdong.

The shares of Luzheng Futures were listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 01461) on 7 July 2015. Luzheng Futures has three wholly-owned subsidiaries, namely Luzheng Trading Co., Ltd. (魯證經貿有限公司)("**Luzheng Trading**"), Luzheng Information Technology Co., Ltd. (魯證資訊技術有限公司)("**Luzheng Information**") and Luzheng International Holding Co., Ltd. (魯證國際控股有限公司)("**Luzheng International**"). Luzheng Trading was incorporated on 24 April 2013 and its scope of business includes the sale and wholesale of agricultural products, metal products, mining products, chemical products and edible oil, import and export activities, investment consultancy and technology consultancy. Luzheng Information was incorporated on 15 February 2015 and its scope of business includes the provision of software development, system integration, sale of electronic products and equipment, and information technology consultancy services. Luzheng International was incorporated on 16 April 2018 and its scope of business is investment holding.

In recent years, the Company Group has received the following awards for its futures brokerage business, including:

- "Best Futures Firm in China" and 16 other awards presented by Futures Daily and Securities Times in 2019;

- "Best Futures Firm in China", "Futures Companies with Gold Management Team in China", "Best Futures IT System", "Best Brand Building Promotion", "Best Capital Operation and Development" and "Best Asset Management" awarded by Futures Daily and Securities Times in 2016 and 2017;

- "Futures Industry Brand Award" awarded by Hexun.com in 2016;

- "Gold Medal in Futures Firm IT Services" awarded by Hexun.com in 2014, 2015 and 2016;

- "Best Futures Firm in China", "Futures Companies with Gold Management Team in China", "Best Futures IT System", "Best Financial Futures Service", "Best Capital Operation and Development", "Best Risk Management Subsidiary Service" and "Best Asset Management" awarded by Futures Daily and Securities Times in 2015; and

- "Best Futures Firm in China", "Best Financial Innovation Award" and "Best Risk Management Subsidiary Service Award" awarded by Futures Daily and Securities Times in 2014.

Futures Brokerage

Luzheng Futures is a member of Shanghai Futures Exchange, Zhengzhou Commodity Exchange, Dalian Commodity Exchange, China Financial Futures Exchange and Shanghai International Energy Exchange Co., Ltd., and is capable of providing various brokerage services for different futures products in China, including commodity futures and options and financial futures and options.

Futures Asset Management

Luzheng Futures commenced its futures asset management business in January 2013, and is one of the futures firms in China licensed to carry out futures asset management business. Asset management plans launched by Luzheng Futures include directional asset management plans and collective asset management plans.

Commodity Trading and Risk Management

Luzheng Futures commenced its commodity trading and risk management business in 2013, which includes commodity trading and OTC derivatives trading. In commodity trading, Luzheng Futures principally engaged in the physical trading and futures trading of commodities to meet the risk management needs of its clients while it takes advantage of hedging and arbitrage opportunities to manage its risks and realise gains. Luzheng Futures also performs trading in other derivatives, primarily options on commodity futures, with its counterparty clients over the counter to provide them with customised commodity risk management solutions.

Offshore Business

The Company Group conducts its offshore business mainly through the Guarantor and its overseas subsidiaries. The Guarantor was established pursuant to the Approval regarding the Establishment of Qilu International Holdings Limited by Qilu Securities Co., Ltd. in Hong Kong Special Administrative Region of China (Zheng Jian Approve [2012] No.271 (關於核准齊魯證券有限公司在香港特別行政區設立齊魯國際控股有限公司的批復) (證件許可[2012]271號) issued by the CSRC in February 2012. The Guarantor Group has seven core business segments, namely securities and futures brokerage, investment banking, asset management, FICC, insurance brokerage, finance lease and investment. For details of the Guarantor Group's business, see "*Description of the Guarantor Group*".

Others

The Company Group engages in research, alternative investment and private equity fund management.

Research

The Company Group has an in-house research team in PRC which supports its main business segments. The Company Group's research department provides research reports and opinions on listed companies in Hong Kong and the PRC, covering a wide range of industries, such as agriculture, forestry, fishing, non-ferrous metals, banking, iron and steel and pharmaceuticals.

Over the years, the Company Group's research team has received various awards in the industry. In 2014, the Company's research team ranked fourth in the "Most Improved Research Team" by New Fortune Magazine. In 2015, the Company's research team was named the "Best Research Team" in the agriculture, forestry and fishing, new energy, NEEQ and iron and steel sectors and ranked second overall by New Fortune Magazine. In 2019, the Company's research team was named "Best Analyst" and ranked second in the banking sector, third in the new energy and power equipment sectors, third in the metal and new materials sectors, fourth in the resources mining sector, third among "Institutions with the Most Potentials" and fifth and eighth, respectively, in the financial sector and the energy and materials sectors, and was named the "Best Industrial Research Team" by New Fortune Magazine. In 2019, the Company's research team was also named as "Crystal Ball of Seller Analysts" in the coal, power equipment and new energy sectors and ranked second in the iron and steel and banking sectors by Securities Market Weekly.

Alternative Investment

The Company Group engages in alternative investment through its wholly-owned subsidiary Zhongtai Venture Capital Investment (Shenzhen) Co., Ltd.(中泰創業投資(深圳)有限公司)("**Zhongtai Venture Capital**"). Zhongtai Venture Capital was listed as a subsidiary on the Public Notice of Subsidiary of Securities Company Investment Fund and Alternative Investment (Seventh Batch) 《證券公司私募投資基金子公司及另類投資子公司會員公示(第七批)》published by the Securities Association of China on 18 January 2018. Zhongtai Venture Capital primarily invests in unlisted companies by way of equity investment. As at 31 December 2019, Zhongtai Venture Capital invested in a total of 15 projects with an aggregate investment amount of RMB315 million.

Private Equity Fund Management

The Company Group engages in private equity fund management through its wholly-owned subsidiary, Zhongtai Capital Equity Investment Management (Shenzhen) Co., Ltd.(中泰資本股權投資管理(深圳)有限公司)("**Zhongtai Capital**"), and its majority-owned subsidiary, Qilu Zhongtai Capital Management Co., Ltd.(齊魯中泰資本管理有限公司)("**Qilu Zhongtai**"). Both Zhongtai Capital and Qilu Zhongtai are members of the Asset Management Association of China(中國證券投資基金業協會)(the "**AMAC**") and completed the requisite registration with the AMAC's comprehensive management platform under the asset management division. As at 31 December 2019, Zhongtai Capital managed a total of 14 funds with aggregate fund contributions of RMB1,974 million. As at the same date, these funds invested in 44 projects.

MAJOR CLIENTS

The Company Group has a diversified portfolio of individual and institutional clients. The Company Group's clients are primarily located in the PRC, including enterprises, financial institutions, government and individuals. Institutional clients include commercial banks, fund managers, insurance companies, trust companies and other domestic or foreign financial institutions, as well as qualified foreign institutional investors in China. The Company believes that such client base serves as a strong support for its future development to become a full service securities firm in China.

COMPETITION

Competition in the securities industry in the PRC has been and is likely to remain intense. According to the Business Performance and Ranking of Securities Companies in 2019(2019年度證券公司經營業績排名情況)published by the Securities Association of China(中國證券業協會), there were 133 registered securities companies in the PRC as at 31 December 2019. Competition is based on a number of factors, including price, products and services, innovativeness of the financial products, transaction execution capability, reputation, experience and knowledge of sales personnel, employee compensation and geographic scope. The gradual deregulation of the PRC securities industry and the tendency towards mixed business operations in the PRC's financial industry may also cause new competitors to enter into the securities industry, or allow the Company Group's current competitors to expand the scope of their business into new business segments. The deregulation of the PRC securities industry could also induce foreign financial institutions to enter into the PRC market, which are currently subject to PRC regulatory limitations and restrictions on their business activities. In addition, other innovative products and services may emerge in the PRC securities market as the PRC securities industry is gradually evolving.

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

RISK MANAGEMENT

The Company Group's business activities expose it to various risks, including market risk, credit risk, liquidity risk and operational risk. Market risk includes the risk of price volatility, foreign exchange risk and interest rate risk, and is associated with the possibility of loss or reduction in income due to partial or overall changes in the securities market. Credit risk occurs when a borrower or financing counterparty fails to perform its duties. Liquidity risk relates to whether in the foreseeable future the Company Group's assets would be able to meet its liabilities without any loss of value. Operational risk includes risks involving errors, omissions, imperfect internal processes, incomplete information systems and transaction failure and fraud, all of which can occur in the Company Group's businesses.

In compliance with the Securities Companies Comprehensive Risk Management Guidelines(證券公司全面風險管理規範)issued by the CSRC and the CSRC's special requirements, the Company has established a multi-level comprehensive risk management system. It comprises all-encompassing procedures in respect of risk identification, risk assessment, risk control and monitoring, risk response and risk reporting, with more than 50 work processes addressing all aspects ranging from risk information reporting, design and allocation of annual risk limit, stress testing, valuation of financial instruments and review of risk measurement models, daily monitoring of risk control index, coordination of risk events response, risk assessment of new products or businesses and risk management performance review. The Company has also set up a risk indicator monitoring system based on its net capital and liquidity levels. In addition, the Company has put in place the Emergency Response Plan for the Company's Unexpected Events(公司突發事件維穩工作應急預案), which sets out the problem-solving principles, reporting systems and measures to be taken when an emergency event incurs. The Company has formulated an extensive set of internal risk management policies, guidelines and measures, such as the "Company Comprehensive Risk Management Basic Rules 《公司全面風險管理基本制度》" which specifies the objectives, principles, organisational structure, responsibilities and duties and other fundamental procedures.

EMPLOYEES

The Company Group currently has over 7700 employees. The Company considers its employees important assets and provides them with continuing education and on-the-job training and encourages them to pursue various financial and accounting qualifications. The Company believes it has maintained a good relationship with its employees and to date, it has not experienced any significant labour disputes which have had or are likely to have a material and adverse effect on its business operations.

DIRECTORS AND MANAGEMENT OF THE GUARANTOR

BOARD OF DIRECTORS

The Guarantor's board of directors is constituted by three members, including a chairman and two directors appointed by the shareholders.

The following table sets forth the members of the Guarantor's board of directors as at the date of this Offering Circular:

Name	Age	Position
Yuan Xicun (袁西存)	51	Director
Hu Zengyong (胡增永)	48	Director
Gao Feng (高峰).	51	Chairman, director and chief executive officer

Mr. Yuan Xicun, aged 51, is a director of the Guarantor. He currently also serves as the chief financial officer and the general manager of the planning and finance department of the Company and the director of Wanjia Asset Management Co., Ltd. (萬家基金管理有限公司). Mr. Yuan previously served as the deputy section chief and section chief of the finance section of Laiwu Steel Group Ltd. (萊蕪鋼鐵集團有限公司) and the general manager of the capital and operations management department of the Company. He also holds the position of deputy director of the second Finance Committee of Shandong Securities Association (山東省證券業協會). Mr. Yuan has a master's degree and is a senior accountant.

Mr. Hu Zengyong, aged 48, is a director of the Guarantor. He currently also serves as the assistant general manager of the Company and the general manager of the human resources department of the Company. Mr. Hu previously served as the assistant manager of the personnel management department of Shandong Securities Co., Ltd. (山東證券有限責任公司), the deputy general manager of the human resources department and the deputy general manager of Tiantong Securities Co., Ltd. (天同證券有限責任公司) and the general manager of the Liaocheng branch of Tiantong Securities Co., Ltd. (天同證券有限責任公司). He obtained his bachelor's degree from Xi'an College of Statistics (西安統計學院) and an executive MBA from Shandong University.

Mr. Gao Feng, aged 51, is the chairman, a director and the chief executive officer of the Guarantor and the general manager of the international business department of the Company. He has more than 20 years of extensive experience in the financial services and securities market. Mr. Gao previously served as the head of the president's office of Shandong Securities Co., Ltd. (山東證券股份有限責任公司), deputy general manager of the general office of Shandong Zibo Securities Co., Ltd. (山東淄博證券有限公司), deputy director of the research institute of Tiantong Securities Co., Ltd. (天同證券有限責任公司), general manager of the Shanghai branch of the Company and held other leadership positions in the financial services and securities market. He has a bachelor's degree from the Chinese People's Public Security University (中國人民公安大學) and an executive MBA from Fudan University.

SENIOR MANAGEMENT

The following table sets forth the senior management of the Guarantor as at the date of this Offering Circular:

Name	Age	Position
Gao Feng (高峰).	51	Director, chief executive officer
Lyu Taojiang (呂濤江)	48	Deputy chief executive officer
Zhang Yanfeng (張延峰)	51	Chief financial officer
Ren Yanqing (任艷青).	47	Chief operations officer
Han Dong (韓冬)	48	Director of investment and financing
Geng Bofeng (耿伯峰)	36	Chief risk officer
Wang Leping (王樂平)	47	Chief investment officer

For detailed information about Mr. Gao Feng, see "– *Board of Directors*".

Mr. Lyu Taojiang, aged 48, is the deputy chief executive officer of the Guarantor. Mr. Lyu joined the Company Group in 2008. Mr. Lyu graduated with an undergraduate degree from Xian College of Statistics (西安統計學院) in 1995. Before joining the Company Group, Mr. Lyu held positions as deputy manager of the Harbin securities department at China Galaxy Securities Co., Ltd (中國銀河證券), head of the sales department at Shanghai Rui Jin Yi Road branch of Asian Securities Limited (亞洲證券) and manager of the sales department at Gan He Road branch of the Company (齊魯證券上海甘河路).

Mr. Zhang Yanfeng, aged 51, is the chief financial officer of the Guarantor. He has more than 20 years of experience in accounting in the financial securities industry. Mr. Zhang was the former manager of the accounting department in the Liaoning, Nanjing, Hangzhou and Shanghai offices of the Company. Mr. Zhang graduated from Hangzhou University of Science and Technology (華中科技大學) and is a certified public accountant of China.

Mr. Ren Yanqing, aged 47, is the chief operations officer of the Guarantor. He has approximately 20 years of experience in the financial services industry, especially in the information technology area. Mr. Ren graduated with a bachelor's degree from Peking University. He previously served as the head of online transactions of the information technology department of the Company and Tiantong Securities Co., Ltd. (天同證券有限責任公司), respectively.

Mr. Han Dong, aged 48, is a director of investment and financing of the Guarantor. Mr. Han joined the Group in 2007. Before joining the Company Group, Mr. Han held positions as business manager of the Laiwu branch of China Construction Bank (中國建設銀行萊蕪市分行), general manager of the Shandong branch of Dagong Global Credit Rating Co., Ltd. (大公國際資信評級有限公司), and managing director of the Investment Department of and a member of the Investment Banking Committee of the Company. He graduated with a master's degree in economics from Shandong University (山東大學).

Mr. Geng Bofeng, aged 36, is the chief risk officer of the Guarantor. Mr. Geng graduated from Shandong University of Finance and Economics (山東財經大學) in 2009. He has over eight years of relevant industry experience in China and overseas capital markets, in particular, in the areas of corporate finance, corporate restructuring and listing, NEEQ public listing and cross-border financing. Mr. Geng is a certified public accountant and an intermediate accountant.

Dr. Wang Leping, aged 47, is the chief investment officer of the Guarantor. He has approximately 20 years of finance-related experience. Before joining the Company Group, Dr. Wang worked at various financial institutions, including Barclays Capital, Citigroup and Standard Chartered Bank. He also previously held a faculty position in finance at the Singapore Management University. Dr. Wang graduated with a bachelor's degree in applied mathematics from Fudan University (復旦大學), and also obtained a masters degree in statistics from University of Maryland and a doctorate degree in finance from the Wharton School at the University of Pennsylvania.

PRC REGULATIONS

THE PRC LEGAL SYSTEM

The PRC's legal system covers laws that fall under seven categories and three different levels. The seven categories are: Constitution and Constitution-related, civil and commercial, administrative, economic, social, and criminal laws and the law on lawsuit and non-lawsuit procedures. The three different levels are state laws, administrative regulations and local statutes. In general, court judgments do not constitute binding precedents. However, certain court judgments are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC ("**NPC**") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing state agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC and the Standing Committee of the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders. The People's Congresses or their standing committees of the comparatively larger cities may, in light of the specific local conditions and actual needs, formulate local regulations, provided that they do not contradict the PRC Constitution, the national laws, the administrative regulations and the local regulations of their respective provinces or autonomous regions, and they shall submit the regulations to the standing committees of the people's congresses of the provinces or autonomous regions for approval before implementation.

At the regional level, the provincial and municipal congresses and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local rules and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial and municipal governments may also enact or issue rules, regulations or directives in new areas of the law for experimental purposes or in order to enforce the law.

After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such rules and regulations.

Under the PRC Constitution and the Law of Organisation of the People's Courts, the PRC Judicial System is made up of the Supreme People's Court, the local courts, military courts and other special court. The local courts are comprised of the basic courts, the intermediate courts and the higher courts.

The basic courts are organised into civil, criminal and other divisions. The intermediate courts are organised into divisions similar to those of the basic courts, and are further organised into other special divisions, such as the intellectual property division. The higher level courts supervise the basic and intermediate courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts. The Supreme People's Court has established circuit courts to accept relevant cases within the regions under their circuit jurisdictions. Circuit courts are hearing organs dispatched by the Supreme People's Court. The judgments, rulings and decisions rendered by circuit courts are judgments, rulings and decisions by the Supreme People's Court.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or order s given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and as amended on 28 October 2007, 31 August 2012 and 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant is domiciled. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract, the place of the object of the contract or otherwise connected with the contract or its performance.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the court to request for enforcement of the judgment order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a PRC court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A judgment or ruling made by a foreign court may also be recognised and enforced by a PRC court in accordance with PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the PRC court's examination in accordance with the principal of reciprocity. If the court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, or damage its sovereignty or security, or is not in the interests of the society and public at large, the PRC court will not recognise and enforce the judgement made by such foreign court.

INTRA-GROUP LENDING

Prior to 1 September 2015, lending and borrowing, overt or in a disguised form, among non-financial institutions was prohibited, according to Article 61 of the General Principals of Loans (貸款通則) promulgated by the PBOC in 1996. There was a risk that intra-group lending may be deemed not in compliance with the General Principals of Loans, and the PBOC could cancel the certain intra-group loans and impose a fine equal to one to five times of its income accrued from such loans.

On 6 August 2015, the Supreme People's Court issued the Regulations on Application of Laws to Certain Issues For Hearing of Private Lending Cases (最高人民法院關於審理民間借貸案件適用法律若干問題的規定) ("**Regulations**"), which became effective on 1 September 2015. Pursuant to the Regulations, subject to certain exceptions, an intra-group lending entered into for production or operating purposes is valid and recognised by the PRC courts. However, the validity of such lending may still be challenged if the lender (not being a financial institution) regularly conducts lending business or its lending activities become its primary business, as such loans would no longer be made for production or business operation purposes.

EXTERNAL SECURITY REGIME

Cross-Border Guarantee Laws

On 12 May 2014, SAFE promulgated the Foreign Exchange of Cross-border Guarantee Measures. The Foreign Exchange of Cross-border Guarantee Measures, which came into force on 1 June 2014, replaced previous regulations regarding cross-border security and introduced a number of significant changes, including: (i) abolishing prior SAFE approval and quota requirements for cross-border security; (ii) requiring SAFE registration for two specific types of cross-border security; (iii) removing eligibility requirements for providers of cross-border security; (iv) providing that the validity of any cross-border security agreements no longer subject to SAFE approval, registration, filing, and any other SAFE administrative requirements; and (v) removing SAFE verification requirement for performance of cross-border security. A cross-border guarantee is a form of security under the Foreign Exchange of Cross-border Guarantee Measures. The Foreign Exchange of Cross-border Guarantee Measures classify cross-border security into three types:

- Nei Bao Wai Dai (NBWD, 內保外貸): security/guarantee provided by an onshore security provider for a debt owing by an offshore debtor to an offshore creditor.

- Wai Bao Nei Dai (WBND, 外保內貸): security/guarantee provided by an offshore security provider for a debt owing 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 Nei Bao Wai Dai and Wai Bao Nei Dai.

Under SAFE Regulations, the local SAFE will go through a procedural review (as opposed to a substantive approval process) of the application for registration. Upon completion of the review, the local SAFE will issue a registration notice or record to the Company as the Guarantor to confirm the completion of the registration.

NDRC Registration

On 14 September 2015, the NDRC issued the NDRC Circular, which became effective on the same day. In order to encourage the use of low-cost capital in the international capital markets in promoting investment and steady growth and to facilitate cross-border financing, the NDRC Circular abolishes the case-by-case quota review and approval system for the issuance of foreign debts by PRC enterprises. It sets forth the following measures to promote the administrative reform of the issuance of foreign debts by PRC enterprises or overseas enterprises and branches controlled by PRC enterprises:

- steadily promote the administrative reform of the filing and registration system for the issuance of foreign debts by enterprises;
- increase the size of foreign debts issued by enterprises, and support the transformation and upgrading of key sectors and industries;
- simplify the filing and registration of the issuance of foreign debts by enterprises; and
- strengthen the supervision during and after the process to prevent risks.

For the purposes of the NDRC Circular, "**foreign debts**" means RMB-denominated or foreign currency-denominated debt instruments with a maturity over one year which are issued offshore by PRC enterprises and their controlled offshore enterprises or branches and for which the principal and interest are repaid as agreed, including offshore bonds and long-term and medium-term international commercial loans. According to this definition, offshore bonds issued by both PRC enterprises and their controlled offshore enterprises or branches shall be regulated by the NDRC Circular.

Pursuant to the NDRC Circular, an enterprise shall: (i) apply to the NDRC for the filing and registration procedures prior to the issuance of the bonds; and (ii) shall report the information on the issuance of the bonds to the NDRC within ten working days after the completion of each issuance.

As the NDRC Circular is newly published, certain detailed aspects of its interpretation and application remain subject to further clarification.

