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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in **CSC Financial Co., Ltd.**, you should at once hand this circular together with the accompanying form of proxy and reply slip to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

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# 中信建投証券股份有限公司 CSC FINANCIAL CO., LTD.

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

**(Stock Code: 6066)**

- (1) 2019 WORK REPORT OF THE BOARD OF DIRECTORS**
  - (2) 2019 WORK REPORT OF THE SUPERVISORY COMMITTEE**
  - (3) AMENDMENT OF PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**
  - (4) AMENDMENT OF PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES**
  - (5) AMENDMENT OF DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE OF A SHARES AND REMEDIAL MEASURES**
  - (6) 2019 FINAL FINANCIAL ACCOUNTS PLAN**
  - (7) PROFIT DISTRIBUTION OF THE COMPANY IN 2019**
  - (8) 2019 ANNUAL REPORT**
  - (9) CAP ON INVESTMENT AMOUNT FOR PROPRIETARY BUSINESS IN 2020**
  - (