The Issuer (failing whom, the Guarantor) undertakes to file or cause to be filed with the NDRC the requisite information and documents pursuant to Condition 4(c) of the Terms and Conditions of the Bonds.

CSRC FILING

On 25 September 2018, the CSRC issued the Measures for the Administration of the Formation, Acquisition and Purchase of Non-Controlling Shares of Overseas Business Institutions by Securities Companies and Securities Investment Fund Management Companies(證券公司和證券投資基金管理公司境外設立、收購、參股經營機構管理辦法)(the "**CSRC Circular**"), which became effective on the same day. Pursuant to the CSRC Circular, a securities fund business institution that increases capital contribution to an overseas subsidiary or provides financing, guarantee and other similar credit enhancement measures to an overseas subsidiary in accordance with the law shall perform internal decision-making procedures and file with the CSRC within five working days from the date when the resolution is made. If the securities fund business institution issues a comfort letter or any other similar document without any substantive guarantee obligation to an overseas subsidiary in accordance with the law, it shall file with the CSRC within the first five working days of the month immediately before the month when such document is issued.

The Company made its filing with the CSRC in relation to the Keepwell Deed , the receipt of which had been acknowledged by the CSRC via its reply to the Company on 17 June 2020, which indicated that it had no objection to the Company in respect of its execution of the Keepwell Deed. Please also see "*Risk Factors – Risks relating to the Keepwell Deed*".

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds is based upon applicable laws, regulations, rulings and decisions in effect 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 Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any Bondholder or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

BRITISH VIRGIN ISLANDS

The Issuer is exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands. Payments of principal, premium or interest in respect of the Bonds to persons who are not resident in the British Virgin Islands are not subject to British Virgin Island tax or withholding tax.

Capital gains realised with respect to the Bonds by persons who are not persons resident in the British Virgin Islands are also exempt from all provisions of the Income Tax Ordinance of the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to the Bonds.

All instruments relating to transactions in respect of the Bonds are exempt from payment of stamp duty in the British Virgin Islands. This assumes that the Issuer does not hold an interest in real estate in the British Virgin Islands.

There are currently no government or other exchange controls in the British Virgin Islands.

HONG KONG

Withholding Tax

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

Profits Tax

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

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

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

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

(iii) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

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

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

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

PRC

The following summary accurately describes the principal PRC tax consequences of ownership of the Bonds by beneficial owners who, or which, are not residents of Mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Bondholders in this "Taxation – PRC" section. In considering whether to invest in the Bonds, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

EIT

Pursuant to the EIT Law which took effect on 1 January 2008 and was amended on 24 February 2017 and 29 December 2018, and the Individual Income Tax Law of the PRC which took effect on 10 September 1980 and was lastly amended on 31 August 2018, and their implementation regulations, an income tax is imposed on payment of interest by way of withholding in respect of debt securities, issued by PRC resident enterprises to non-PRC Bondholders, including non-PRC resident enterprises and non-PRC resident individuals. The current rates of such income tax are 20 per cent. for non-PRC resident individuals and 10 per cent. for non-PRC resident enterprises. However, the tax so charged on interests paid on the Bonds to non-PRC Bondholders who, or which are residents of Hong Kong (including enterprise holders and individual holders) will be 7 per cent. of the gross amount of the interest pursuant to the arrangement between the PRC and Hong Kong for avoidance of double-taxation and relevant interpretation of the arrangement formulated by the SAT. The Issuer or, as the case may be, the Guarantor has agreed to pay additional amounts to holders of the Bonds so that holders of the Bonds would receive the full amount of the scheduled payment, as further set out in Condition 8 of the Terms and Conditions of the Bonds.

Under the EIT Law and its Implementation Regulation, any gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC EIT if such gains are regarded as incomes derived from sources within the PRC. Under the EIT Law, a "**non-resident enterprise**" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained incomes derived from sources within the PRC. There remains uncertainty as to whether the gains realised from the transfer of the Bonds would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law and its Implementation Regulation. In addition, there is uncertainty as to whether gains realised on the transfer of the Bonds by individual holders who are not PRC citizens or residents will be subject to PRC individual income tax. If such gains are subject to PRC income tax, the 10 per cent. enterprise income tax rate and 20 per cent. individual income tax rate will apply respectively unless there is an applicable tax treaty or arrangement that reduces or exempts such income tax. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income. According to an arrangement between the PRC and Hong Kong for avoidance of double-taxation, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

Stamp Duty

No PRC stamp duty will be imposed on non-resident holders either upon issuance of the Bonds or upon a subsequent transfer of Bonds to the extent that the register of holders of the Bonds is maintained outside the PRC and the issue, sale, transfer, registration or any other activities in relation to the Bonds takes place outside the PRC.

VAT

According to the Circular of Full Implementation of Replacing Business Tax with Value-Added Tax Reform (Caishui [2016] No. 36) ("**Circular 36**"), the entities or individuals providing financial services within PRC are subject to VAT. The services are treated as being sold within the PRC where either the service provider or the service recipient is located in the PRC. Financial services potentially subject to VAT include the provision of the loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Bonds is likely to be treated as the Bondholders providing the loans to the Issuer, which thus shall be regarded as the financial services for VAT purposes. If the Issuer is deemed to be a PRC resident enterprise in the PRC by the PRC tax authorities, the Bondholders may be regarded as providing the financial services within the PRC and consequently, the amount of interest payable by the Issuer to any non-resident Bondholders may subject to withholding VAT at the rate of 6 per cent. In addition, if the holders of the Bonds shall also be subject to the local levies at approximately 12 per cent. of the VAT payment.

Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of which involve uncertainties, and the above statement 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 Circular 36.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the British Virgin Islands) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA o ran IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

EXCHANGE RATE INFORMATION

PRC

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets.

On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2 per cent. against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against the U.S. dollar to 2.0 per cent.

Following an announcement by the PBOC on 11 August 2015 that authorised market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market, the Renminbi depreciated significantly against the U.S. dollar through the remainder of 2015 and 2016 before rebounding in 2017. Following the gradual appreciation against U.S. dollar in 2017, Renminbi experienced a recent depreciation in value against U.S. dollar followed by a fluctuation in 2018 and early 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate to above RMB7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may from time to time make further adjustments to the exchange rate system in the future.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollar for the periods presented:

	Renminbi per U.S. Dollar Noon Buying Rate[1]			
Period	**End**	**Average[2]**	**High**	**Low**
	(RMB per US$1.00)			
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
January	6.9161	6.9184	6.9749	6.8589
February	6.9906	6.9967	7.0286	6.9650
March	7.0808	7.0205	7.1099	6.9244
April	7.0622	7.0708	7.0989	7.0341
May	7.1348	7.1016	7.1681	7.0622
June	7.0651	7.0816	7.1263	7.0575
July (through 24 July)	7.0168	7.0069	7.0703	6.9800

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

Hong Kong

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 17 October 1983, the Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK$7.80 to US$1.00. The central element in the arrangements which gave effect to the peg is that, by agreement between the Hong Kong Special Administrative Region government and the three Hong Kong banknote issuing banks (i.e., The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China Limited), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars at the fixed exchange rate of HK$7.80 to US$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of the Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated materially from the level of HK$7.80 to US$1.00 since the peg was first established. However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year old trading band from the original rate of HK$7.80 per US$1.00 to a rate range of HK$7.75 to HK$7.85 per US$1.00. The Hong Kong Special Administrative Region government has stated its intention to maintain the link at that rate and it, acting through the Hong Kong Monetary Authority, has a number of means by which it may act to maintain exchange rate stability. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong Special Administrative Region government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong Special Administrative Region government will maintain the link at HK$7.75 to HK$7.85 per US$1.00, or at all.

The following table sets forth the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board for the periods indicated:

Period	Hong Kong Dollar per U.S. Dollar Noon Buying Rate(1)			
	End	Average(2)	High	Low
	(HK$ per US$1.00)			
2015	7.7507	7.7524	7.7686	7.7495
2016	7.7534	7.7620	7.8270	7.7505
2017	7.8128	7.7926	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020				
January	7.7665	7.7725	7.7889	7.7661
February	7.7927	7.7757	7.7951	7.7630
March	7.7513	7.7651	7.7863	7.7511
April	7.7514	7.7512	7.7530	7.7498
May	7.7513	7.7519	7.7561	7.7517
June	7.7501	7.7501	7.7514	7.7498
July (through 24 July)	7.7516	7.7511	7.7538	7.7499

Notes:

(1) Exchange rates between Hong Kong dollars and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 5 August 2020 (the "**Subscription Agreement**") pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Issuer has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have agreed to subscribe and pay for or procure subscribers to subscribe and pay for the aggregate principal amount of the Bonds.

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

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Joint Lead Managers and their affiliates have, from time to time, performed, and may in the future perform, various Banking Services or Transactions for the Issuer, the Guarantor and the Company, for which they received or will receive customary fees and expenses.

The Joint Lead Managers and their respective affiliates may purchase the Bonds and allocate the Bonds for asset management and/or proprietary purposes but not with a view to distribution. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer, the Guarantor or the Company, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the Bonds being "**offered**" should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer, the Guarantor or the Company for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Bonds. If this is the case, liquidity of trading in the Bonds may be constrained (see "*Risk Factors – Risks relating to the Bonds and the Guarantee – A trading market for the Bonds may not develop*"). The Issuer, the Guarantor, the Company and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors. Zhongtai International Securities Limited is a member of the Guarantor Group.

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

General

None of the Issuer, the Guarantor, the Company nor the Joint Lead Managers makes any representation that any action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer or the Guarantor or the Company that would permit a public offering of the Bonds, or possession or distribution of the Offering Circular (in preliminary proof or final form) or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each of the Joint Lead Managers will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distribute the Offering Circular (in preliminary proof or final form) or any such other material, in all cases at its own expense. The Issuer, the Guarantor, the Company and the Joint Lead Managers will have no responsibility for, and the Joint Lead Managers will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery of the Bonds. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or their respective affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction. The Joint Lead Managers are not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in, or which is consistent with, the Offering Circular or any amendment or supplement to it.

United States

The Bonds 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 except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented that it has not offered or sold, and agrees that it will not offer or sell, any Bonds and the Guarantee constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. 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 Bonds and the Guarantee. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

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

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

Singapore

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

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

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

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

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

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

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

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

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

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

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to "professional investors" as defined in the 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) ("**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of C(WUMP)O; and (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

PRC

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

Taiwan

Unless the Bonds have been registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan, the Bonds may not be sold, issued or offered within Taiwan through a public offering or in circumstances which constitutes an offer within the meaning of the Securities and Exchange Act of Taiwan or relevant laws and regulations that requires a registration, filing o approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority of Taiwan.

British Virgin Islands

Each Joint Lead Manager has represented, warranted and agreed that no invitation has been or will be made, directly or indirectly, 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 Bonds and the Bonds 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 there will not be, an offering of the Bonds to any person in the British Virgin Islands.

GENERAL INFORMATION

1. **Clearing Systems:** The Bonds will be lodged and cleared through Euroclear and Clearstream. The ISIN and Common Code for the Bonds are XS2203111120 and 220311112, respectively.

2. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the execution, issue and performance of its obligations under the Bonds, the Trust Deed, the Agency Agreement and the Keepwell Deed. The issue of the Bonds was authorised by written resolutions of the board of directors of the Issuer on 26 June 2020. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee, the execution of the Trust Deed, the Agency Agreement and the Keepwell Deed, which were authorised by written resolutions of the sole member and the board of directors of the Guarantor on 13 July and 13 July, respectively. The Company has obtained all necessary consents, approvals and authorisations in connection with the issue of the Bonds and the entry into the Keepwell Deed which were authorised by the resolutions of the board of directors of the Company dated 19 February 2020 and by the resolutions of the shareholders of the Company dated 5 March 2020.

3. **No Material Adverse Change:** Save as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Guarantor, the Company and the Company Group since 31 December 2019. Save 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, none of the Issuer, the Guarantor, the Company and any other member of the Company Group is involved in any litigation or arbitration proceedings that the Issuer, the Guarantor or the Company, as the case may be, believes are material in the context of the Bonds, nor is any of the Issuer, the Guarantor or the Company aware that any such proceedings are pending or threatened.

5. **Available Documents:** Copies of the following documents will be available for inspection from the Issue Date at the Guarantor's office at 19/F, Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong during normal business hours, so long as any of the Bonds is outstanding:

   (a) the Guarantor Audited Financial Statements;

   (b) the Trust Deed;

   (c) the Agency Agreement;

   (d) the Keepwell Deed;

   (e) the Memorandum and Articles of Association of the Issuer;

   (f) the Articles of Association of the Guarantor; and

   (g) the Articles of Association of the Company.

6. **Financial Information:** The Guarantor Audited Financial Statements, which are included elsewhere in this Offering Circular, have been audited by SHINEWING (HK) CPA Limited, the Guarantor's independent auditor.

7. **Auditor's Consent:** SHINEWING (HK) CPA Limited has given and not withdrawn its written consent to the reproduction in this Offering Circular of its accountants' report of the Guarantor for the three years ended 31 December 2019, and with references to its name in the form and context in which they appear.

8. **Listing of the Bonds:** Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to Professional Investors only and such permission is expected to become effective on 13 August 2020.

INDEX TO THE FINANCIAL INFORMATION

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ShineWing

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TO THE MEMBER OF ZHONGTAI FINANCIAL INTERNATIONAL LIMITED
中泰金融國際有限公司
(incorporated in Hong Kong with limited liability)

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHONGTAI FINANCIAL INTERNATIONAL LIMITED

Introduction

We report on the Historical Financial Information of Zhongtai Financial International Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 134, which comprises the consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 and the consolidated statements of profit of loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 December 2019 (the "Relevant Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 3 to 134 forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company (the "Investment Circular") in connection with the proposed issue of guaranteed bonds by Zhongtai International Finance (BVI) Company Limited and unconditionally and irrevocably guaranteed by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the accounting policies set out in note 3 to the Historical Financial Information and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Reporting accountants' responsibility (Continued)

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the accounting policies set out in note 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at respective reporting dates and of the Group's financial performance and cash flows for the Relevant Period in accordance with the basis of accounting policies set out in note 3 to the Historical Financial Information.

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page 3 as were considered necessary.

Dividends

We refer to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Relevant Period.

Yours faithfully,

Shinewing HK

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chui Yiu Cheong
Practising Certificate Number: P07219

Hong Kong
24 JUL 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on Previously Issued Financial Statements of the Group for the Relevant Period. The Previously Issued Financial Statements were audited by SHINEWING (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2017 HK$	2018 HK$	2019 HK$
Revenue	7	802,649,287	991,441,100	1,111,779,392
Other income and gains or losses	8	42,737,583	(19,409,167)	(40,933,827)
Total revenue and other income and gains or losses		845,386,870	972,031,933	1,070,845,565
Staff costs		(191,626,911)	(250,389,669)	(248,284,860)
Commission expenses		(42,683,364)	(48,507,407)	(38,971,402)
Depreciation		(9,317,546)	(14,620,163)	(50,645,613)
Other operating expenses		(190,928,945)	(166,446,035)	(141,624,415)
Impairment losses, net	9	(80,972,062)	(81,818,804)	(118,186,541)
Finance costs	10	(259,745,611)	(353,106,088)	(382,400,762)
Total expenses		(775,274,439)	(914,888,166)	(980,113,593)
Operating profit		70,112,431	57,143,767	90,731,972
Share of loss from an associate		(833,891)	(422,412)	-
Gain on disposal of an associate	21	-	6,868,309	-
Profit before taxation	11	69,278,540	63,589,664	90,731,972
Taxation	12	(24,169,725)	(16,215,435)	(17,143,250)
Profit for the year		45,108,815	47,374,229	73,588,722

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME ("continued")

	NOTES	2017 HK$	2018 HK$	2019 HK$
Other comprehensive (expense) income				
Items that will not be reclassified subsequently to profit or loss:				
Change in fair value of equity investments at fair value through other comprehensive income		-	(35,616,000)	6,360,000
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translating foreign operation		19,468,277	(72,920,954)	(445,996)
Reclassification adjustments for cumulative loss included in profit or loss upon maturity of hedging instruments		31,892,670	-	-
Change in fair value on available-for-sale investments		13,411,356	-	-
Change in fair value of debt instruments at fair value through other comprehensive income		-	(1,104,434)	3,703,699
Reclassified to profit or loss upon disposal of debt instruments at fair value through other comprehensive income		-	-	(2,599,265)
Share of other comprehensive income of an associate		127,235	-	-
Other comprehensive income (expense) for the year		64,899,538	(109,641,388)	7,018,438
Total comprehensive income (expense) for the year		110,008,353	(62,267,159)	80,607,160
Profit for the year attributable to:				
- Owner of the Company		42,819,694	47,010,399	72,828,842
- Non-controlling interests		2,289,121	363,830	759,880
		45,108,815	47,374,229	73,588,722
Total comprehensive (expense) income attributable to:				
- Owner of the Company		107,719,232	(61,615,933)	79,653,936
- Non-controlling interests		2,289,121	(651,226)	953,224
		110,008,353	(62,267,159)	80,607,160

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	2017 HK$	2018 HK$	2019 HK$
Non-current assets				
Property and equipment	13	23,926,023	29,412,558	23,422,230
Right-of-use assets	14	-	-	70,871,531
Other non-current assets	15	9,494,776	6,016,326	5,820,045
Financial assets at fair value through other comprehensive income	16	-	148,593,506	76,744,000
Held-to-maturity financial assets	17	2,451,749,195	-	-
Investments at amortised cost	18	-	3,661,491,363	3,915,632,929
Loan receivables	19	78,175,000	-	-
Finance lease receivables	20	277,072,108	168,980,418	30,967,873
Interest in an associate	21	20,416,146	-	-
Deferred tax assets	22	4,816,578	1,217,768	3,909,708
		2,865,649,826	4,015,711,939	4,127,368,316
Current assets				
Loan receivables	19	504,992,739	25,000,000	15,000,000
Available-for-sale investments	23	243,411,897	-	-
Held-to-maturity financial assets	17	42,596,549	-	-
Investments at amortised cost	18	-	436,076,018	816,328,118
Accounts receivables	24	168,572,408	464,011,440	565,083,105
Margin loans to customers	25	1,831,393,248	1,529,271,434	1,319,266,441
Finance lease receivables	20	601,173,464	246,776,049	167,035,531
Other receivables and prepayments	26	94,770,806	89,643,777	129,135,377
Tax recoverable		8,500,692	13,842,173	6,283,494
Derivative financial assets	27	5,748,491	1,312,243	854,235
Financial assets at fair value through profit or loss	28	2,226,317,259	3,729,409,344	4,158,088,790
Bank balances - segregated	29	714,779,879	796,068,270	1,020,106,766
Bank balances and cash - general	29	2,215,319,845	3,279,087,974	1,177,482,006
		8,657,577,277	10,610,498,722	9,374,663,863
Total assets		11,523,227,103	14,626,210,661	13,502,032,179

5

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ("continued")

	NOTES	2017 HK$	2018 HK$	2019 HK$
Capital and reserves				
Share capital	30	1,790,983,375	1,790,983,375	1,790,983,375
Reserves		4,625,994	(51,395,098)	23,619,802
Equity attributable to owner of the Company		1,795,609,369	1,739,588,277	1,814,603,177
Non-controlling interests		286,789,819	67,960,494	-
Total equity		2,082,399,188	1,807,548,771	1,814,603,177
Non-current liabilities				
Deferred tax liabilities	22	1,627,707	202,955	438,196
Lease liabilities	14	-	-	40,787,757
Deposit received from finance lease client	20	5,581,386	19,741,590	8,908,665
Borrowings	31	1,083,541,611	889,010,562	13,083,575
Corporate bonds	32	2,333,460,519	2,341,908,523	-
		3,424,211,223	3,250,863,630	63,218,193
Current liabilities				
Accounts payable	33	875,314,277	2,483,195,929	1,087,953,371
Lease liabilities	14	-	-	35,821,636
Contract liabilities	34	-	6,779,000	4,127,265
Derivative financial liabilities	27	12,502,008	1,961,512	2,168,435
Financial liabilities at fair value through profit or loss	28	95,779,569	92,039,150	249,050,000
Tax payable		17,039,675	12,017,924	17,774,841
Deposit received from finance lease client	20	57,778,445	22,825,840	31,175,687
Borrowings	31	3,867,651,167	4,006,230,606	4,585,715,749
Corporate bonds	32	-	1,565,608,575	3,889,691,479
Financial assets sold under repurchase agreements	35	-	184,927,612	543,611,474
Other payables and accruals	36	133,821,123	165,237,234	226,672,959
Third-party interests in consolidated investment funds		956,730,428	1,026,974,878	950,447,913
		6,016,616,692	9,567,798,260	11,624,210,809
Total liabilities		9,440,827,915	12,818,661,890	11,687,429,002
Total equity and total liabilities		11,523,227,103	14,626,210,661	13,502,032,179
Net current assets (liabilities)		2,640,960,585	1,042,700,462	(2,249,546,946)
Total assets less current liabilities		5,506,610,411	5,058,412,401	1,877,821,370

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owner of the Company								
	Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Capital reserve	(Accumulated losses) / retained earnings	Total	Non-controlling interest	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$		HK$
At 1 January 2017	1,790,983,375	(79,488,958)	(31,892,670)	6,352,785	-	2,719,756	1,688,674,288	310,813,963	1,999,488,251
Profit for the year	-	-	-	-	-	42,819,694	42,819,694	2,289,121	45,108,815
Other comprehensive income:									
Exchange differences arising on translating foreign operation	-	19,468,277	-	-	-	-	19,468,277	-	19,468,277
Reclassification adjustments for cumulative gain included in profit or loss upon disposal	-	-	31,892,670	-	-	-	31,892,670	-	31,892,670
Change in fair value of available-for-sale investments	-	-	-	13,411,356	-	-	13,411,356	-	13,411,356
Share of other comprehensive expense of an associate	-	127,235	-	-	-	-	127,235	-	127,235
Total comprehensive (expense) income for the year	-	19,595,512	31,892,670	13,411,356	-	42,819,694	107,719,232	2,289,121	110,008,353
Shares issued by a subsidiary	-	-	-	-	(784,151)	-	(784,151)	(26,313,265)	(27,097,416)
At 31 December 2017	1,790,983,375	(59,893,446)	-	19,764,141	(784,151)	45,539,450	1,795,609,369	286,789,819	2,082,399,188

Note: In January 2017, Zhongtai International Holdings (Overseas) Limited has entered into a purchase and sales agreements to repurchase 1.32% of shares of Zhongtai International Financial Company Limited ("ZTIFC") from the non-controlling shareholders (included third party and employees) with the consideration of HK$27,097,416. The net asset values of acquired non-controlling interests are HK$26,313,265. Therefore, HK$784,151 is debited to capital reserve in the acquisition of additional interest from non-controlling interests.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY ("continued")

	Attributable to owner of the Company							
	Share Capital	Translation reserve	Revaluation reserve	Capital reserve	Retained earnings	Total	Non-controlling interests	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At 31 December 2017	1,790,983,375	(59,893,446)	19,764,141	(784,151)	45,539,450	1,795,609,369	286,789,819	2,082,399,188
HKFRS 9 adjustment on retained earnings	-	-	(19,764,141)	-	9,787,441	(9,976,700)	-	(9,976,700)
HKFRS 15 adjustment on retained earnings	-	-	-	-	(6,100,000)	(6,100,000)	-	(6,100,000)
At 1 January 2018	1,790,983,375	(59,893,446)	-	(784,151)	49,226,891	1,779,532,669	286,789,819	2,066,322,488
Profit for the year	-	-	-	-	47,010,399	47,010,399	363,830	47,374,229
Other comprehensive income:								
Items that may not be reclassified subsequently to profit or loss:								
Change in fair value of equity investments at fair value through other comprehensive income	-	-	(34,600,944)	-	-	(34,600,944)	(1,015,056)	(35,616,000)
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translating foreign operation	-	(72,920,954)	-	-	-	(72,920,954)	-	(72,920,954)
Change in fair value of debt investment of fair value through other comprehensive income	-	-	(1,104,434)	-	-	(1,104,434)	-	(1,104,434)
Total comprehensive (expense) income for the year	-	(72,920,954)	(35,705,378)	-	47,010,399	(61,615,933)	(651,226)	(62,267,159)
Net repurchase of interest from non-controlling interests (note)	-	-	-	21,671,541	-	21,671,541	(218,178,099)	(196,506,558)
At 31 December 2018	1,790,983,375	(132,814,400)	(35,705,378)	20,887,390	96,237,290	1,739,588,277	67,960,494	1,807,548,771

Note: In February 2018, Zhongtai International Holdings (Overseas) Limited has entered into a purchase and sales agreements to repurchase 8.76% of shares of Zhongtai International Financial Company Limited ("ZTIFC") from the non-controlling shareholders (included third party and employees) with the consideration of HK$196,506,558. The net asset values of acquired non-controlling interests are HK$218,178,099. Therefore, HK$21,671,541 is debited to capital reserve in the acquisition of additional interest from non-controlling interests.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY ("continued")

	Attributable to owner of the Company							
	Share capital	Translation reserve	Revaluation reserve	Capital reserve	Retained earnings	Total	Non-controlling interests	Total
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
At 31 December 2018	1,790,983,375	(132,814,400)	(35,705,378)	20,887,390	96,237,290	1,739,588,277	67,960,494	1,807,548,771
HKFRS16 adjustment on retained earnings (note 2)	-	-	-	-	(5,510,185)	(5,510,185)	-	(5,510,185)
At 1 January 2019	1,790,983,375	(132,814,400)	(35,705,378)	20,887,390	90,727,105	1,734,078,092	67,960,494	1,802,038,586
Profit for the year	-	-	-	-	72,828,842	72,828,842	759,880	73,588,722
Other comprehensive income:								
Items that may not be reclassified subsequently to profit or loss:								
Change in fair value of equity investments at fair value through other comprehensive income	-	-	6,166,656	-	-	6,166,656	193,344	6,360,000
Items that may be reclassified subsequently to profit or loss:								
Exchange differences arising on translating foreign operations	-	(445,996)	-	-	-	(445,996)	-	(445,996)
Change in fair value of debt investments at fair value through other comprehensive income	-	-	3,703,699	-	-	3,703,699	-	3,703,699
Reclassified to profit or loss upon disposal of debt instruments at fair value through other comprehensive income	-	-	(2,599,265)	-	-	(2,599,265)	-	(2,599,265)
Total comprehensive income (expense) for the year	-	(445,996)	7,271,090	-	72,828,842	79,653,936	953,224	80,607,160
Net repurchase of interest from non-controlling interests (Note)	-	-	-	871,149	-	871,149	(68,913,718)	(68,042,569)
At 31 December 2019	1,790,983,375	(133,260,396)	(28,434,288)	21,758,539	163,555,947	1,814,603,177	-	1,814,603,177

Note: In October 2019, Zhongtai International Holdings (Overseas) Limited has entered into a purchase and sales agreements to repurchase all shares of Zhongtai International Financial Company Limited ("ZTIFC") from the non-controlling shareholders (third party) with the consideration of HK$68,042,569. The net asset values of acquired non-controlling interests are HK$68,913,718. Therefore, HK$871,149 is credited to capital reserve in the acquisition of additional interest from non-controlling interests.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2017 HK$	2018 HK$	2019 HK$
OPERATING ACTIVITIES			
Profit before taxation	69,278,540	63,589,664	90,731,972
Adjustments for:			
Interest income	(483,360,405)	(663,028,668)	(694,928,375)
Dividend income	(4,267,658)	(3,573,150)	(6,310,218)
Net exchange (gain) loss	2,777,928	(4,013,368)	10,579,041
Impairment loss (reversal of impairment loss) on financial assets at fair value through other comprehensive income	-	29,416	(29,416)
Impairment loss on loan receivables	42,615,050	30,073,250	10,000,000
Impairment loss (reversal of impairment loss) on investment at amortised cost	-	183,908	(1,459,923)
Impairment loss (reversal of impairment loss) on accounts receivables	(499,195)	836,314	844,412
Impairment loss on margin loans to customers	38,856,207	44,297,265	94,025,362
Impairment loss on finance lease receivables	-	3,884,276	14,283,502
Impairment loss on other receivables	-	2,514,375	522,604
Unrealised fair value change of financial assets fair value through profit or loss	(18,125,339)	(61,083,469)	(9,810,750)
Unrealised fair value change of derivative financial instruments	13,521,697	(6,477,818)	665,743
Gain on early redemption of held-to-maturity financial assets	(29,106,155)	-	-
Loss (gain) on disposal of early redemption of investments at amortised cost	-	8,600,318	(1,280,406)
Gain on disposal or early redemption of financial assets at fair value through other comprehensive income	-	-	(2,599,265)
Change in third party interests in consolidate investment funds	57,001,772	22,019,677	42,697,451
Share of loss from an associate	833,891	422,412	-
Gain on disposal of an associate	-	(6,868,309)	-
Gain on lease termination	-	-	(33,558)
Depreciation	9,317,546	14,620,163	50,645,613
Loss on written-off of property and equipment	-	1,667,647	549,336
Finance costs	259,745,611	353,106,088	382,400,762
Operating cash flows before movements in working capital	(41,410,510)	(199,200,009)	(18,506,113)

CONSOLIDATED STATEMENTS OF CASH FLOWS ("continued")

	2017 HK$	2018 HK$	2019 HK$
OPERATING ACTIVITIES ("continued")			
Decrease in other non-current assets	1,735,810	3,478,450	196,281
Increase in loan receivables	(11,018,660)	-	-
(Increase) decrease in finance lease receivable	(236,665,380)	408,476,458	213,840,998
Decrease (increase) in accounts receivables	786,542,885	(260,845,896)	(97,159,531)
(Increase) decrease in margin loans to customers	(41,745,528)	255,087,143	115,979,631
Increase in other receivables and prepayments	(46,581,078)	(45,882,258)	(38,850,903)
(Increase) decrease in derivative financial instruments	(191,121,206)	373,570	(812)
Increase in financial instruments at fair value through profit or loss	(594,285,792)	(923,883,546)	(254,951,198)
Decrease (increase) in bank balances – segregated	51,454,643	(81,288,391)	(224,038,496)
Increase (decrease) in deposit received from finance lease client	21,587,945	(20,792,401)	(2,483,078)
(Decrease) increase in accounts payable	(107,099,252)	1,607,881,652	(1,395,242,558)
Increase (decrease) in contract liabilities	-	1,379,000	(2,651,735)
Increase in financial assets sold under repurchase agreements	-	184,927,612	358,683,862
Increase in other payables and accruals	7,321,642	11,895,480	68,597,113
Increase (decrease) in third-party interests in consolidated investment funds	315,673,111	49,239,829	(119,224,416)
Cash from (used in) operations	(85,611,370)	990,846,693	(1,395,810,955)
Interest received	322,723,764	410,394,540	362,893,606
Dividend received	4,267,658	3,573,150	6,310,218
Interest paid	(16,763,206)	(4,724,174)	(12,630,821)
Income tax paid	(33,689,253)	(24,404,609)	(6,366,022)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	190,927,593	1,375,685,600	(1,045,603,974)

CONSOLIDATED STATEMENTS OF CASH FLOWS ("continued")

	2017 HK$	2018 HK$	2019 HK$
INVESTING ACTIVITIES			
Acquisitions of property and equipment	(16,850,659)	(21,885,693)	(8,641,872)
Acquisitions of held-to-maturity financial assets	(1,394,177,123)	-	-
Redemptions of held-to-maturity financial assets	449,377,711	-	-
Acquisitions of investments at amortised cost	-	(2,316,947,830)	(1,388,203,843)
Redemptions of investments at amortised cost	-	985,291,035	758,352,495
Acquisitions of available-for-sale investments	(38,134,909)	-	-
Acquisitions of financial assets at fair value through other comprehensive income	-	(183,965,473)	-
Proceed on disposal of financial assets at fair value through other comprehensive income	-	-	79,549,682
Proceeds on disposal of an associate	-	26,862,043	-
Interest received	209,461,015	230,594,355	296,481,584
NET CASH USED IN INVESTING ACTIVITIES	(790,323,965)	(1,280,051,563)	(262,461,954)
FINANCING ACTIVITIES			
Increase in borrowings	9,199,916,449	40,396,189,793	4,340,047,816
Repayment of borrowings	(8,576,771,465)	(40,454,520,984)	(4,635,395,226)
Proceeds from issuance of corporate bonds	2,337,847,553	1,559,228,861	1,564,855,092
Repayment of corporate bond	(1,649,999,999)	-	(1,566,280,000)
Net repurchase from non-controlling interest	(27,097,416)	(196,506,558)	(68,042,569)
Repayment of lease liabilities	-	-	(40,177,024)
Interest paid	(252,866,667)	(328,861,283)	(372,477,934)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	1,031,028,455	975,529,829	(777,469,845)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	431,632,083	1,071,163,866	(2,085,535,773)
Effect of exchange rate change	2,860,620	(7,395,737)	(16,070,195)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,780,827,142	2,215,319,845	3,279,087,974
CASH AND CASH EQUIVALENTS AT END OF YEAR REPRESENTED BY BANK BALANCES AND CASH - GENERAL	2,215,319,845	3,279,087,974	1,177,482,006

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION

General

Zhongtai Financial International Limited (中泰金融國際有限公司) (the "Company") is a limited liability company domiciled and incorporated in Hong Kong.

The Company is controlled by holding company, Zhongtai Securities Company Limited (中泰證券有限公司), a company incorporated in the People's Republic of China (the "PRC"), which owns 100% of the Company's shares.

The address of its registered and principal place of business is 19/F, Li Po Chun Building, Des Voeux Road No. 189, Central, Hong Kong.

The Historical Financial Information are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company are investment holding and provision of management services to its subsidiaries. The principal activities of its subsidiaries are set out in note 38(b).

Basis of preparation

The historical financial information contained in this offering circular does not constitute the Company's statutory annual consolidated financial statements for any of the financial years ended 31 December 2017, 2018 and 2019. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

As the Company is a private company, it is not required to deliver its consolidated financial statements to the Registrar of Companies, and has not done so.

The Company's auditor has reported on those financial statements. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on a going concern basis notwithstanding net current liabilities of HK$2,249,546,946 as at 31 December 2019. These conditions indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern. In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Company in assessing whether the Group will have sufficient financial resources to continue as a going concern. Taking into account the Group's cash flow projection, including:

- Disposal of listed debt securities held by the Group which is classified as investments at amoristed cost which could be easily realised in the active markets to provide financial resources to the Group; and

- Actively and regularly reviewing the Group's capital structure and sourcing additional capital by issuing bonds or new shares and utilising undrawn borrowing facilities, where appropriate.

The directors of the Company consider that it has sufficient financial resources to meet its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Historical Financial Information, the Group has consistently adopted all the HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("Int(s)") issued by the HKICPA which are effective for the financial period beginning on 1 January 2019 throughout the Relevant Period, except that i) the Group adopted HKFRS 9 Financial Instruments ("HKFRS 9") on 1 January 2018 and adopted HKAS 39 Financial Instruments - Recognition and Measurement ("HKAS 39") prior to 1 January 2018; ii) the Group adopted HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") on 1 January 2018 and adopted HKAS 18 Revenue and related Interpretations ("HKAS 18") prior to 1 January 2018; and iii) the Group adopted HKFRS 16 "Leases" ("HKFRS 16") on 1 January 2019 and adopted HKAS 17 "Leases" ("HKAS 17") prior to 1 January 2019.

The impact of the adoption of HKFRS 9, HKFRS 15 and HKFRS 16 have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 9 Financial instruments

The Group has applied HKFRS 9 commencing from 1 January 2018. HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3 below.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 9 Financial instruments ("continued")

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of the equity as at 1 January 2018.

The Group's accounting policies for the classification and measurement of financial instruments and the impairment of financial assets are disclosed in detail in note 3 below.

(a) Classification and measurement of financial instruments

The directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of HKFRS 9 has had the following impact on the Group's financial assets and liabilities as regards their classification and measurement:

(i) Investments previously classified as available-for-sale investments carried at fair value:

At the date of initial application of HKFRS 9, the Group's unlisted fund investments of HK$155,869,241 and an unlisted convertible bond (bond portion) of HK$87,542,656 were reclassified from available-for-sale investments to financial assets at fair value through profit of loss ("FVTPL"), since the cash flows do not represent the payment of principal and interest on the principal amount outstanding. The net fair value gains of HK$19,764,141 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained earnings.

(ii) Assets previously classified as loan receivables carried at amortised cost:

Loan receivables of HK$350,000,000 were reclassified to financial assets at FVTPL upon the application of HKFRS 9 because they fail the contractual cash flow characteristics test or are held within a business model whose objective is neither to collect the contractual cash flows nor to both collect contractual cash flows and sell these financial assets. At date of transition, the directors of the Company considered the fair value not materially different from the carrying value under HKAS 39.

(iii) Assets previously classified as loan receivables carried at amortised cost:

Loan receivables of HK$178,094,489 were reclassified to investments at amortised cost upon the application of HKFRS 9 because they are held within a business model whose objective is to collect the contractual cash flow that are solely payment of principal and interest on the principal amount outstanding.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 9 Financial instruments ("continued")

(a) Classification and measurement of financial instruments ("continued")

(iv) Investments previously classified as FVTPL carried at fair value:

Financial assets at FVTPL of HK$74,240,296 were reclassified to investments at amortised cost upon application of HKFRS 9 because they are held within a business model whose objective is to collect the contractual cash flow that are solely payment of principal and interest on the principal amount outstanding. At the date of transition, the directors of the Company considered the amortised cost measured for these investments not materially different from the fair value under HKAS 39.

(v) Investments previously classified as held-to-maturity investment carried at amortised cost:

Held to maturity investments of HK$2,494,345,744 were reclassified to investments at amortised cost because they are held within a business model whose objective is to collect the contractual cash flow that are solely payment of principal and interest on the principal amounts outstanding.

(b) Loss allowance for expected credit losses ("ECL")

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. The directors of the Company reviewed and assessed the Group's existing financial assets for impairment as at 1 January 2018 by using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

As at 1 January 2018, the additional impairment allowance of HK$9,976,700 has been recognised against the retained profits. The additional impairment allowance is charged against the respective assets.

	Impairment allowance under HKAS 39 HK$	Impairment allowance under re-measurement HK$	Additional impairment allowance under HKFRS 9 HK$
Margin loans to customers	54,362,020	57,099,426	2,737,406
Loan receivables	89,479,750	89,479,750	-
Investments at amortised cost	-	4,925,599	4,925,599
Accounts receivables	119,435	511,329	391,894
Other receivables	12,334,725	12,334,725	-
Finance lease receivables	-	1,921,801	1,921,801
Total impairment losses	156,295,930	166,272,630	9,976,700

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 9 Financial instruments ("continued")

(c) Summary of effects arising from initial application of HKFRS 9 ("continued")

The table below summarises the impacts the classification and measurement (including impairment) of financial assets and financial liabilities under HKAS 39 to the carrying amounts under HKFRS 9 on 1 January 2018.

		Reclassification					Remeasurement	
	Closing balance at 31 December 2017 - HKAS 39	From available-for-sale investment to FVTPL	From loan receivables to FVTPL	From loan receivables to Investments at amortised cost	From FVTPL to Investment at amortised cost	From held-to-maturity investments to investments at amortised cost	Impairment under ECL model	Opening balance at 1 January 2018 - HKFRS 9 (Restated)
		(i)	(ii)	(iii)	(iv)	(v)	(b)	
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Assets								
Available-for-sale investments	243,411,897	(243,411,897)	-	-	-	-	-	-
Fair value through profit or loss								
-Financial assets at FVTPL	2,226,317,259	243,411,897	350,000,000	-	(74,240,296)	-	-	2,745,488,860
-Derivative financial assets	5,748,491	-	-	-	-	-	-	5,748,491
Finance lease receivables	878,245,572	-	-	-	-	-	(1,921,801)	876,323,771
Loans and receivables								
-Loan receivables	583,167,739	-	(350,000,000)	(178,094,489)	-	-	-	55,073,250
-Account receivables	168,572,408	-	-	-	-	-	(391,894)	168,180,514
-Margin loans to customers	1,831,393,248	-	-	-	-	-	(2,737,406)	1,828,655,842
-Other receivables	51,849,486	-	-	-	-	-	-	51,849,486
-Bank balances -segregated	714,779,879	-	-	-	-	-	-	714,779,879
-Bank balances- general	2,215,319,845	-	-	-	-	-	-	2,215,319,845
Held-to-maturity investments	2,494,345,744	-	-	-	-	(2,494,345,744)	-	-
Investments at amortised costs	-	-	-	178,094,489	74,240,296	2,494,345,744	(4,925,599)	2,741,754,930

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 9 Financial instruments ("continued")

(c) Summary of effects arising from initial application of HKFRS 9 ("continued")

	Closing balance at 31 December 2017 - HKAS 39	Reclassification					Remeasurement	Opening balance at 1 January 2018 - HKFRS 9 (Restated)
		From available-for-sale investment to FVTPL	From loan receivables to FVTPL	From loan receivables to Investments at amortised cost	From FVTPL to Investment at amortised cost	From held-to-maturity investments to investments at amortised cost	Impairment under ECL model	
		(i)	(ii)	(iii)	(iv)	(v)	(b)	
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Equity								
Revaluation reserve	19,764,141	(19,764,141)	-	-	-	-	-	-
Retained earnings	45,539,450	19,764,141	-	-	-	-	(9,976,700)	55,326,891

Deferred tax had not been recognised as the amount involved is not significant.

All the financial liabilities have not been impacted by the application of HKFRS 9 and continue to be classified and measured on the same basis as they were under HKAS 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 commencing from 1 January 2018. HKFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below.

Summary of effects arising from initial application of HKFRS 15

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated statement of financial position at 1 January 2018, by comparing the amounts reported under HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the adjustments have not been included. The adoption of HKFRS 15 did not have material impact on the Group's operating, investing and financing cash flows.

Impact on the consolidated statement of financial position at 1 January 2018:

	Carrying amount previously reported at 31 December 2017	Impact on HKFRS 15- Reclassification	Carrying amount restated at 1 January 2018
	HK$	HK$	HK$
Accounts receivables	168,572,408	(700,000)	167,872,408
Contract liabilities	-	5,400,000	5,400,000
Retained earnings	45,539,450	(6,100,000)	39,439,450

Notes: The Group receive from customer upon signing the contract in respect of the provision of finance advisory and consulting service based on the terms in the contract. Under HKFRS 15, the Group assessed that the performance of obligation for sponsoring and corporate finance advisory services is fulfilled when the relevant duties as stated in the contract are completed, based on the contract terms set out in the relevant contracts of the Group, the customers of the Group obtain the control of the promised good or services including both at a single point of time or over time. As at 1 January 2018, any incomplete sponsoring and corporate finance advisory services with revenue recognised to profit or loss in prior years under HKAS 18 were reclassified to a reduction in accounts receivables or an increase in contract liability with a corresponding adjustment to its opening retained earnings.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

<u>HKFRS 16 Leases</u>

Impacts on adoption of HKFRS 16 Leases

The Group has applied HKFRS 16 commencing from 1 January 2019.

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 3. The Group has applied HKFRS 16 Leases retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17 Leases.

The Group applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 16 Leases ("continued")

Impacts on adoption of HKFRS 16 Leases ("continued")

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases (except for lease of low value assets and lease with remaining lease term of twelve months or less). 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. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.98 % p.a.

The following table summarises the impact on transition to HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustment have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
		HK$	HK$	HK$
Non-current assets				
Right-to-use assets	(a)	-	71,727,652	71,727,652
Current liabilities				
Other payables and accruals	(b)	165,237,234	(1,434,095)	163,803,139
Lease liabilities	(a)	-	37,054,651	37,054,651
Non-current liabilities				
Lease liabilities	(a)	-	41,617,281	41,617,281
Capital and reserves				
Retained earnings	(a)	96,237,290	(5,510,185)	90,727,105

Notes:

(a) As at 1 January 2019, right-of-use assets were measured at the carrying amount as if HKFRS 16 had been applied since the commencement date. Any difference between the right-of-use assets and the lease liabilities was recognised as an adjustment to the opening balance of retained earnings.

(b) It represents the accrued lease liabilities for leases where the lessor has provided rent-free period, and was adjusted to right-of-use assets on transition to HKFRS 16.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

HKFRS 16 Leases ("continued")

Impacts on adoption of HKFRS 16 Leases ("continued")

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

The following table summarises the impact on transition to HKFRS 16 on retained earnings as at 1 January 2019:

	HK$
Balance as at 31 December 2018, as originally stated	96,237,290
Difference between the right-of-use assets and the lease liabilities	(5,510,185)
Balance as at 1 January 2019	90,727,105

Differences between operating lease commitment as at 31 December 2018, the date immediately preceding the date of intital application, discounted using the incremental borrowing rate, and the lease liability recognised as at 1 January 2019 are as follow:

	HK$
Operating lease commitments as at 31 December 2018	83,944,354
Less: Short-term leases with remaining lease term ended on or before 31 December 2019 (accounted for as expenses using the straight-line basis)	(467,668)
Discounted using the applicable incremental borrowing rate at the date of initial application	(4,804,754)
Lease liabilities recognised as at 1 January 2019	78,671,932

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ("continued")

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[5]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 June 2020

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the consolidated statement of financial position of the Group.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments are intended to make the definition of material in HKAS 1 easier to understand and are not intended to alter the underlying concept of materiality in HKFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in HKAS 8 has been replaced by a reference to the definition of material in HKAS 1. In addition, other Standards and the Conceptual Framework were that contain a definition of material or refer to the term 'material' were amended to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except certain financial instruments, which are stated at fair values as explained in the accounting policies set out below. Historical cost is generally based on fair value of the consideration given in exchange for goods or services rendered.

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 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. Details of fair value measurement are explained in the accounting policies set out below.

The principle accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Company obtains control of the subsidiary and cease when the Group loses control of the subsidiary.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Interest in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

The Group's interest in an associate is accounted for in the consolidated financial statements using the equity method. Under the equity method, interest in an associate is initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associate are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net interest in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An interest in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the associate is recognised as goodwill and is included in the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised in profit or loss in the period in which the investment is acquired.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Investment funds

The Group has invested in investment funds. The Group's percentage ownership in the investment funds can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such funds, with control determined based on an analysis of the guidance in HKFRS10, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the issuer to repurchase or redeem units in such funds for cash. These are presented as "Third-party interests in consolidated investment funds" as liabilities in the consolidated statement of financial position. Where the Group does not control such funds, they are carried at fair value and classified as financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss in the consolidated statement of financial position.

Property and equipment

Property and equipment held for administrative purposes are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to reduce the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate amounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no futures economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposit and bank overdraft.

Trading rights

Trading rights represent rights to trade on the Hong Kong Stock Exchange Limited ("HKEx") and Hong Kong Futures Exchange Limited ("HKFE"). The trading rights are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trading rights will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Trading rights are carried at costs less any subsequent accumulated impairment losses. (See the accounting policy in respect of impairment losses on tangible and intangible assets below).

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated futures cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of futures cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable futures. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable futures.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of- use assets and the related lease liabilities, the Company first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Taxation ("continued")

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Provisions

Provisions are recognised when the Group have a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme in Hong Kong and the Central Provident Fund in Singapore are recognised as expenses when employees have rendered service entitling them to the contributions. The employees of the Group's subsidiary in the People's Republic of China ("PRC") are members of a state-managed retirement benefit scheme operated by the government of the PRC.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the date of grant is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Shares issued to employees

The fair value of services received determined by reference to the fair value of shares issued at the date of transfer, net of consideration received, is recognised as employee benefits costs, with a corresponding increase in equity (shareholder contribution).

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions and leasing transactions, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Revenue recognition

Policy applicable for the year ended 31 December 2018 and 2019 (with application of HKFRS 15)

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Revenue recognition ("continued")

Policy applicable for the year ended 31 December 2018 and 2019 (with application of HKFRS 15) ("continued")

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from the following major sources:

- Commission income from dealing in securities and future contracts
- Handing fee income
- Management fee income
- Arrangement fee income
- Placing and underwriting commission
- Financial advisory and consultation income
- Insurance brokerage income

Commission income from dealing in securities and futures contracts are recognised on a trade date basis at a point in time when the services are rendered, the amount for which can be reliably estimated and it is probable that the income will be received.

Handling fee income is recognised at a point in time when the relevant services have been rendered.

Management fee income is recognised over time when services are provided in accordance with the management agreements.

Arrangement fee income is recognised at a point in time with terms of the agreement when the transaction has been completed.

Placing and underwriting commission is recognised at a point in time with terms of the underwriting agreement or deal mandate when relevant significant acts have been completed.

Financial advisory and consultation fee income is recognised over time with terms of the financial advisory and consultation agreement or detailed terms of transactions as stipulated in the contracts entered into with customers.

Insurance brokerage income is recognsied at a point in time when the relevant transactions have been arranged or the relevant services have been rendered.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Revenue recognition ("continued")

Policy applicable for the year ended 31 December 2018 and 2019 (with application of HKFRS 15) ("continued")

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Policy applicable for the year ended 31 December 2017

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Commission income from dealing in securities and futures contracts activities are recognised on a trade date basis when the services are rendered, the amount for which can be reliably estimated and it is probable that the income will be received.

Handling fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Underwriting and placing commission is recognised as income in accordance with terms of the underwriting agreement or deal mandate when relevant significant has been completed.

Financial advisory and consultation fee income is recognised when services are provided in accordance with the relevant service agreements.

Management fee income is recognised when services are provided in accordance with the asset management agreements.

Insurance brokerage income is recognsied when the relevant transactions have been arranged or the relevant services have been rendered.

Investment income from a financial asset is recognsied when it is probable that economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognised when it is probable that economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated futures cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019)

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI") and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated futures cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated futures cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Amortised cost and effective interest method ("continued")

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost or at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income from debt securities are recognised in profit or loss and is included as interest income in the net investment gains.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Financial assets at FVTOCI (debt instruments)

The Group classifies and measures subsequently its debt instruments at FVTOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's debt instruments classified as at FVTOCI includes investments in listed debt instruments. Fair value is determined in the manner described in note 6. Debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of debt instruments as a result of foreign exchange gains and losses, impairment gains or losses , and interest income calculated using the effective interest method are recognised in profit or loss. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. All other changes in the carrying amount of these debts instruments are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included as dividend income in the net investment gains.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.

Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included as interest income and dividend income from financial assets at fair value through profit or loss in the net investment gains. Fair value is determined in the manner described in note 6.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Impairment of financial assets

The Group recognise loss allowance based on expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including financial assets at fair value through other comprehensive income, investments at amortised cost, financial lease receivables, loan receivables, margin loans to customers, accounts receivables, other receivables and contract assets as well as financial guarantee contracts). The amount of ECL is assessed at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of futures conditions.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Impairment of financial assets ("continued")

For account receivables arising from HKFRS 15 which do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies a simplified approach in calculating ECL. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date.

The Group applies the general approach to measure ECL for other financial assets which are subject to impairment under HKFRS 9. On this basis, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Impairment of financial assets ("continued")

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated futures cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) 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 Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Impairment of financial assets ("continued")

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial assets ("continued")

Derecognition of financial assets

A financial asset is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group shall derecognise a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- the Group transfers the financial asset and the transfer qualifies for derecognition in accordance with HKFRS 9.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at FVTPL or other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial liabilities and equity instruments ("continued")

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is 1) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, 2) held for trading, or 3) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liabilities and is included in the net investment gains in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

3. **SIGNIFICANT ACCOUNTING POLICIES** ("continued")

Under HKFRS 9 (applicable for the year ended 31 December 2018 and 2019) ("continued")

Financial liabilities and equity instruments ("continued")

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated futures cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

When the Group repurchases a part of a financial liability, it shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and do not arise from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017)

Financial instruments

Financial assets

The Group's financial assets are classified into FVTPL, available-for-sale investments, held-to-maturity investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated futures cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis of debt securities other than those financial assets classified as FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets is either held for trading or it is designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition, it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Financial assets ("continued")

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss. The net gain or loss recognised in profit or loss exclude any dividend or interest earned on financial assets and is included in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in note 6.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. Equity and debt securities held by the Group that are classified as available-for-sale and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Dividends on available for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including bank balances and cash, accounts receivables, margin loans to customers, loan receivables, finance lease receivables and other receivables are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Financial assets ("continued")

Impairment loss on financial assets

Financial assets, other than financial assets at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated futures cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For accounts receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and an increase in the number of delayed payments in the portfolio.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated futures cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and loan receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When accounts receivable and loan receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial assets is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Financial assets ("continued")

Impairment loss on financial assets ("continued")

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are classified into either financial liabilities at FVTPL or other financial liabilities.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Financial liabilities and equity instruments ("continued")

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss is included in the other gains and losses line item in profit or loss and excludes any interest paid on the financial liabilities. Fair value is determined in a manner described in note 6.

Other financial liabilities

Other financial liabilities including accounts payables, borrowings, corporate bonds, deposits received from finance lease clients, other payables and accruals are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Financial liabilities and equity instruments ("continued")

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated futures cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial assets classified as FVTPL.

Offsetting financial instruments

Financial assets and liabilities of the Group are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group designates certain derivatives as either hedges of the fair value of fixed-rate bank borrowings (fair value hedges), hedges of highly probable forecast transactions for foreign currency exposure (cash flow hedges).

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Hedge accounting ("continued")

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of profit or loss and other comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revoke the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Financial guarantee contracts

Financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Under HKAS 39 (applicable for the year ended 31 December 2017) ("continued")

Derecognition

The Group derecognises a financial asset only when the contractual rights to receive cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial assets to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when and only when, the Group's obligation specified in the relevant contract are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Leasing

Accounting policy applicable for the year ended 2019

Definition of a lease

Under HKFR 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straightline basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Leasing ("continued")

Accounting policy applicable for the year ended 2019 ("continued")

The Group as lessee ("continued")

Lease liabilities ("continued")

- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. SIGNIFICANT ACCOUNTING POLICIES ("continued")

Leasing ("continued")

Accounting policy applicable for the year ended 2019 ("continued")

The Group as lessor

The Group enters into lease agreements as a lessor with respect to equipment. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Accounting policy applicable for the year ended 2017 and 2018

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Interest income from finance lease is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

<u>Judgments in determining the timing of satisfaction of performance obligations</u>

The recognition of each of the Group's revenue stream requires judgment by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgment, the directors of the Company considered the detailed criteria for recognition of revenue set out in HKFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers.

For the Group's financial advisory and consultation business, the directors of the Company have determined that the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over the service period.

For the Group's asset management business, the directors of the Company have determined that the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Therefore, the directors of the Company have satisfied that the performance obligation is satisfied over time and recognised the revenue over the service period.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY ("continued")

Critical judgments in applying accounting policies ("continued")

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes and investment funds where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnership that is of such significance that it indicates that the Group is a principal. The collective asset management schemes, investment funds and limited partnership are consolidated if the Group acts in the role of principal.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowances for financial assets at FVOCI, financial assets measured at amortised cost, finance lease receivable, loan receivables, accounts receivables and margin loans to customers is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (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:

- Determine 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 associated ECL.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY ("continued")

Key sources of estimation uncertainty ("continued")

Measurement of the expected credit loss allowance ("continued")

Inputs, assumptions and estimation techniques

For debt securities investments, ECL are the discounted product of the probability of default, exposure at default, and loss given default.

A pervasive concept in measuring ECL in accordance with HKFRS 9 is that it should consider forward-looking information. The assessment of significant increase in credit risk 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 probability of default vary by product type. The impact of these economic variables on the probability of default has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY ("continued")

Key sources of estimation uncertainty ("continued")

Income taxes

The estimated unused tax losses for the Group were approximately HK$318,105,000, HK$523,346,000 and HK$704,633,000 as at 31 December 2017, 2018 and 2019 respectively. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the foreseeable future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which such recognition takes place.

Useful lives and impairment assessment of property and equipment

The directors of the Company determine the estimated useful lives and related depreciation charges for its property and equipment based on the historical experience of the actual useful lives of property and equipment of similar nature and functions. The directors of the Company will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned. The carrying amounts of the Group's property and equipment as at 31 December 2017, 2018 and 2019 amounted to HK$23,926,023, HK$29,412,558 and HK$23,422,230 respectively.

Useful lives of trading rights

The directors of the Company considered the trading right as intangible assets with indefinite useful lives because it is expected to contribute to net cash inflows indefinitely. The carrying amount of trading right is HK$1,000,000 as at 31 December 2017, 2018 and 2019 respectively and no impairment loss has been recognised for the Relevant Period.

Fair value of financial instruments

As described in note 6, the management use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of unlisted financial instruments includes the application of assumption based on the facts and circumstances that existed as at 31 December 2018 and 2019, not supported by observable market prices or rates. Details of the assumptions of unlisted financial instruments used are disclosed in note 6. The directors of the Company considered that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial instruments.

5. CAPITAL RISK MANAGEMENT

The Group manages their capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity balance.

The capital structure of the Group consists of borrowings, corporate bonds and equity attributable to owner of the Company (comprising issued share capital and reserves).

The directors of the Company review the capital structure by considering the cost of capital and the risks associated with each class of capital. The Group's overall strategy remains unchanged from prior year.

For certain group entities within the Group, they are regulated by the Securities and Futures Commission (the "SFC") and are required to comply with certain minimum capital requirements according to the rules of SFC. Management monitors, on a regular basis, the group entities' liquid capital to ensure it meets the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules. There is no non-compliance of the capital requirements imposed by the Securities and Futures (Financial Resources) Rules during the year for these group entities.

Another subsidiary of the Group is a member of the Professional Insurance Brokers Association Limited and is required to maintain a minimum net asset value of HK$100,000 at all times.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments	2017 HK$	2018 HK$	2019 HK$
Financial assets			
Fair value through profit or loss			
- Derivative financial assets	5,748,491	1,312,243	854,235
- Financial assets at fair value through profit or loss	2,226,317,259	3,729,409,344	4,158,088,790
Available-for-sale investments	243,411,897	-	-
Financial assets at fair value through other comprehensive income			
- Equity securities at fair value through other comprehensive income	-	70,384,000	76,744,000
- Debt securities at fair value through other comprehensive income	-	78,209,506	-
Finance lease receivable	878,245,572	415,756,467	198,003,404
Loans and receivables (including cash and cash equivalents)	5,565,082,605	6,154,915,591	4,212,395,893
Held-to-maturity financial assets	2,494,345,744	-	-
Investments at amortised cost	-	4,097,567,381	4,731,961,047
	11,413,151,568	14,547,554,532	13,378,047,369
Financial liabilities			
Fair value through profit or loss			
- Derivative financial liabilities	12,502,008	1,961,512	2,168,435
- Financial liabilities at fair value through profit or loss	95,779,569	92,039,150	249,050,000
Third-party interests in consolidated investment funds	956,730,428	1,026,974,878	950,447,913
Other financial liabilities at amortised cost	8,357,148,528	11,678,686,471	10,386,812,959
	9,422,160,533	12,799,662,011	11,588,479,307

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, financial assets at fair value through other comprehensive income, held-to-maturity financial assets, investments at aomrtised cost, financial assets at fair value through profit or loss, accounts receivables, other receivables, loan receivables, finance lease receivables, margin loans to customers, bank balances and cash, accounts payables, borrowings, corporate bonds, financial assets sold under repurchase agreements other payables and accruals. Details of the financial instruments are disclosed in respective notes. The Group exposed to the financial risks includes market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. The risk associated with the financial instruments of the Group and the policy on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies, which exposed the Group to foreign currency risk. Since the fluctuation of HK$ against United States dollar ("US$") are minimal under the Linked Exchange Rate System, the management considers the Group mainly expose to the currency risk arising from Renminbi ("RMB"). The Group have established policies and procedures for monitoring these risks arising from its operation.

The Group manage their foreign currency risk by closely monitoring the movements of foreign currency exchange rates and take appropriate actions if necessary. Management will consider hedging foreign currency exposure should the need arise.

The carrying amount of the Group's RMB denominated monetary assets and liabilities, mainly representing bank balances, accounts receivables, other receivables, finance lease receivables, accounts payables and other payables and accruals at the end of the reporting date is as follows:

	Liabilities			Assets		
	2017	2018	2019	2017	2018	2019
	HK$	HK$	HK$	HK$	HK$	HK$
RMB	12,984,646	13,350,917	56,362,032	348,171,789	240,157,775	201,180,943

6. FINANCIAL INSTRUMENTS ("continued")

<u>Financial risk management objectives and policies</u> ("continued")

Market risk ("continued")

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% changes for the three years ended 31 December 2019 in Hong Kong dollars against the RMB. The 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting period has been determined based on the change taking place at the beginning of the financial period and held constant throughout the reporting period. A positive number below indicates a increase in post-tax profit where Hong Kong dollars weakening against the RMB.

	Foreign currency impact		
	2017	2018	2019
	HK$	HK$	HK$
(Decrease) increase in pre-tax profit	16,759,357	9,469,186	6,046,189

Interest rate risk

Interest rate risk is the risk that the fair value or futures cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's cash flow interest rate risk relates primarily to the margin loans to customers, receivable from financial assets held under resale agreements, bank balances, account payables to margin client, borrowings and financial assets sold under repurchase agreements carried at amortised costs with floating interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") as its interest-bearing assets and liabilities are mainly Hong Kong dollar and United States Dollar denominated. The Group mainly manages interest rate risk through adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risk by diversification of assets.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Market risk ("continued")

Interest rate risk ("continued")

The Group's cash flow interest rate risk exposure is summarised as follows:

	2017 HK$	2018 HK$	2019 HK$
Assets			
Margin loans to customers (excluded unsettled trade)	1,835,737,818	1,533,201,377	1,351,360,620
Accounts receivables from financial assets held under resale agreements	-	-	33,097,725
Bank balances	1,165,874,308	186,757,908	1,657,328,271
	3,001,612,126	1,719,959,285	3,041,786,616
Liability			
Borrowings	4,272,421,133	4,649,563,422	4,510,429,347
Financial assets sold under repurchase agreements	-	184,927,612	543,611,474
	4,272,421,133	4,834,491,034	5,054,040,821

At the end of the reporting period, if interest rates had been 10 basis point higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase HK$2,034,631, HK$2,756, 577 and HK$3,064,101 for the year ended 31 December 2017, 2018 and 2019 respectively. This is mainly attributable to management's expectation on the change in interest rate.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Market risk ("continued")

Interest rate risk ("continued")

Fair value interest rate risk ("continued")

The Group's fair value interest rate risk relates primarily to investments in debt securities classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss carried at fixed interest rate. The Group monitors the interest rate risks by quantifying market exposure in duration terms.

The Group's fair value interest rate risk exposure is summarised as follows:

	2017 HK$	2018 HK$	2019 HK$
Assets			
Available-for-sale investments - debt	87,542,656	-	-
Financial assets at fair value through other comprehensive income - debt	-	78,209,506	-
Financial assets at fair value through profit or loss - debt	1,987,037,626	3,160,852,737	3,453,252,717
	2,074,580,282	3,239,062,243	3,453,252,717
Liabilities			
Financial liabilities at fair value through profit or loss - debt	-	92,039,150	244,374,136

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at year end.

At the end of the reporting period, if interest rates had been 25 basis point higher/lower and all other variables were held constant, the Group's post-tax profit would decrease/increase HK$5,186,451, HK$9,257,418 and HK$10,425,442 for the year ended 31 December 2017, 2018 and 2019 respectively. This is mainly attributable to management's expectation on the change in interest rate.

Change in basis point:

	31 December					
	2017		2018		2019	
	+25 HK$	-25 HK$	+25 HK$	-25 HK$	+25 HK$	-25 HK$
Impact on profit after taxation	(4,967,594)	4,967,594	(9,257,418)	9,257,418	(10,425,442)	10,425,442

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Market risk ("continued")

Other price risks

The Group is exposed to price risk through its investments in equity securities and fund investments. The management manages this exposure by maintaining a portfolio of investments with different risk and return profiles.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% higher/lower:

- pre-tax profit for the year ended 31 December 2017, 2018 and 2019 would increase/decrease by approximately HK$14,350,000, HK$56,856,000 and HK$78,337,000 respectively for the Group as a result of the changes in fair value of financial assets at FVTPL; and

- other comprehensive expense for the year ended 31 December 2017, 2018 and 2019 would decrease/increase by approximately HK$15,587,000, HK$7,038,000 and HK$7,674,000 respectively for the Group as a result of the changes in fair value of available-for-sale investments or financial assets at fair value through other comprehensive income.

Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's financial assets include investments at amortised cost, finance lease receivables, loan receivables, margin loans to customers, accounts receivables, other receivables and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2017, 2018 and 2019 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statements of financial position. In order to minimise the credit risk, the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Credit risk ("continued")

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and PRC.

The Group currently employs a range of policies and practices to mitigate excessive credit risk, such as:

Maximum margin limit will be set on individual margin client in order to avoid building up excessive margin exposure from individual margin client; and

In respect of margin loans to customers, individual credit evaluations are performed on all margin clients. The Group has established a multi-level authorization system for business management and a comprehensive risk management system covering the whole process through due diligence of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

The Group normally obtains liquid securities and/or cash deposits as collateral for providing margin financing to its clients. Margin loans due from margin clients are repayable on demand if these margin clients are subject to margin calls by the Group. Market conditions and adequacy of securities collateral and margin deposits of each margin account and futures account are monitored by Credit Department on a daily basis. Margin calls and forced liquidation will be made where necessary in order to recover the outstanding debts. As at 31 December 2017, 2018 and 2019, the top five of margin clients constitute approximately 26%, 27% and 26% of accounts receivable from margin clients. The total market value of securities pledged as collateral in respect of these top five margin clients are approximately HK$919,207,000, HK$658,467,000 and HK$1,316,326,000 respectively.

Cash clients are required to place deposits as prescribed by the Group's credit policy before execution of any purchase transactions. Receivables due from cash clients are due within the settlement period commonly adopted by the relevant market convention, which is usually within a few days from the trade date. Because of the prescribed deposit requirements and the short settlement period involved, credit risk arising from the accounts receivables due from cash clients is considered to be minimal.

For futures brokerage, initial margin deposits are required before opening of a trading position and credit risk is considered minimal.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Credit risk ("continued")

In respect of accounts receivables from brokers and clearing houses, credit risks are considered to be limited as the Group normally enter into transactions with brokers and clearing houses which are registered with regulatory bodies and with sound reputation in the industry.

In respect of loan receivables, the Group reviews the recoverable amount of each individual loan receivable at the end of the reporting period and monitoring the collateral value to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reflected. The Group has concentration of credit risk on lending activities as at 31 December 2017, 2018 and 2019, the entire loan receivables were made to three, two and two borrowers respectively. Please refer to note 19 for the details.

In respect of finance lease receivables and factoring receivables, the Group would assess the credit quality of each potential finance lease and factoring borrower and define limits for each borrower. The Group also demands certain borrowers to place security deposits and/or pledge assets with the Group at the time the finance lease arrangement is entered into. In addition, the Group would also review the repayment history of finance lease payments from each finance lease borrower with reference to the repayment schedule from the date of finance lease was initially granted up to the reporting date to determine the recoverability of a finance lease receivable. Furthermore, the Group would assess and review the fair value of the pledged assets continuously to ensure the value of the relevant collateral could well cover the finance lease amount granted to the customers and any outstanding finance lease receivables.

For debt securities included in investments at amortised cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, the Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any issuer. Such risk is monitored on a revolving basis and subject to periodic review.

The liquid funds of the Group were deposited with several banks with high credit ratings and hence the credit risk is considered to be minimal.

The Group does not provide any other guarantees which would expose the Group to credit risk.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Credit risk ("continued")

Starting from 1 January 2018, for financial assets at FVTOCI, investments at amortised cost, finance lease receivables, margin loans to customers and accounts receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant increase in credit risk on other financial instruments of the borrower
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Credit risk ("continued")

The Groups exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk framework for quantification of ECL comprises the following categories:

Category	Description	Accounts receivables	Other financial assets
Stage 1	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired	Lifetime ECL - not credit impaired	12-month ECL
Stage 2	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit Impaired	Lifetime ECL - not credit impaired	Lifetime ECL - not credit impaired
Stage 3	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred	Lifetime ECL - credit impaired	Lifetime ECL - credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Credit risk ("continued")

The credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades are disclosed in respective notes.

As at 31 December 2019 and 2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL
Investments at amortised cost	18	AA - CC	-	Please refer to respective note
Investments at amortised cost	18	N/A	Low risk	Please refer to respective note
Loan receivables	19	N/A	Please refer to respective note	Please refer to respective note
Finance lease receivables	20	N/A	Please refer to respective note	Please refer to respective note
Accounts receivables	24	N/A	Please refer to respective note	Please refer to respective note
Margin loans to customers	25	N/A	Please refer to respective note	Please refer to respective note

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Sources of liquidity are daily reviewed to ensure the availability of sufficient liquid funds to meet all obligations.

The settlement term of accounts payables arising from the business of dealing in securities and futures contracts are stated in note 33.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Liquidity risk ("continued")

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis, and the undiscounted gross (inflows) and outflows on those derivative that require gross settlement. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivative.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	As at 31 December 2017						
	On demand or within 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Accounts payables	875,314,277	-	-	-	-	875,314,277	875,314,277
Deposit received from finance lease clients	-	-	17,824,886	25,918,503	19,616,442	63,359,831	63,359,831
Borrowings	3,668,655,892	58,315,090	245,818,209	131,349,009	969,215,472	5,073,353,672	4,951,192,778
Corporate bonds	99,172,072	49,586,036	49,586,036	2,432,632,591		2,630,976,735	2,333,460,519
Financial liabilities at fair value through profit or loss	95,779,569	-	-	-	-	95,779,569	95,779,569
Other payables and accruals	133,821,123	-	-	-	-	133,821,123	133,821,123
Third-party interests in consolidated investment funds	956,730,428	-	-	-	-	956,730,428	956,730,428
	5,829,473,361	107,901,126	313,229,131	2,589,900,103	988,831,914	9,829,335,635	9,409,658,525

	As at 31 December 2017						
	On demand or within 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Derivative - Net settlement							
Derivative financial liabilities	12,502,008	-	-	-	-	12,502,008	12,502,008

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Liquidity risk ("continued")

	As at 31 December 2018						
	On demand or within 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Accounts payables	2,483,195,929	-	-	-	-	2,483,195,929	2,483,195,929
Deposit received from finance lease clients	-	-	22,825,840	11,866,674	7,874,916	42,567,430	42,567,430
Borrowings	2,877,231,921	8,982,908	1,158,213,394	856,976,382	39,023,612	4,940,428,217	4,895,241,168
Corporate bonds	-	1,648,313,915	49,925,175	2,399,345,175	-	4,097,584,265	3,907,517,098
Financial liabilities at fair value through profit or loss	92,039,150	-	-	-	-	92,039,150	92,039,150
Financial assets sold under repurchase agreements	13,683,793	172,502,565	-	-	-	186,186,358	184,927,612
Other payables and accruals	165,237,234	-	-	-	-	165,237,234	165,237,234
Third-party interests in consolidated investment funds	1,026,974,878	-	-	-	-	1,026,974,878	1,026,974,878
	6,658,362,905	1,829,799,388	1,230,964,409	3,268,188,231	46,898,528	13,033,213,461	12,797,700,499

	As at 31 December 2018						
	On demand or within 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Derivative - Net settlement							
Derivative financial liabilities	1,961,512	-	-	-	-	1,961,512	1,961,512

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Liquidity risk ("continued")

	As at 31 December 2019						
	On demand or within 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Accounts payables	1,087,953,371	-	-	-	-	1,087,953,371	1,087,953,371
Lease liabilities	4,193,879	7,087,434	27,588,717	20,242,446	23,099,147	82,211,623	76,609,393
Deposit received from finance lease clients	22,326,920	-	8,848,767	8,346,343	562,322	40,084,352	40,084,352
Borrowings	3,846,686,256	713,178,354	43,167,331	12,788,591	802,233	4,616,622,765	4,598,799,324
Corporate bonds	-	1,649,240,168	2,385,956,588	-	-	4,035,196,756	3,889,691,479
Financial liabilities at fair value through profit or loss	249,050,000	-	-	-	-	249,050,000	249,050,000
Third-party interests in consolidated investment funds	950,447,913	-	-	-	-	950,447,913	950,447,913
Other payables and accruals	226,672,959	-	-	-	-	226,672,959	226,672,959
Financial assets sold under repurchase agreements	538,102,919	6,977,328	-	-	-	545,080,247	543,611,474
	6,925,434,217	2,376,483,284	2,465,561,403	41,377,380	24,463,702	11,833,319,986	11,662,920,265

	As at 31 December 2019						
	On demand or within 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Derivative - Net settlement							
Derivative financial liabilities	2,168,435	-	-	-	-	2,168,435	2,168,435

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position

The following table provides an analysis of financial instruments that are measured at fair value at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

	Fair value hierarchy			
At 31 December 2017	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Financial assets				
Financial assets at fair value through profit or loss				
- Listed equity securities	127,739,269	-	-	127,739,269
- Listed debt securities	558,065,661	-	-	558,065,661
- Unlisted debt securities	-	1,050,450,016	260,725,899	1,311,175,915
- Convertible bond	-	-	117,796,050	117,796,050
- Unlisted investment funds	-	111,540,364	-	111,540,364
Derivative financial instruments				
- Commodity futures contracts	206,430	-	-	206,430
- Knock out discount accumulators	-	-	5,538,721	5,538,721
- Convertible bond option	-	-	3,340	3,340
Available-for-sale investments				
- Convertible bond	-		87,542,656	87,542,656
- Unlisted funds	-	155,869,241	-	155,869,241
	686,011,360	1,317,859,621	471,606,666	2,475,477,647
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Listed equity securities	95,779,569	-	-	95,779,569
Derivative financial instruments				
- Knock out discount accumulators	-	-	5,540,385	5,540,385
- Total return swap contracts	-	6,619,501	-	6,619,501
- Interest rate swap contracts	-	342,122	-	342,122
	95,779,569	6,961,623	5,540,385	108,281,577

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

	Fair value hierarchy			
At 31 December 2018	Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Financial assets				
Financial assets at fair value through profit or loss				
- Listed equity securities	33,117,519	-	-	33,117,519
- Unlisted equity securities	-	78,314,000	66,305,000	144,619,000
- Listed debt securities	740,194,453	-	-	740,194,453
- Unlisted debt securities	-	939,344	2,163,130,560	2,164,069,904
- Convertible bond	-	-	256,588,380	256,588,380
- Unlisted investment funds	-	390,820,088	-	390,820,088
Derivative financial instruments				
- Knock out discount accumulators	-	-	1,279,716	1,279,716
- Currency futures contracts	32,527	-	-	32,527
Financial assets at fair value through other comprehensive income				
- Listed equity securities	70,384,000	-	-	70,384,000
- Listed debt securities	78,209,506	-	-	78,209,506
	921,938,005	470,073,432	2,487,303,656	3,879,315,093
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Listed debt securities	92,039,150	-	-	92,039,150
Derivative financial instruments				
- Knock out discount accumulators	-	-	1,282,871	1,282,871
- Debt futures contracts	678,641	-	-	678,641
	92,717,791	-	1,282,871	94,000,662

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

At 31 December 2019	Fair value hierarchy Level 1 HK$	Level 2 HK$	Level 3 HK$	Total HK$
Financial assets				
Financial assets at fair value through profit or loss				
- Listed equity securities	37,596,734	-	-	37,596,734
- Unlisted equity securities	-	-	149,097,000	149,097,000
- Listed debt securities	1,105,964,442	-	-	1,105,964,442
- Unlisted debt securities	-	7,794,077	2,228,541,291	2,236,335,368
- Convertible bond	-	-	110,952,907	110,952,907
- Unlisted investment funds	-	518,142,339	-	518,142,339
Derivative financial instruments				
- Knock out discount accumulators	-	-	546,424	546,424
- Total return swap contracts	-	251,959	-	251,959
- Debt futures contracts	55,852	-	-	55,852
Financial assets at fair value through other comprehensive income				
- Listed equity securities	76,744,000	-	-	76,744,000
	1,220,361,028	526,188,375	2,489,137,622	4,235,687,025
Financial liabilities				
Financial liabilities at fair value through profit or loss				
- Listed debt securities	244,374,136	-	-	244,374,136
- Structured note	-	4,675,864	-	4,675,864
Derivative financial instruments				
- Knock out discount accumulators	-	-	546,424	546,424
- Total return swap contracts	-	915,262	-	915,262
- Currency futures contracts	664,896	-	-	664,896
- Debt futures contracts	41,853	-	-	41,853
	245,080,885	5,591,126	546,424	251,218,435

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

	Financial assets/ financial liabilities	Fair value as at 31 December 2017	Fair value as at 31 December 2018	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
1)	Financial assets at fair value through profit or loss - Listed equity securities	Listed in Hong Kong: HK$90,898,552 Listed outside Hong Kong: HK$36,840,717	Listed in Hong Kong: HK$33,117,519 Listed outside Hong Kong: nil	Listed in Hong Kong: HK$37,596,734 Listed outside Hong Kong: nil	Level 1	Quoted prices in an active market	N/A
2)	Financial asset at fair value through profit or loss - Unlisted equity securities	-	HK$78,314,000	-	Level 2	Recent transaction price	N/A
3)	Financial assets at fair value through profit or loss - Unlisted equity securities	-	HK$66,305,000	HK$71,220,000	Level 3	Investment cost with guaranteed return	The higher the discount rate, the lower the fair value
4)	Financial assets at fair value through profit or loss - Unlisted equity securities	-	-	HK$77,877,000	Level 3	Market multiples with reference to the relevant quoted market prices with an adjustment of discount for lack of marketability.	The higher the discount rate, the lower the fair value.
5)	Financial assets at fair value through profit or loss - Listed debt securities	Listed in Hong Kong: HK$372,842,060 Listed outside Hong Kong: HK$185,223,601	Listed in Hong Kong: HK$630,771,284 Listed outside Hong Kong: HK$109,423,169	Listed in Hong Kong: HK$511,683,048 Listed outside Hong Kong: HK$594,281,394	Level 1	Quoted prices in an active market	N/A
6)	Financial assets at fair value through profit or loss - Unlisted debt securities	HK$1,050,450,016	HK$939,344	HK$7,794,077	Level 2	Quoted prices from brokers	N/A
7)	Financial assets at fair value through profit or loss - Unlisted debt securities	HK$260,725,899	HK$2,163,130,560	HK$2,228,541,291	Level 3	Discounted future cash flows	The higher the discount rate, the lower the fair value

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

	Financial assets/ financial liabilities	Fair value as at 31 December 2017	31 December 2018	31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
8)	Financial assets at fair value through profit or loss - Convertible bond	HK$117,796,050	HK$256,588,380	HK$110,952,907	Level 3	Discounted future cash flows and Black-Scholes option pricing model Volatility of the underlying investment's price	The higher the volatility of the underlying equity instruments, the higher the fair value
9)	Financial assets at fair value through profit or loss - Unlisted investment funds	HK$111,540,364	HK$390,820,088	HK$518,142,339	Level 2	Dealing price of unlisted investment funds derived from the net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active markets	N/A
10)	Available-for-sale investments - Convertible bond	HK$87,542,656	-	-	Level 3	Discounted future cash flows Volatility of the underlying investment's price	The higher the volatility of the underlying equity instruments, the higher the fair value
11)	Available-for-sale investments - Unlisted funds	HK$155,869,241	-	-	Level 2	Dealing price of the unlisted investment funds derived from the net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active markets	N/A
12)	Financial asset at fair value through other comprehensive income - Listed equity securities	-	Listed in Hong Kong HK$70,384,000	Listed in Hong Kong HK$76,744,000	Level 1	Quoted prices in an active market	N/A
13)	Financial asset at fair value through other comprehensive income - Listed debt securities	-	Listed outside Hong Kong: HK$78,209,506	-	Level 1	Quoted prices in an active market	N/A

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

	Financial assets/ financial liabilities	Fair value as at 31 December 2017	Fair value as at 31 December 2018	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
14)	Financial liabilities at fair value through profit or loss - Listed equity securities	Listed in Hong Kong: HK$48,748,504 Listed outside Hong Kong: HK$47,031,065	-	-	Level 1	Quoted prices in an active market	N/A
15)	Financial liabilities at fair value through profit or loss - Listed debt securities	-	Listed in Hong Kong: HK$63,940,275 Listed outside Hong Kong: HK$28,098,875	Listed in Hong Kong: HK$211,110,924 Listed outside Hong Kong: HK33,263,212	Level 1	Quoted prices in an active market	N/A
16)	Financial liabilities at fair value through profit or loss - Structured notes	-	-	HK$4,675,864	Level 2	Based on valuation of underlying investments	N/A
17)	Derivative financial assets - Commodity futures contracts	HK$206,430	-	-	Level 1	Quoted prices in an active market	N/A
18)	Derivative financial assets (liabilities) - Knock out discount accumulators	HK$5,538,721 (HK$5,540,385)	HK$1,279,716 (HK$1,282,871)	HK$546,424 (HK$546,424)	Level 3	Discounted futures cash flows and Black-Scholes Option Pricing model Stock price and volatility of the underlying investment	The higher the volatility of the underlying equity instruments, the higher the fair value
19)	Derivative financial assets - Convertible bond option	HK$3,340	-	-	Level 3	Black-Scholes option pricing mode Stock price and volatility of the underlying investment l	The higher the volatility of the underlying equity instruments, the higher the fair value

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

	Financial assets/ financial liabilities	Fair value as at 31 December 2017	Fair value as at 31 December 2018	Fair value as at 31 December 2019	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
20)	Derivative financial assets (liabilities) -Total return swap contracts	nil (HK$6,619,501)	-	HK$251,959 (HK$915,262)	Level 2	Quoted prices from brokers	N/A
21)	Derivative financial liabilities - Interest rate swap contracts	HK$342,122	-	-	Level 2	Quoted prices from brokers	N/A
22)	Derivative financial assets (liabilities) - Currency futures contracts	-	HK$32,527 (nil)	nil (HK$664,896)	Level 1	Quoted prices in an active market	N/A
23)	Derivative financial assets (liabilities) - Debt futures contracts	-	nil (HK$678,641)	HK$55,852 (HK$41,853)	Level 1	Quoted prices in an active market	N/A

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

For the years ended 31 December 2017, 2018 and 2019, there were no transfers amongst Level 1, Level 2 and Level 3 in the fair value hierarchy. The movements during the period in the balance of Level 3 fair value measurements are as follow:

	2017 HK$	2018 HK$	2019 HK$
As at 1 January	207,338,138	466,066,281	2,486,020,785
Purchased during the year	272,887,461	2,423,390,446	902,365,322
Disposed of during the year	-	(466,067,945)	(976,334,766)
Transfer from level 2 (note)	-	-	77,877,000
Fair value change recognised as profit during the year	(11,376,997)	62,632,003	(1,337,143)
Changes in fair value recognised in other comprehensive income	(2,782,321)	-	-
At 31 December	466,066,281	2,486,020,785	2,488,591,198

Note: The fair value of financial assets measured at FVTPL of HK$78,134,000 was determined with reference to the recent transaction price and therefore classified as Level 2 investments for the year ended 31 December 2018. During the current year, the fair value of these investments is determined based on significant unobservable inputs and involved significant judgment made by the management. Thus, the instruments were transferred from Level 2 to Level 3 category.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values due to the short-term maturity or the impact of discounting was not significant.

Offsetting of financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group maintained accounts with the Hong Kong Securities Clearing Company Limited ("HKSCC") through which they conducted securities trading transactions and settlement on a net basis.

Under the agreement of continuous net settlement made between the Group and HKSCC, the Group has a legally enforceable right to set off the money obligations receivable and payable with HKSCC on the same settlement date and the Group intends to settle on a net basis.

The deposits placed with HKSCC are not settled in net basis, accordingly it is not included in the analysis below.

6. FINANCIAL INSTRUMENTS ("continued")

Financial risk management objectives and policies ("continued")

Fair value measurements recognised in the consolidated statements of financial position ("continued")

In presenting the amounts due from and to HKSCC (included in accounts receivable or accounts payables with HKSCC), the Group has offset the gross amount of the accounts receivables from and the gross amount of the accounts payable to HKSCC. The amounts offset and the net balances are shown as follows:

	Gross amount HK$	Amount offset HK$	Net amount receivable (payable) HK$
31 December 2017			
Accounts receivable from HKSCC	163,112,155	(142,139,723)	20,972,432
Accounts payable to HKSCC	(172,924,984)	142,139,723	(30,785,261)
31 December 2018			
Accounts receivable from HKSCC	94,868,054	(71,324,980)	23,543,074
Accounts payable to HKSCC	(83,841,737)	71,324,980	(12,516,757)
31 December 2019			
Accounts receivable from HKSCC	40,458,343	(31,821,493)	8,636,850
Accounts payable to HKSCC	(40,630,951)	31,821,493	(8,809,458)

7. REVENUE

The following is an analysis of the Group's revenue for the year:

	2017* HK$	2018 HK$	2019 HK$
Commission and fee income:			
Commission income from dealing in securities	38,084,660	42,177,672	29,479,184
Commission income from dealing in futures and options contracts	2,933,969	6,044,898	5,000,709
Handling fee income	7,880,148	6,529,278	12,773,333
Management fee income	2,127,563	1,883,785	421,595
Arrangement fee income	30,196,749	31,356,832	7,441,256
Placing and underwriting commission	40,395,888	87,179,809	134,049,757
Financial advisory and consultation income	45,387,367	64,849,446	62,797,515
Insurance brokerage income	22,603,890	36,308,674	16,729,396
Subtotal	189,610,234	276,330,394	268,692,745
Interest income from			
-margin loans to customers	153,510,236	154,984,235	128,721,075
-loan receivables	68,873,478	-	-
-finance lease receivables	68,893,092	29,754,785	14,218,100
-factoring business	-	8,661,183	6,144,609
-entrusted loans	-	3,080,145	1,378,564
Subtotal	291,276,806	196,480,348	150,462,348
Net investment gains:			
Net realised gains (losses) arising from financial instruments at fair value through profit and loss	113,444,389	(8,327,028)	130,006,598
Unrealised fair value change of financial instruments at fair value through profit or loss	18,125,339	61,083,469	9,810,750
Gain on disposal or early redemption of financial assets at fair value through other comprehensive income	-	-	2,599,265
(Loss) gain on disposal or early redemption of investments at amortised cost	-	(8,600,318)	1,280,406
Gain on early redemption of held-to-maturity financial assets	29,106,155	-	-
Net realised (losses) gains arising from derivative financial instruments	(16,024,879)	4,624,625	11,670,193
Unrealised fair value change of derivative financial instruments	(13,521,697)	6,477,818	(665,743)
Interest income from debt investment classified as:			
-financial assets at fair value through profit or loss	-	197,973,909	207,125,188
-investments at amortised cost	-	254,956,094	320,293,093
-held-to-maturity financial assets	184,651,127	-	-
-financial assets at fair value through other comprehensive income	-	6,868,639	4,194,331
-available-for-sale investments	1,714,155	-	-
Dividends from equity securities	4,267,658	3,573,150	6,310,218
Subtotal	321,762,247	518,630,358	692,624,299
	802,649,287	991,441,100	1,111,779,392

7. REVENUE ("continued")

	2018 HK$	2019 HK$
Revenue from contracts with customers within the scope of HKFRS 15:		
-at a point in time	209,597,163	205,473,635
-over time	66,733,231	63,219,110
Revenue from other sources	715,110,706	843,086,647
	991,441,100	1,111,779,392

*The amounts for the year ended 31 December 2017 were recognised under HKAS 18.

8. OTHER INCOME AND GAINS OR LOSSES

The following is an analysis of the Group's other income and gains or losses for the year:

	2017 HK$	2018 HK$	2019 HK$
Interest income from bank	5,718,317	6,711,494	11,993,894
Other interest income	-	38,184	859,521
Exchange gain, net	60,892,089	(5,382,596)	(15,629,221)
Third-party interests in consolidated investment funds	(57,001,772)	(22,019,677)	(42,697,451)
Others	33,128,949	1,243,428	4,539,430
	42,737,583	(19,409,167)	(40,933,827)

9. IMPAIRMENT LOSSES, NET

	2017 HK$	2018 HK$	2019 HK$
Impairment losses (reversal of impairment losses) on:			
Financial assets at fair value through other comprehensive income	-	29,416	(29,416)
Loan receivables	42,615,050	30,073,250	10,000,000
Investments at amortised cost	-	183,908	(1,459,923)
Accounts receivables	(499,195)	836,314	844,412
Margin loans to customers	38,856,207	44,297,265	94,025,362
Finance lease receivables	-	3,884,276	14,283,502
Other receivables	-	2,514,375	522,604
	80,972,062	81,818,804	118,186,541

10. FINANCE COSTS

	2017 HK$	2018 HK$	2019 HK$
Interest paid to clients	2,510,049	-	-
Interest paid to brokers	14,253,157	3,546,584	-
Interest paid to borrowings	132,505,922	175,770,594	187,320,475
Interest on corporate bonds	110,476,483	172,611,320	179,430,166
Interest on financial assets sold under repurchase agreements	-	1,177,590	12,630,821
Interest on lease liabilities	-	-	3,019,300
	259,745,611	353,106,088	382,400,762

11. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:	2017 HK$	2018 HK$	2019 HK$
Directors' remuneration			
- fees	-	-	-
- other emoluments	8,286,843	10,899,272	15,010,491
- contributions to retirement benefits scheme	-	-	-
Staff costs			
- salary, allowance, bonus and other benefits	179,927,159	235,396,644	228,746,944
- contributions to retirement benefits scheme	3,412,909	4,093,753	4,527,425
Auditor's remuneration	3,273,057	2,831,735	4,769,967
Depreciation of property and equipment	9,317,546	14,620,163	14,036,258
Depreciation of right-of-use assets	-	-	36,609,355
Loss on written-off of property and equipment	-	1,667,647	549,336
Rental expenses in relation to the operating lease	34,083,426	41,147,875	-
Rental expenses in relation to the short term lease	-	-	2,529,296

12. TAXATION

	2017 HK$	2018 HK$	2019 HK$
Current tax			
Hong Kong Profits Tax	17,449,144	12,562,493	21,159,462
PRC Enterprise Income Tax	4,439,821	5,881,197	2,108,499
	21,888,965	18,443,690	23,267,961
Under (over) provision in prior years			
Hong Kong	2,296,248	(4,402,313)	(3,586,340)
Deferred income tax (note 22)	(15,488)	2,174,058	(2,538,371)
	24,169,725	16,215,435	17,143,250

For the year ended 31 December 2017, Hong Kong profits tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the year ended 31 December 2019 and 2018, Hong Kong profits tax of the qualified entity of the group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Under the Corporation Tax Act of Republic of Singapore, the Corporation Tax is calculated at 22%, of the estimated assessable profits of subsidiary of the Company for both years.

12. TAXATION ("continued")

The taxation for the years can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$	2018 HK$	2019 HK$
Profit before taxation	69,278,540	63,589,664	90,731,972
Tax at the domestic income tax rate at 16.5%	11,430,959	10,492,295	14,970,775
Tax effect of expenses not deductible for tax purpose	21,350,848	29,763,316	33,797,968
Tax effect of income not taxable for tax purpose	(48,437,298)	(49,323,809)	(61,569,529)
Tax effect of two tier profits tax regime	-	(165,000)	(165,000)
Tax effect of temporary differences previously not recognised	918,916	-	-
Utilisation of tax losses previously not recognised	(30,708)	(249,828)	(551,917)
Tax effect of tax losses not recognised	35,949,887	23,165,986	32,392,740
Effect of different tax rates of subsidiaries operating in other jurisdictions	690,873	1,518,376	612,576
Reversal of previously recognised deferred tax assets	-	4,816,578	-
Under (over) under over-provision in respect of prior years	2,296,248	(4,402,313)	(3,586,340)
Others	-	599,834	1,241,977
Taxation for the year	24,169,725	16,215,435	17,143,250

At 31 December 2017, 2018 and 2019, the Group has estimated unused tax losses of approximately HK$318,105,000, HK$523,346,000 and HK$704,633,000 respectively available for offsetting against future profits. These losses may be carried forward indefinitely except the estimated tax losses arising in the PRC of approximately nil, HK$32,126,000 and HK$56,351,000 that will expire in one to five years for offsetting against future taxable profits.

13. PROPERTY AND EQUIPMENT

	Leasehold improvement	Furniture and fixtures	Motor vehicle	Total
	HK$	HK$	HK$	HK$
COST				
At 1 January 2017	15,762,988	27,507,007	2,164,214	45,434,209
Additions	11,005,565	5,149,408	695,686	16,850,659
Exchange realignment	-	11,518	39,010	50,528
At 31 December 2017 and 1 January 2018	26,768,553	32,667,933	2,898,910	62,335,396
Additions	14,930,951	6,954,742	-	21,885,693
Written off	-	(15,534,037)	-	(15,534,037)
Exchange realignment	(35,376)	36,673	34,932	36,229
At 31 December 2018 and 1 January 2019	41,664,128	24,125,311	2,933,842	68,723,281
Additions	3,714,159	4,927,713	-	8,641,872
Written off	(123,725)	(2,540,374)	-	(2,664,099)
Exchange realignment	(74,387)	15,572	(1,079)	(59,894)
At 31 December 2019	45,180,175	26,528,222	2,932,763	74,641,160
DEPRECIATION				
At 1 January 2017	12,677,191	15,938,414	488,102	29,103,707
Provided for the year	3,943,346	4,924,873	449,327	9,317,546
Exchange realignment	-	(31,659)	19,779	(11,880)
At 31 December 2017 and 1 January 2018	16,620,537	20,831,628	957,208	38,409,373
Provided for the year	8,196,697	5,949,698	473,768	14,620,163
Eliminated in written off	-	(13,866,390)	-	(13,866,390)
Exchange realignment	91,203	27,452	28,922	147,577
At 31 December 2018 and 1 January 2019	24,908,437	12,942,388	1,459,898	39,310,723
Provided for the year	8,097,962	5,540,559	397,737	14,036,258
Eliminated in written off	(123,725)	(1,991,038)	-	(2,114,763)
Exchange realignment	(19,402)	13,564	(7,450)	(13,288)
At 31 December 2019	32,863,272	16,505,473	1,850,185	51,218,930
CARRYING VALUES				
At 31 December 2017	10,148,016	11,836,305	1,941,702	23,926,023
At 31 December 2018	16,755,691	11,182,923	1,473,944	29,412,558
At 31 December 2019	12,316,903	10,022,749	1,082,578	23,422,230

The plant and equipment was depreciated on a straight-line basis at the follow rate per annum:

Leasehold improvement	20 - 50%
Furniture and fixtures	20 - 33.33%
Motor vehicle	16.66%

14. LEASE

(i) Right-of-use assets

	Right-of-use assets HK$
COST	
As at 1 January 2019	116,064,914
Additions	37,088,524
Lease termination (ii)	(12,247,765)
Exchange realignment	1,259,477
As at December 2019	142,165,150
ACCUMULATED DEPRECIATION	
As at 1 January 2019	44,337,262
Provided for the year	36,609,355
Lease termination (ii)	(10,287,984)
Exchange realignment	634,986
As at December 2019	71,293,619
CARRYING VALUES	
As at 31 December 2019	70,871,531

The Group has lease arrangement for buildings. The lease terms are two to five years. Additions to the right-of-use assets for the year ended 31 December 2019 amounted to HK$37,088,524 due to new leases of office premises.

(ii) Lease liabilities

	31 December 2019 HK$	1 January 2019 HK$
Non-current	40,787,757	41,617,281
Current	35,821,636	37,054,651
	76,609,393	78,671,932

14. LEASE ("continued")

(ii) Lease liabilities ("continued")

Amounts payable under lease liabilities

	31 December 2019
	HK$
Within one year	35,821,636
After one year but within two years	18,733,908
After two years but within five years	22,053,849
Less: Amount due for settlement within 12 months	(35,821,636)
Amount due for settlement after 12 months	40,787,757

During the year ended 31 December 2019, the Group entered into new lease agreements in respect of office premises and recognised lease liabilities amounted HK$37,088,524.

During the year ended 31 December 2019, the Group terminated certain leases of office premises. For the leases terminated for office premises, the Group early terminated with remaining lease liabilities of HK$1,993,339, after considering the net carrying amount of right-of-use assets of office premises of HK$1,959,781 at termination date, gain on lease termination of HK$33,558 was recognised.

(iii) Amounts recognised in profit or loss

	31 December 2019
	HK$
Depreciation expense on right-of-use assets	36,609,355
Interest expense on lease liabilities	3,019,300
Expense relating to short-term leases	2,529,296

iv) Others

During the year ended 31 December 2019, the total cash outflow for leases including interest paid on lease liabilities, payment of lease liabilities and expense relating to short-term leases amount to HK$42,706,320.

15 OTHER NON-CURRENT ASSETS

	2017 HK$	2018 HK$	2019 HK$
Deposit paid to the Stock Exchange in Hong Kong			
Deposits with the Stock Exchange	1,649,749	1,500,000	3,000,000
Stamp duty	250,000	250,000	250,000
Fidelity fund	50,000	50,000	50,000
Compensation fund	50,000	50,000	50,000
Deposit paid to the Clearing House in Hong Kong			
Guarantee Fund	1,767,669	1,446,213	1,196,776
Admission fees	1,798,710	1,191,179	50,000
Mainland security deposit	2,689,388	228,258	223,269
Mainland settlement deposit	239,260	300,676	-
Trading rights	1,000,000	1,000,000	1,000,000
	9,494,776	6,016,326	5,820,045

The trading rights are from Hong Kong Exchanges and Clearing Limited (the "Exchanges") and Hong Kong Future Exchange Limited. These rights allow the Group to trade securities and futures contracts on or through these exchanges.

Impairment testing on trading right with indefinite useful lives

The trading right held by the Group is considered by the directors of the Company as having indefinite useful lives because it is expected to contribute net cash inflows indefinitely. The trading right will not be amortised until its useful life is determined to be finite. Instead, it will be tested for impairment annually and whenever there is an indication that it may be impaired. No impairment loss has been recognised during the Relevant Period as the directors of the Company are of the opinion that the recoverable amount was higher than the carrying amount.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2017 HK$	2018 HK$	2019 HK$
Listed equity securities in Hong Kong	-	70,384,000	76,744,000
Listed debt securities outside Hong Kong	-	78,209,506	-
	-	148,593,506	76,744,000
Analyse:			
Non-current assets	-	148,593,506	76,744,000

Details of disclosure for fair value measurement are set out in note 6.

These listed debt securities are held by the Group within a business model whose objective is both to collect their contractual cash flows which are solely payments of principal and interest on the principal amount outstanding and to sell these financial assets. Accordingly, the listed debt securities are classified as at FVTOCI.

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

For the purposes of impairment assessment, the listed debt securities are considered to have low credit risk. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12-month ECL.

During the year ended 31 December 2019, debt securities outside Hong Kong previously classified as financial assets at FVTOCI amounted HK$78,209,506 was transferred to financial assets at FVTPL as a result of change in business model from both to collect their contractual cash flows and sell these financial assets to sell these financial assets. The Group recognised a gain on disposal or early redemption of financial assets at fair value through other comprehensive income amounted HK$2,599,265 (note 7).

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("continued")

The movements in the impairment allowance for the listed debt securities during the year are as follows:

	Stage 1	Stage 2	Stage 3	Impairment allowance under HKAS39	Total
	HK$	HK$	HK$	HK$	HK$
As at 1 January 2017, 31 December 2017	-	-	-	-	-
Impairment loss recognised	29,416	-	-	-	29,416
As at 31 December 2018	29,416	-	-	-	29,416
Reversal of impairment loss	(29,416)	-	-	-	(29,416)
As at 31 December 2019	-	-	-	-	-

17. HELD-TO-MATURITY FINANCIAL ASSETS

	2017	2018	2019
	HK$	HK$	HK$
Debt securities			
- Listed in Hong Kong	1,669,632,574	-	-
- Listed outside Hong Kong	824,713,170	-	-
	2,494,345,744	-	-
Analyse:			
Non-current assets	2,451,749,195	-	-
Current assets	42,596,549	-	-
	2,494,345,744	-	-

18. INVESTMENTS AT AMORTISED COST

	2017 HK$	2018 HK$	2019 HK$
Debt securities			
- Listed in Hong Kong	-	1,949,538,401	2,031,286,979
- Listed outside Hong Kong	-	1,982,459,091	2,629,670,083
- Unlisted	-	170,679,396	74,653,569
Less: impairment allowances	-	(5,109,507)	(3,649,584)
	-	4,097,567,381	4,731,961,047
Analyse:			
Non-current assets	-	3,661,491,363	3,915,632,929
Current assets	-	436,076,018	816,328,118
	-	4,097,567,381	4,731,961,047

Movement in the impairment allowance:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Impairment allowance under HKAS39 HK$	Total HK$
As at 31 December 2017	-	-	-	-	-
Restated on adoption of HKFRS 9	4,925,599	-	-	-	4,925,599
As at 1 January 2018	4,925,599	-	-	-	4,925,599
Charged to profit or loss	183,908	-	-	-	183,908
As at 31 December 2018	5,109,507	-	-	-	5,109,507
Charged to profit or loss	(1,459,923)	-	-	-	(1,459,923)
As at 31 December 2019	3,649,584	-	-	-	3,649,584

All debt securities classified as investments at amortised cost are classified as stage 1 in impairment allowance calculation and no change in classification during the year. Certain investments at amortised cost were used to secure the borrowings stated in note 31 of the Historical Financial Information.

19. LOAN RECEIVABLES

	2017 HK$	2018 HK$	2019 HK$
Fixed rate loan receivables	672,647,489	144,553,000	144,553,000
Less: impairment loss recognsied	(89,479,750)	(119,553,000)	(129,553,000)
	583,167,739	25,000,000	15,000,000
Analyse:			
Non-current assets	78,175,000	-	-
Current assets	504,992,739	25,000,000	15,000,000
	583,167,739	25,000,000	15,000,000

The exposure of the Group's fixed-rate loan receivables (net of impairment allowances) to interest rate risks and their contractual maturity dates are as follows:

	2017 HK$	2018 HK$	2019 HK$
Within one year	504,992,739	25,000,000	15,000,000
After one year but within two years	-	-	-
After two year but within five years	78,175,000	-	-
Balance at the end of the year	583,167,739	25,000,000	15,000,000

The Group has policy for impairment allowance which is based on the evaluation of collectability and ageing analysis of loan receivables, taking into account various factors including the current creditworthiness and the past collection history of each client or receivable account.

Analysis of the gross carrying amount of loan receivables:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
As at 31 December 2018 and 2019	-	-	144,553,000	144,553,000

19. LOAN RECEIVABLES ("continued")

Movement in the impairment allowance:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Impairment allowance under HKAS39 HK$	Total HK$
As at 1 January 2017	-	-	-	46,864,700	46,864,700
Impairment loss recognised	-	-	-	42,615,050	42,615,050
As at 31 December 2017	-	-	-	89,479,750	89,479,750
Restated on adoption of HKFRS 9	-	-	89,479,750	(89,479,750)	-
Impairment loss recognised	-	-	30,073,250	-	30,073,250
As at 31 December 2018	-	-	119,553,000	-	119,553,000
Impairment loss recognised	-	-	10,000,000	-	10,000,000
As at 31 December 2019	-	-	129,553,000	-	129,553,000

For the year ended 31 December 2017, 2018 and 2019, loan receivables of HK$187,168,050, HK$144,553,000 and HK$144,553,000 were impaired respectively. The amount of the provision was HK$89,479,750, HK$119,553,000 and HK$129,553,000 as of 31 December 2017, 2018 and 2019 respectively. It was assessed that a portion of the loan receivables is expected to be recovered.

The annual effective interest rate for the year ended 31 December 2017, 2018 and 2019 for the loan receivables is ranged from 6% to 10% per annum and nil and nil respectively.

20. FINANCE LEASE RECEIVABLES

The Group provides financial leasing service in the PRC.

	2017 HK$	2018 HK$	2019 HK$
Finance lease receivables	878,245,572	421,390,900	217,517,353
Less: impairment allowances	-	(5,634,433)	(19,513,949)
	878,245,572	415,756,467	198,003,404
Analysed as:			
Non-current assets	277,072,108	168,980,418	30,967,873
Current assets	601,173,464	246,776,049	167,035,531
	878,245,572	415,756,467	198,003,404

The finance lease receivables were used to secure the borrowings stated in note 31.

Analysis of the gross amount of finance lease receivables.

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Gross amount as at 31 December 2018	337,453,042	-	83,937,858	421,390,900
Gross amount as at 31 December 2019	127,527,280	-	89,990,073	217,517,353

Movement in the allowance for impairment:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
As at 31 December 2017	-	-	-	-
Restated on adoption of HKFRS 9	1,921,801	-	-	1,921,801
As at 1 January 2018	1,921,801	-	-	1,921,801
Charged to profit or loss	(1,135,186)	-	5,019,462	3,884,276
Exchange realignment	(23,255)	-	(148,389)	(171,644)
As at 31 December 2018	763,360	-	4,871,073	5,634,433
Transfer from stage 1 to stage 3	(28,402)	-	28,402	-
Charged to profit or loss	(675,236)	-	14,958,738	14,283,502
Exchange realignment	(31,598)	-	(372,388)	(403,986)
As at 31 December 2019	28,124	-	19,485,825	19,513,949

20. FINANCE LEASE RECEIVABLES ("continued")

	Minimum lease payments			Present value of minimum lease payments		
	2017	2018	2019	2017	2018	2019
	HK$	HK$	HK$	HK$	HK$	HK$
Finance lease receivables comprise:						
Within one year	627,421,131	284,846,343	198,003,658	601,173,464	246,776,049	167,035,531
In more than one year but not more than five years	290,825,453	188,714,163	34,362,124	277,072,108	168,980,418	30,967,873
	918,246,584	473,560,506	232,365,782	878,245,572	415,756,467	198,003,404
Less: unearned finance income	(40,001,012)	(57,804,039)	(34,362,378)	N/A	N/A	N/A
	878,245,572	415,756,467	198,003,404	878,245,572	415,756,467	198,003,404

The Group's finance lease receivable is denominated in RMB which is the functional currency of the relevant group entity. The effective interest rate of the above finance lease for the year ended 31 December 2017, 2018 and 2019 ranged from 5.25% to 9.38%, 8.50% to 14.47% and 8.28% to 14.49% per annum respectively.

Finance lease receivable is mainly secured by leased assets which are used in fridge cooling system, generator, medical and office equipment. As at 31 December 2017, 2018 and 2019, finance lease receivable of HK$878,245,572, HK$ 336,689,682 and HK$127,499,156 is neither past due nor impaired and the customers' deposits of HK$5,581,386, HK$19,741,590 and HK$8,908,665 respectively with maturity date over one year and the customers' deposits of HK$57,778,445, HK$22,825,840 and HK$31,175,687 respectively with maturity within one year, were repayable by the end of the lease period. There was no unguaranteed residual value of leased assets and no contingent rent arrangement that needed to be recognised. Management reviews and assesses for impairment individually based on customer's repayment history and the values of the assets pledged.

21. INTEREST IN AN ASSOCIATE

	2017 HK$	2018 HK$	2019 HK$
Unlisted investment, at cost	23,800,000	23,800,000	-
Disposed during the year	-	(19,993,734)	-
Share of post-acquisition losses and other comprehensive expense	(3,383,854)	(3,806,266)	-
Share of net assets	20,416,146	-	-

Details of the associate as at 31 December 2017, 2018 and 2019 are as follows:

Name	Place of establishment / incorporation and operation	Nominal value of issued ordinary shares	Principal activity	Percentage of interest in ownership / voting power / profit sharing		
				2017	2018	2019
中泰華信股權投資管理股份有限公司	PRC	RMB115,000,000	Investment Management	17% (note 1)	- (note 2)	-

Note:

1. According to the cooperation agreement between the Group and third-party investors, the Group has one out of five representatives in the board of directors of the associate so that the Group is able to exercise significant influence over the associate.

2. In May 2018, the Group disposed all of its interest in an associate with a realised gain of HK$6,868,309.

21. INTEREST IN AN ASSOCIATE ("continued")

Summarised financial information of the Group's material associate, and reconciled to the carrying amounts in the Historical Financial Information, are disclosed below:

中泰華信股權投資管理股份有限公司

	2017 HK$	2018 HK$	2019 HK$
Assets			
Non-current assets	56,659,157	N/A	N/A
Current assets	64,308,996	N/A	N/A
	120,968,153	N/A	N/A
Liability			
Current liabilities	873,177	N/A	N/A
Net assets	120,094,976	N/A	N/A
Income	6,436,297	N/A	N/A
Expenses	(11,341,538)	N/A	N/A
Loss after income tax	(4,905,241)	N/A	N/A
Other comprehensive (expense) income	748,441	N/A	N/A
Total comprehensive expense	(4,156,800)	N/A	N/A

The reconciliation of the summarised financial information presented above to the carrying amount of the interest in an associate are set out below:

	2017 HK$	2018 HK$	2019 HK$
Net assets of the 中泰華信股權投資管理股份有限公司	120,094,976	N/A	N/A
Proportion of the Group's 17% ownership interest in 中泰華信股權投資管理股份有限公司	20,416,146	N/A	N/A

22. DEFERRED TAX ASSETS / (LIABILITIES)

	2017 HK$	2018 HK$	2019 HK$
Deferred tax assets	4,816,578	1,217,768	3,909,708
Deferred tax liabilities	(1,627,707)	(202,955)	(438,196)
	3,188,871	1,014,813	3,471,512

The movement in deferred tax assets (liabilities) in respect of tax losses and accelerated tax depreciation are as follows:

	Tax losses HK$	Accelerated tax depreciation HK$	Impairment allowance HK$	Total HK$
At 1 January 2017	4,816,578	(1,643,195)	-	3,173,383
Credit (charge) to profit or loss	-	15,488	-	15,488
At 31 December 2017	4,816,578	(1,627,707)	-	3,188,871
(Charge) credit to profit or loss	(4,816,578)	1,424,752	1,217,768	(2,174,058)
At 31 December 2018	-	(202,955)	1,217,768	1,014,813
(Charge) credit to profit or loss	-	(235,241)	2,773,612	2,538,371
Exchange realignment	-	-	(81,672)	(81,672)
At 31 December 2019	-	(438,196)	3,909,708	3,471,512

23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$	2018 HK$	2019 HK$
Debt securities listed in Hong Kong, at fair value	-	-	-
Convertible bond, at fair value (note)	87,542,656	-	-
Unlisted funds, at fair value	155,869,241	-	-
	243,411,897	-	-
Analyse:			
Non-current assets	-	-	-
Current assets	243,411,897	-	-
	243,411,897	-	-

Note:

On 30 July 2015, the Group had subscribed a unlisted US$ denominated convertible bond of a principal amount of US$10,000,000 issued by a company listed on The Stock Exchange of Hong Kong Limited. The convertible bond carries an interest at 6% per annum and will mature in July 2019. The convertible bond is convertible into ordinary shares of the issuer at a conversion price of HK$1.09 per share at any time from the day immediately following the issue date up to seven working days before the maturity date. As at 31 December 2017 and 2018, the convertible bond had not been converted and recognised as financial assets of fair value through profit or loss on adoption of HKFRS 9. The convertible bond is split between the loan portion and equity conversion option. Details of the equity conversion option are disclosed in note 27. Subsequent to the initial recognition, the fair value of loan portion of the convertible bond increased by HK$16,292,068 and nil for the year ended 31 December 2017 and 2018 respectively and recognised in other comprehensive income. The convertible bond was matured during the year ended 31 December 2018. For the determination of fair values, please refer to note 6 of the Historical Financial Information.

24. ACCOUNTS RECEIVABLES

	2017 HK$	2018 HK$	2019 HK$
Accounts receivables from:			
- Cash clients	21,180,458	18,390,514	28,288,823
- Brokers	92,585,941	111,527,992	248,285,924
- Clearing house -HKSCC	20,972,432	23,543,074	8,636,850
- Clearing house -HKFE	7,447,308	67,764,499	12,099,893
- Financial assets held under resale agreements	-	-	33,097,725
- Factoring business	-	190,674,123	168,231,168
- Entrusted loans	-	36,521,344	15,070,671
- Corporate finance activity		16,937,537	53,471,944
- Others	26,505,704	-	72,972
	168,691,843	465,359,083	567,255,970
Less : impairment allowances	(119,435)	(1,347,643)	(2,172,865)
	168,572,408	464,011,440	565,083,105

The Group has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment, including the current creditworthiness and the past collection history of each client or receivable.

Starting from 1 January 2018, the Group measures the loss allowance for accounts receivable at an amount equal to 12-month expected credit losses excepted for the account receivables arising from HKFRS 15 which do not contain a significant financing component while simplified approach is adopted. The expected credit losses on accounts receivables are estimated with reference to past default experience of the accounts receivables, adjusted for factors that are specific to the accounts receivable, latest collateral valuation, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Total HK$
Gross carrying amount as at 31 December 2018	447,294,011	-	1,127,535	448,421,546
Gross carrying amount as at 31 December 2019	451,171,730	-	62,612,296	513,784,026

No impairment loss allowance has been provided for account receivables from other arising from contracts with customers amounted HK$16,937,537 and HK$53,471,944 as at 31 Decmeber 2018 and 2019 respectively under simplified approach as the related allowances were considered immaterial and there was no credit default history.

24. ACCOUNTS RECEIVABLES ("continued")

Movement in the impairment allowance:

	Stage 1	Stage 2	Stage 3	Impairment allowance under HKAS39	Total
	HK$	HK$	HK$	HK$	HK$
As at 1 January 2017	-	-	-	618,630	618,630
Reversal of impairment loss recognised	-	-	-	(499,195)	(499,195)
As at 31 December 2017	-	-	-	119,435	119,435
Restated on adoption of HKFRS 9	391,894	-	119,435	(119,435)	391,894
As at 1 January 2018	391,894	-	119,435	-	511,329
Impairment loss recognised	(171,786)	-	1,008,100	-	836,314
As at 31 December 2018	220,108	-	1,127,535	-	1,347,643
Charged to profit or loss	(122,389)	-	966,801	-	844,412
Exchange realignment	(19,190)	-	-	-	(19,190)
As at 31 December 2019	78,529	-	2,094,336	-	2,172,865

In determining the recoverability of the accounts receivables, the directors of the Company consider any change in the credit quality of the accounts receivables from the date credit was initially granted up to the reporting date. Further details of the Group's credit policy are set out in note 6.

The settlement terms of accounts receivables arising from the business of dealing in securities and futures contracts are normally due within a few days after the trade date in accordance with the settlement requirement in respective markets. For the cash clients overdue, interest is charged at prime rate basis plus a spread.

Accounts receivables from clearing houses are current which represents pending trades arising from the business of dealing in securities and futures contracts, which are normally due within a few days after the trade date in accordance with the settlement requirements in respective markets.

The settlement terms of accounts receivables arising from entrusted loans, financial asset held under repurchase agreements and factoring business which are settle with the agreed settlement day according to the respective agreements.

25. MARGIN LOANS TO CUSTOMERS

	2017	2018	2019
	HK$	HK$	HK$
Loan to margin clients	1,885,755,268	1,630,643,685	1,514,664,054
Less :impairment allowances	(54,362,020)	(101,372,251)	(195,397,613)
	1,831,393,248	1,529,271,434	1,319,266,441

Margin loans due from margin clients are current and repayable on demand. Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading. At 31 December 2017, 2018 and 2019, the total market value of securities pledged as collateral in respect of margin clients are approximately HK$6,236,978,000, HK$5,239,215,000 and HK$4,743,465,000 respectively. Interest is charged on margin clients at prime rate basis plus a spread and the Group is allowed to re-pledge the collateral from margin clients.

No ageing analysis is disclosed in the opinion of directors as ageing analysis is not meaningful in view of the revolving nature of the business of margin loan financing.

Analysis of the gross carrying amount of margin loans to customers as follows:

	Stage 1	Stage 2	Stage 3	Total
	HK$	HK$	HK$	HK$
As at 31 December 2018	1,249,440,564	2,497,550	378,705,571	1,630,643,685
As at 31 December 2019	1,005,256,822	59,117,821	450,289,411	1,514,664,054

25. MARGIN LOANS TO CUSTOMERS ("continued")

Movement in the impairment allowances are as follows:

	Stage 1	Stage 2	Stage 3	Impairment allowance under HKAS39	Total
	HK$	HK$	HK$	HK$	HK$
As at 1 January 2017	-	-	-	15,505,813	15,505,813
Impairment loss recognised	-	-	-	38,856,207	38,856,207
As at 31 December 2017	-	-	-	54,362,020	54,362,020
Restated on adoption of HKFRS 9	1,471,860	1,265,546	54,362,020	(54,362,020)	2,737,406
As at 1 January 2018	1,471,860	1,265,546	54,362,020	-	57,099,426
Transfer from stage 2 to stage 1	1,165,863	(1,165,863)	-	-	-
(Reversed) impairment loss recognised	(384,998)	-	44,682,263	-	44,297,265
Written off	-	-	(24,440)	-	(24,440)
As at 31 December 2018	2,252,725	99,683	99,019,843	-	101,372,251
Transfer from stage 1 to stage 2	(1,006,767)	1,006,767	-	-	-
Charged to profit or loss	1,114,395	-	92,910,967	-	94,025,362
As at 31 December 2019	2,360,353	1,106,450	191,930,810	-	195,397,613

26. OTHER RECEIVABLES AND PREPAYMENTS

	2017 HK$	2018 HK$	2019 HK$
Other receivables			
Interest receivable on loan receivables	28,095,253	14,849,100	14,849,100
Other receivables	36,088,958	61,476,473	93,387,947
Deposits	23,625,229	17,021,867	22,592,232
Prepayments	19,296,091	11,145,437	13,677,802
	107,105,531	104,492,877	144,507,081
Less: impairment allowances for on interest receivable on loan receivables and other receivables	(12,334,725)	(14,849,100)	(15,371,704)
	94,770,806	89,643,777	129,135,377

Except for the interest receivable on loan receivables and other receivables amounted HK$12,334,725, HK$14,849,100 and HK$15,371,704 are classified as stage 3, all other receivables are classified as stage 1.

Movement in impairment allowance for interest income receivable on loan receivables and other receivables:

	Stage 1 HK$	Stage 2 HK$	Stage 3 HK$	Impairment allowance under HKAS39 HK$	Total HK$
As at 1 January 2017, 31 December 2017	-	-	-	12,334,725	12,334,725
Restated on adoption of HKFRS 9	-	-	12,334,725	(12,334,725)	-
As at 1 January 2018	-	-	12,334,725	-	12,334,725
Impairment loss recognised	-	-	2,514,375	-	2,514,375
As at 31 December 2018	-	-	14,849,100	-	14,849,100
Impairment loss recognised	-	-	522,604	-	522,604
As at 31 December 2019	-	-	15,371,704	-	15,371,704

27. DERIVATIVE FINANCIAL ASSETS / (LIABILITIES)

	31 December 2017		31 December 2018		31 December 2019	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	HK$	HK$	HK$	HK$	HK$	HK$
Commodity future contract	206,430	-	-	-	-	-
Knock out discount accumulators	5,538,721	(5,540,385)	1,279,716	(1,282,871)	546,424	(546,424)
Convertible bond option (note i)	3,340	-	-	-	-	-
Total return swap contracts	-	(6,619,501)	-	-	251,959	(915,262)
Interest rate swap contracts	-	(342,122)	-	-	-	-
Currency futures contracts	-	-	32,527	-	-	(664,896)
Debt futures contracts	-	-	-	(678,641)	55,852	(41,853)
	5,748,491	(12,502,008)	1,312,243	(1,961,512)	854,235	(2,168,435)

The notional amounts of the derivative financial instruments are as follows:

	2017	2018	2019
	HK$	HK$	HK$
Commodity future contract	1,370,443,087	-	-
Knock out discount accumulators	1,559,559,933	53,902,268	139,677,108
Total return swap contracts	13,509,569	-	78,538,816
Currency futures contracts	-	20,616,600	66,195,450
Debt futures contracts	-	53,090,041	53,511,776
	2,943,512,589	127,608,909	337,923,150

27. DERIVATIVE FINANCIAL ASSETS / (LIABILITIES) ("continued")

Note i:

The convertible bond as disclosed in note 23 includes embedded equity conversion option. The embedded derivative is separated from the convertible bond and accounted for as financial assets at fair value through profit or loss in the consolidated statement of financial position. The embedded equity conversion option is measured at fair value with changes in fair value recognised in profit or loss. The fair value of the embedded derivative is determined using the Binomial pricing model in accordance with a valuation report prepared by an independent professional valuer. The inputs into the model were as follows:

	31/12/2017 HK$
Spot price of the underlying share	0.83
Conversion price	1.0891
Risk free rate	0.80%
Expected volatility	31.06%

Risk free rate was determined with reference to yield of exchange fund notes as at the valuation date of 31 December 2017 respectively. Expected volatility was determined by reference to the historical volatility of the share price of the comparable companies.

During the year ended 31 December 2018, the convertible bond option was expired.

The movement of the fair value of the embedded derivative for the year is as below:

	2017 HK$	2018 HK$	2019 HK$
Balance at the beginning of the year	5,836,612	3,340	-
Fair value change recognised in profit or loss	(5,833,272)	(3,340)	-
Balance at the end of the year	3,340	-	-

28. FINANCIAL ASSETS AND LIABILITES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$	2018 HK$	2019 HK$
Financial assets at fair value through profit or loss:			
Equity securities			
Listed in Hong Kong	90,898,552	33,117,519	37,596,734
Listed outside Hong Kong	36,840,717	-	-
Unlisted	-	144,619,000	149,097,000
Debt securities			
Listed in Hong Kong	372,842,060	630,771,284	511,683,048
Listed outside Hong Kong	185,223,601	109,423,169	594,281,394
Unlisted	1,311,175,915	2,164,069,904	2,236,335,368
Convertible bond investments	117,796,050	256,588,380	110,952,907
Fund investments			
Unlisted	111,540,364	390,820,088	518,142,339
	2,226,317,259	3,729,409,344	4,158,088,790
Financial liabilities at fair value through profit or loss:			
Equity securities			
Listed in Hong Kong	48,748,504	-	-
Listed outside Hong Kong	47,031,065	-	-
Debt securities			
Listed in Hong Kong	-	63,940,275	211,110,924
Listed outside Hong Kong	-	28,098,875	33,263,212
Structured note	-	-	4,675,864
	95,779,569	92,039,150	249,050,000

For the determination of fair values, please refer to note 6 of the Historial Financial Information.

29. BANK BALANCES AND CASH

	2017 HK$	2018 HK$	2019 HK$
Bank balances			
- general accounts	2,215,158,998	3,279,075,444	1,177,469,745
Cash in hand	160,847	12,530	12,261
	2,215,319,845	3,279,087,974	1,177,482,006
Bank balances			
- segregated accounts (note)	714,779,879	796,068,270	1,020,106,766

Note:

From the Group's ordinary course of business, it receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients' monies are maintained in segregated bank accounts. The Group has recognised the corresponding accounts payable to respective clients as the Group does not have a currently enforceable right to offset those payables with the deposits placed.

Bank balances carry interest at prevailing market rates.

30. SHARE CAPITAL

	Number of shares	Amounts HK$
As at 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,790,983,375	1,790,983,375

31. BORROWINGS

	2017 HK$	2018 HK$	2019 HK$
Bank loans	4,750,961,826	4,821,460,258	4,552,281,158
Other loans	200,230,952	73,780,910	46,518,166
	4,951,192,778	4,895,241,168	4,598,799,324
Secured loans	1,067,184,005	866,487,915	711,261,506
Unsecured loans	3,884,008,773	4,028,753,253	3,887,537,818
	4,951,192,778	4,895,241,168	4,598,799,324

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	2017 HK$	2018 HK$	2019 HK$
Within one year	3,867,651,167	4,006,230,606	4,585,715,749
After one year but within two years	128,145,375	825,246,578	8,729,826
After two years but within five years	955,396,236	63,763,984	4,353,749
	4,951,192,778	4,895,241,168	4,598,799,324
Amounts shown under current liabilities	3,867,651,167	4,006,230,606	4,585,715,749
Amounts shown under non-current liabilities	1,083,541,611	889,010,562	13,083,575
	4,951,192,778	4,895,241,168	4,598,799,324

The effective interest rate of bank borrowings ranged from 2.4% to 4.8% per annum, 3.10% to 5.12% per annum and 2.85% to 6.65% per annum respectively for 31 December 2017, 2018 and 2019 per annum. As at 31 December 2017, 2018 and 2019, the bank loans amounted HK$4,272,421,133, HK$4,649,563,422 and HK$4,510,429,347 respectively are carried at variable interest rate which is agreed based on a premium from the Hong Kong Interbank Offered Rate ("HIBOR") or London Interbank Offered Rate (("LIBOR") when borrowings are drawn and the remaining balances are at carried fixed interest rate. The effective interest rate of the other loans ranged from 2.2% to 4.6%, 4.00% to 6.75% per annum and 6.00% to 6.75% per annum respectively for 31 December 2017, 2018 and 2019 per annum. The secured loans are secured by finance lease receivables or pledged over listed securities owned by the Group and margin clients of the Group.

32. CORPORATE BONDS

	2017 HK$	2018 HK$	2019 HK$
Unsecured, repayable after one year	2,333,460,519	2,341,908,523	-
Unsecured, repayable within one year	-	1,565,608,575	3,889,691,479
	2,333,460,519	3,907,517,098	3,889,691,479

During the year ended 31 December 2017, the subsidiary of the Company has issued corporate bonds with aggregate principal amounts of US$300,000,000 to independent third parties, which are due in August 2020. These corporate bonds carry interest at fixed rate of 4.25% per annum with interest payable semi-annually in arrears. The corporate bonds are unsecured but guaranteed by the Company. The effective interest rate of the corporate bonds is approximate to 4.25% per annum.

During the year ended 31 December 2018, the subsidiary of the Company has issued corporate bonds with aggregate principal amounts of US$200,000,000 to independent third parties, which are due in February 2019. These corporate bonds carry interest at fixed rate of 4.1% per annum with interest payable semi-annually in arrears. The corporate bonds are unsecured but guaranteed by the Company. The effective interest rate of the corporate bonds is approximate to 4.1% per annum.

During the year ended 31 December 2019, the subsidiary of the Company has issued corporate bonds with aggregate principal amounts of US$200,000,000 to independent third parties, which are due in March 2020. These corporate bonds carry interest at fixed rate of 5.4% per annum with interest payable semi-annually in arrears. The corporate bonds are unsecured but guaranteed by the Company. The effective interest rate of the corporate bonds is approximate to 5.4% per annum.

33. ACCOUNTS PAYABLE

	2017 HK$	2018 HK$	2019 HK$
Accounts payable is analysed as:			
Securities dealing activities:			
- Cash clients	164,496,359	263,368,078	575,592,592
- Margin clients	435,859,280	855,829,351	421,977,961
- Unidentified deposits	-	7,328,083	6,368,976
- Clearing house - HKSCC	30,785,261	12,516,757	8,809,458
	631,140,900	1,139,042,269	1,012,748,987
Future contracts dealing activities:			
- Margin clients	148,444,136	157,231,840	68,333,122
Underwriting activities	-	1,183,617,655	3,075,518
Other accounts payable	95,729,241	3,304,165	3,795,744
	875,314,277	2,483,195,929	1,087,953,371

The settlement terms of accounts payable arising from the business of dealing in securities are two days after the trade date. The accounts payable to certain margin and cash clients arising from the business of dealing in securities are unsecured, non-interest bearing, and are repayable on demand subsequent to settlement date.

As at 31 December 2017, 2018 and 2019, accounts payable amounting to HK$714,779,879, HK$796,068,270 and HK$1,020,106,766 respectively were payable to clients in respect of the segregated bank balances received and held for clients in the course of conducting the regulated activities. The Group currently does not have an enforceable right to offset these payables with the deposits placed.

34. CONTRACT LIABILITIES

	2017 HK$	2018 HK$	2019 HK$
Contract liabilities	-	6,779,000	4,127,265

Contract liabilities include receipt in advance to provide financial advisory and consultations services. The Group received part of the contract value as receipt in advance from an financial advisory service projects clients when service contracts are signed. The receipts in advance payment result in contract liabilities and relevant revenue is recognised throughout the financial advisory service project period until services are completed.

Revenue recognised during the year ended 31 December 2018 and 2019 that was included in the contract liabilities as at 1 January 208 and 2019 is HK$5,400,000 and HK$5,779,000 respectively.

35. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Analysed by collateral type:

Debt securities classified as:

	2017 HK$	2018 HK$	2019 HK$
Investment at amortised cost	-	184,927,612	543,611,474

Sales and repurchase agreements are transactions that the Group sells a security and simulataneously agrees to purchase it at the agreed date and price. As at 31 December 2018 amd 2019, debt securities which are classified as investments at amortised costs with carrying amount of HK$263,484,266 and HK$785,252,061 were sold under repurchase agreements with other financial institutions. All repurchase agreements are due within 12 months from the end of the reporting period.

The financial assets sold under repurchase agreements are due within one year.

36. OTHER PAYABLES AND ACCRUALS

	2017 HK$	2018 HK$	2019 HK$
Other payables and accruals are analysed as:			
Other payables			
Commission rebate for securities trading	6,242,832	9,719,751	10,471,612
Corporate bond interest payable	39,282,689	61,472,573	57,488,461
Borrowings interest payable	8,881,529	6,212,276	4,469,095
Fund subscriptions received in advance	377,913	-	58,764,112
Others	22,386,977	8,324,045	10,927,258
Other accrued expenses	14,226,316	15,360,975	10,539,202
Accrued staff costs	42,422,867	64,147,614	74,013,219
	133,821,123	165,237,234	226,672,959

37. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share and Option Scheme

On 16 December 2015, the shareholder of the Company approved the adoption of the Pre-IPO share and option scheme (the "Pre-IPO Share and Option Scheme"), by a subsidiary, Zhongtai International Financial Company Limited ("ZTIFC"), which shall be valid and effective for a period of 10 years (commencing from the approval of the scheme). A summary of the principal terms of the Pre-IPO Share and Option Scheme, is set out as follows:

The maximum number of shares of ZTIFC which may be issued upon exercise of all outstanding options granted and yet to be exercised and any shares of ZTIFC subscribed under the Pre-IPO Share and Option Scheme, in aggregate, shall not exceed 30% of the total number of shares of ZTIFC in issue from time to time.

On 28 January 2016, ZTIFC offered eligible participants, including the directors and key employees of the Group, the opportunity to participate in Pre-IPO Share Scheme. For each of the shares of ZTIFC subscribed by the directors and key employees on 28 January 2016, participants received three options under the Share Option Scheme of ZTIFC.

During the year ended 31 December 2018, Zhongtai International Holdings (Overseas) Limited had entered into a purchase and sales agreements to repurchase all shares of ZTIFC from the directors and key employees of the Group. No outstanding shares are held by the directors and key employees as at 31 December 2018 and 2019.

(i) Pre-IPO Share Scheme

The shares subscribed by the directors and key employees of the Group are as follows:

	Subscription / repurchased price in HK$ per share	Number of shares issued
As at 1 January 2017	-	93,603,348
Repurchased during the year	(0.963)	(21,852,337)
Repurchased during the year	(1.150)	(5,264,014)
As at 31 December 2017 and 1 January 2018		66,486,997
Repurchased during the year	(0.963)	(44,347,663)
Repurchased during the year	(1.150)	(22,139,334)
As at 31 December 2018, 1 January 2019 and 31 December 2019		-

37. SHARE-BASED PAYMENT TRANSACTIONS ("continued")

(ii) Pre-IPO Share Scheme ("continued")

The exercise price of the granted options is fixed at HK$0.963 per option. Each option gives the holder the right to subscribe for one share of the ZTIFC.

Options vest only on an exit event, being the date of listing of ZTIFC. Options are conditional on the employee completing service from the granted date to one to three years after the date of listing (the vesting period) of ZTIFC. 35% of the options are to be vested and become exercisable one year after the listing date, a further 35% are to be vested and become exercisable two years after the listing date, and the remaining 30% are to be vested and become exercisable three years after the listing date. The options have a contractual option term of ten years. ZTIFC has no legal or constructive obligation to repurchase or settle the options in cash.

As at December 2018, all the outstanding options of ZTIFC were forfeited as the Group did not undergo the initial public offering application as stated in the Option Scheme.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Number of options issued
As at 1 January 2017	188,464,200
Forfeited during the year	(56,927,897)
As at 31 December 2017 and 1 January 2018	131,536,303
Forfeited during the year	(131,536,303)
As at 31 December 2018, 1 January 2019 and 31 December 2019	-

During the year ended 31 December 2018, all outstanding options of ZTIFC were forfeited as the Group did not undergo the initial public offering application as stated in the Option Scheme.

The value of the options of ZTIFC granted to the directors and key employees of the Group on 28 January 2016 is approximately HK$126,500,000, based on the Binomial option pricing valuation model and the weighted average fair value of options granted during the period was ranging from HK$0.54 to HK$0.71 per option. The inputs into the model were as follow:

Option life	10 years
Expected volatility	59%
Risk-free interest rate	1.55%
Expected dividend yield	0%

During the year ended 31 December 2017, 2018 and 2019, no expense was recognised in the profit or loss for share options granted to directors and employees of the Group on the grounds that the exit event are not probable. Management's assessment is constantly reviewed and expenses are recognised if it becomes probable that a successful IPO will occur.

37. SHARE-BASED PAYMENT TRANSACTIONS ("continued")

(iii) Movement during the year

(a) Pre-IPO Share Scheme

Name of director	Nature of interests	Number of ordinary share(s) held as at 1 January 2017	Repurchased during the year	Number of ordinary share(s) held as at 31 December 2018 and 2019	Approximate percentage of the total issued shares of the ZTIFC as at 31 December 2017, 2018 and 2019
Gao Feng	Beneficial owner	29,860,000	(29,860,000)	-	2017, 2018: 1.45%; 2019: nil

(b) Pre-IPO Option Scheme

Name of director	Outstanding as at 1 January 2017 and 31 December 2017	Lapsed during the year	Outstanding as at 31 December 2018 and 2019	Exercisable period	Subscription price per share
					HK$
Gao Feng	59,580,000	(59,580,000)	-	note	0.963

Note: Options vest only on an exit event, the date of listing of ZTIFC. Options are conditional on the employee completing service from the granted date to one to three years after the date of listing (the vesting period) of ZTIFC. 35% of the options are to be vested and become exercisable one year after the listing date, a further 35% are to be vested and become exercisable two years after the listing date, and the remaining 30% are to be vested and become exercisable three years after the listing date.

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	NOTE	2017 HK$	2018 HK$	2019 HK$
Non-current asset				
Investments in subsidiaries	b	2,838,519,184	2,838,519,262	2,838,519,285
Financial assets at fair value through other comprehensive income		-	-	76,744,000
		2,838,519,184	2,838,519,262	2,915,263,285
Current assets				
Investments at amortised cost		-	-	79,475,410
Accounts receivables		-	-	10,139,043
Deposits and prepayments		10,576,641	20,717,037	2,276,892
Tax recoverable		2,575,252	2,575,252	2,575,252
Amounts due from subsidiaries		4,397,529,678	6,703,457,190	6,926,503,328
Financial assets at fair value through profit or loss		-	-	36,739,768
Bank balances and cash		638,931,684	469,685,050	20,434,842
		5,049,613,255	7,196,434,529	7,078,144,535
Total assets		7,888,132,439	10,034,953,791	9,993,407,820
Capital and reserves				
Share capital	a	1,790,983,375	1,790,983,375	1,790,983,375
Reserves	a	(110,197,470)	(147,579,201)	(144,081,682)
Total equity		1,680,785,905	1,643,404,174	1,646,901,693

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

	NOTE	2017 HK$	2018 HK$	2019 HK$
Non-current liability				
Bank borrowings		800,000,000	800,000,000	-
Current liabilities				
Accounts payable		25,932	121	2,908
Other payables and accruals		5,497,207	5,301,827	5,031,479
Bank borrowing		2,762,230,774	2,728,753,253	3,437,537,818
Amounts due to subsidiaries		2,639,592,621	4,857,494,416	4,903,933,922
		5,407,346,534	7,591,549,617	8,346,506,127
Total liabilities		6,207,346,534	8,391,549,617	8,346,506,127
Total equity and liabilities		7,888,132,439	10,034,953,791	9,993,407,820
Net current assets (liabilities)		(357,733,279)	(395,115,088)	(1,268,361,592)
Total assets less current liabilities		2,480,785,905	2,443,404,174	1,646,901,693

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

Note a:

	Share capital	Hedging reserve	Revaluation reserve	Accumulated losses	Total
	HK$	HK$	HK$	HK$	HK$
As at 1 January 2017	1,790,983,375	(31,892,670)	-	(22,662,123)	1,736,428,582
Loss the year	-	-	-	(87,535,347)	(87,535,347)
Reclassification adjustments for cumulative loss included in profit or loss upon disposal	-	31,892,670	-	-	31,892,670
Loss and total comprehensive expense for the year	-	31,892,670	-	(87,535,347)	(55,642,677)
As at 31 December 2017 and 1 January 2018	1,790,983,375	-	-	(110,197,470)	1,680,785,905
Loss and total comprehensive expense for the year	-	-	-	(37,381,731)	(37,381,731)
At 31 December 2018 and 1 January 2019	1,790,983,375	-	-	(147,579,201)	1,643,404,174
Profit for the year	-	-	-	3,921,519	3,921,519
Change in fair value of equity investments at fair value through other comprehensive income	-	-	(424,000)	-	(424,000)
Profit and total comprehensive income for the year	-	-	(424,000)	3,921,519	3,497,519
At 31 December 2019	1,790,983,375	-	(424,000)	(143,657,682)	1,646,901,693

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

Note b:

	2017 HK$	2018 HK$	2019 HK$
Unlisted shares, at cost	2,839,519,184	2,839,519,262	2,839,519,285
Less: Impairment loss recognised	(1,000,000)	(1,000,000)	(1,000,000)
	2,838,519,184	2,838,519,262	2,838,519,285

As at 31 December 2017, 2018 and 2019, the Company has interest in the following subsidiaries:

Name of company	Place of incorporation operation	Class of share held	Nominal value of issued ordinary share capital	Proportion of ownership interest directly held by the Company						Principal activities
				2017		2018		2019		
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
Zhongtai International Securities Limited	Hong Kong	Ordinary	HK$700,000,000	-	88%	-	97%	-	100%	Provision of securities brokerage service
Zhongtai International Future Limited	Hong Kong	Ordinary	2019 and 2018: HK$35,000,000 (2017: HK$15,000,000)	-	88%	-	97%	-	100%	Dealing in future contracts
Zhongtai Financial Investment Limited	Hong Kong	Ordinary	HK$45,000,000	100%	-	100%	-	100%	-	Investment holding
Zhongtai International Capital Limited	Hong Kong	Ordinary	2019 and 2018:: HK$50,000,000 (2017: HK$30,000,000)	-	88%	-	97%	-	100%	Provision of corporate finance service

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

Note b: ("continued")

Name of company	Place of incorporation operation	Class of share held	Nominal value of issued ordinary share capital	Proportion of ownership interest directly held by the Company						Principal activities
				2017		2018		2019		
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
Zhongtai International Wealth Management Limited	Hong Kong	Ordinary	HK$91,000,000	100%	-	100%	-	100%	-	Insurance broker and wealth management activities
Zhongtai International Financial Products Limited	Hong Kong	Ordinary	HK$500,000,000	100%	-	100%	-	100%	-	Investment holding
Zhongtai International Holdings (Overseas) Limited	The British Virgin Islands ("BVI")	Ordinary	HK$5,000	100%	-	100%	-	100%	-	Investment holding
Zhongtai International Financial Solutions Limited	Hong Kong	Ordinary	HK$10,000,000	-	-	100%	-	100%	-	Investment holding
Zhongtai Innovation Capital Management Limited	Cayman Islands	Ordinary	US$50,000	100%	-	100%	-	100%	-	Provision of management service
Zhongtai International Finance (BVI) Company Limited (note c)	BVI	Ordinary	US$1	100%	-	100%	-	100%	-	Bond issue
中泰金控國際控股有限公司	PRC	Ordinary	2019: HK$65,000,000 (2018: HK$55,000,000/ 2017: HK$30,000,000)	-	100%	-	100%	-	100%	Provision of consultancy services

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

Note b: ("continued")

Name of company	Place of incorporation	Class of share held	Nominal value of issued ordinary share capital	Proportion of ownership interest directly held by the Company						Principal activities
				2017		2018		2019		
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
Zhongtai International Financial Company Limited	Cayman Islands	Ordinary	HK$413,183,799	-	87%	-	97%	-	100%	Investment holding
Zhongtai International Holdings (Singapore) Pte. Ltd.	Singapore	Ordinary	2019: SGD 13,051,055 (2018: SGD 10,051,055 2017: SGD8,000,000)	-	100%	-	100%	-	100%	Investment holding
Zhongtai International Securities (Singapore) Pte. Ltd.	Singapore	Ordinary	SGD 3,000,000 (2017: SGD 2,000,000)	-	100%	-	100%	-	100%	Provision of securities brokerage service
Zhongtai International Asset Management (Singapore) Pte. Ltd.	Singapore	Ordinary	SGD2,000,000	-	100%	-	100%	-	100%	Asset management
Zhongtai International Investment Management (Singapore) Pte. Ltd. (note b)	Singapore	Ordinary	SGD 100	-	100%	-	100%	-	100%	Inactive
中泰金融投資管理咨詢(深圳)有限公司	PRC	Ordinary	RMB18,500,000	-	100%	-	100%	-	100%	Providing supporting service to holding company
Zhongtai International Asset Management Limited	Hong Kong	Ordinary	HK$80,000,000	100%	-	100%	-	100%	-	Asset management
Zhongtai International Financial Corporation	BVI	Ordinary	HK$0.1	-	87%	-	97%	-	100%	Investment holding

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (“continued”)

Note b: (“continued”)

Name of company	Place of incorporation operation	Class of share held	Nominal value of issued ordinary share capital	Proportion of ownership interest directly held by the Company						Principal activities
				2017		2018		2019		
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
宏潤（上海）融資租賃有限公司	PRC	Ordinary	RMB300,438,867 (2017:RMB245,438,867)	-	100%	-	100%	-	100%	Provide finance lease service
上海逸道資産管理有限公司	PRC	Ordinary	RMB60,000,000	-	100%	-	100%	-	100%	Asset Management
Zhongtai International Management Limited	Hong Kong	Ordinary	HK$10,000	-	88%	-	97%	-	100%	Provision of management and support services
Zhongtai Global Investment Limited	Hong Kong	Ordinary	HK$10,000	100%	-	100%	-	100%	-	Inactive
Zhongtai International Structured Solutions Limited	BVI	Ordinary	US$1	-	100%	-	100%	100%	-	Issuance of structured note
Zhongtai International M&A Investment Limited	BVI	Ordinary	US$1	-	100%	-	100%	100%	-	Inactive
Zhongtai International Principal Investment Limited	BVI	Ordinary	US$1	-	100%	-	100%	100%	-	Inactive

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

Note b: ("continued")

Name of company	Place of incorporation operation	Class of share held	Nominal value of issued ordinary share capital	Proportion of ownership interest directly held by the Company						Principal activities
				2017		2018		2019		
				Direct	Indirect	Direct	Indirect	Direct	Indirect	
Zhongtai International Strategic Investment Limited	BVI	Ordinary	US$3	-	100%	-	100%	100%	-	Inactive
Zhongtai International Bond 2017 (BVI) Company Limited (note a, c)	BVI	Ordinary	US$1	-	100%	-	100%	100%	-	Bond issue
Zhongtai International Investment group Limited (note d)	BVI	Ordinary	US$10	-	-	100%	-	100%	-	Inactive

(a) Being the subsidiary incorporated in BVI on 17 February 2017.

(b) Being the subsidiary incorporated in Singapore on 19 September 2017.

(c) These subsidiaries issued debt securities during the reporting period.

(d) Being the subsidiary incorporated in BVI on 19 January 2018.

38. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY ("continued")

Note b: ("continued")

In addition, the following consolidated investment funds are also subsidiaries of the Company. These consolidated investment funds are not body corporates and therefore do not have any paid-up register capital.

		Percentage of equity attributable to the Company						
		2017		2018		2019		Principal
Name	Place of incorporation and operation	Direct	Indirect	Direct	Indirect	Direct	Indirect	activities
Qilu RQFII Bond Fund-Fixed Income No.2 SP	Cayman Islands/ Hong Kong	-	100%	-	100%	-	100%	Investment fund
Qilu Dynamic Select Fund SP	Cayman Islands/ Hong Kong	-	100%	-	92%	-	97%	Investment fund
Qilu Jiacheng Preferred Income Fund	Cayman Islands/ Hong Kong	-	27%	-	80%	-	97%	Investment fund
Zhongtai Xinli multi-strategy Fund SP	Cayman Islands/ Hong Kong	-	48%	-	-	-	-	Investment fund
Zhongtai Offshore Fixed Income Fund I SP	Cayman Islands/ Hong Kong	-	80%	-	96%	-	100%	Investment fund
Zhongtai Forte Quantitative Market Neutral Fund SP	Cayman Islands/ Hong Kong	-	99%	-	100%	-	-	Investment fund
Zhongtai Dingfeng Classified Fund SP	Cayman Islands/ Hong Kong	-	47%	-	50%	-	65%	Investment fund
Zhongtai Fuan Classified Fund SP	Cayman Islands/ Hong Kong	-	-	-	55%	-	36%	Investment fund
Zhongtai East Peak Premier Income Fund SP	Cayman Islands/ Singapore	-	-	-	70%	-	63%	Investment fund
Zhongtai International Strategic Investment Funds SPC – Win win stable No.1 SP	Cayman Islands/ Singapore	-	-	-	100%	-	100%	Investment fund
Zhongtai Pre-IPO Fund- We Doctor SP	Cayman Islands/ Hong Kong	-	-	-	85%	-	82%	Investment fund
Zhongtai East Peak High Yield Bond Fund SP	Cayman Islands/ Singapore	-	-	-	-	-	34%	Investment fund
Zhongtai East Peak High Yield Bond Fund 2 SP	Cayman Islands/ Singapore	-	-	-	-	-	64%	Investment fund

The above table lists out the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

39. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payment under non-cancellable operating leases which fall due as follows:

	2017 HK$	2018 HK$
Within one year	31,266,277	38,133,133
In the second to fifth year inclusive	45,941,064	45,811,221
	77,207,341	83,944,354

As at 31 December 2018, operating lease payments represent rentals payable by the Company for certain of its office properties and staff quarters. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

The Group is the lessee in respect of a property which the leases were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 14). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in note 14.

40. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing from its unit holders. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

(a) Structured entities sponsored by the Group

Unconsolidated structured entities managed by the Group mainly include funds. The nature and aim 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 the unconsolidated structured entities mainly involve management fees and performance collected from the structured entities managed by the Group.

As at 31 December 2017, 2018 and 2019, the total net assets of these unconsolidated structured entities managed by the Group amounted to HK$3,576,846, nil and nil. The amount of investments and fee income from interests in these unconsolidated structured entities held or managed by the Group were not significant.

40. INTEREST IN UNCONSOLIDATED STRUCTURED ENTITIES ("continued")

(b) Structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but in which it holds an interest refer to fund investments held by the Group. The nature and purpose of these structured entities are to generate returns from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions for the year ended 31 December 2017, 2018 and 2019, which are set out below:

		2017		2018	2019
	Available - for - sale investments	Financial assets at fair value through profit or loss	Total	Financial assets at fair value through profit or loss	Financial assets at fair value through profit or loss
	HK$	HK$	HK$	HK$	HK$
Funds	155,869,241	111,540,364	267,409,605	390,820,088	518,142,939

(c) Consolidated structured entities managed and held by the Group

The Group has consolidated certain structured entities which are funds for investment trading on asset management business. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. The Group concludes that these structured entities shall be consolidated.

The size of consolidated structured entities is measured by the fair value of investments managed by the consolidated structured entities. As at 31 December 2019 and 2018, the fair value of investments managed by the consolidated structured entities are summarised in the table below:

	2017	2018	2019
	HK$	HK$	HK$
Fair value of investments managed by the consolidated structured entities	1,774,125,876	2,705,672,616	3,381,283,897

The financial impact of any individual fund on the Group's financial performance is not significant.

During the years ended 31 December 2017, 2018 and 2019, the Group did not provide financial support for any of the consolidated structured entities.

41. BANKING FACILITIES

As at the end of the reporting period, the Group has the following undrawn borrowing facilities:

	2017	2018	2019
	HK$	HK$	HK$
Floating rate			
- expiring within one year	904,155,000	1,105,000,000	1,477,000,000
- expiring beyond one year	309,659,208	200,000,000	200,000,000
	1,213,814,208	1,305,000,000	1,677,000,000

42. TRANSFER OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where the transfers qualify for derecognition, the transfer may give rise to full or partial derecognition of the financial assets concerned.

In other cases where the Group retained substantially all the risks and rewards of the financial assets concerned after the transfer, the Group continued to recognise the transferred assets.

Financial assets sold under repurchase agreement

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements, and the Group has determined that if the Group retains substantially all the risks and rewards of these equities, bonds and preference shares and therefore has not derecognised them.

Details of carrying amount and fair value of transferred assets, and the assessment performed by the Group in respect of whether debt securities sold under repurchase agreements shall be derecognised are disclosed in note 35.

43. RELATED PARTY TRANSACTIONS

(a) During the respective year ended, the Group had the following transactions with its related parties:

(i) the Group received commission and brokerage income in respect of dealing in securities and futures contracts and interest income in respect of accounts receivable in securities accounts from the directors amounting to HK$532,822, HK$294,844 and HK$3,711 for the year ended 31 December 2017, 2018 and 2019 respectively.

(ii) Finance lease receivable amounted to HK$131,296,000, nil and nil respectively for the year ended 31 December 2017, 2018 and 2019 are due from a fellow subsidiary.

(iii) Finance lease income from a fellow subsidiary amounting to HK$2,909,880, nil and nil for the year ended 31 December 2017, 2018 and 2019 respectively.

The above transactions were conducted at terms mutually agreed by the parties.

(b) Compensation of key management, personnel

During the period, the compensation to key management personnel, which represents the directors of the Company are disclosed in note 11.

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or futures cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Corporate bonds	Interest payables
	HK$	HK$	HK$
As at 1 January 2017	4,328,047,794	1,642,835,037	58,048,480
Financing cash flows	623,144,984	687,847,554	(252,866,667)
Non-cash items:			
Exchange difference	-	2,777,928	-
Interest expenses	-	-	242,982,405
As at 31 December 2017	4,951,192,778	2,333,460,519	48,164,218

44. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES ("continued")

	Borrowings	Corporate bonds	Interest payables
	HK$	HK$	HK$
As at 1 January 2018	4,951,192,778	2,333,460,519	48,164,218
Financing cash flows	(58,331,191)	1,559,228,861	(328,861,283)
Non-cash items:			
Exchange difference	2,379,581	14,827,718	-
Interest expenses	-	-	348,381,914
As at 31 December 2018	4,895,241,168	3,907,517,098	67,684,849

	Borrowings	Corporate bonds	Interest payables	Lease liabilities
	HK$	HK$	HK$	HK$
As at 1 January 2019	4,895,241,168	3,907,517,098	67,684,849	78,671,932
Financing cash flows	(295,347,410)	(1,424,908)	(372,477,934)	(40,177,024)
Non-cash items:				
New lease agreement	-	-	-	37,088,524
Elimination on lease termination	-	-	-	(1,993,339)
Exchange difference	(1,094,434)	(16,400,711)	-	-
Interest expenses	-	-	366,750,641	3,019,300
As at 31 December 2019	4,598,799,324	3,889,691,479	61,957,556	76,609,393

45. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of the companies now comprising the Group have been prepared in respect of any period subsequent to 31 December 2019.

46. DIVIDEND

No dividend was paid or proposed by the Group for the Relevant Period.

47. EVENT AFTER THE END OF THE REPORTING PERIOD

The wide spread of the novel Coronavirus in China since the beginning of 2020 is a fluid and challenging situation facing all the industries of the society. The Group has already assessed the overall impact of the situation on the operation of the Group and taken all possible effective measures to limit and keep the impact in control. The Group will keep continuous attention on the change of situation and make timely response and adjustments in the future.

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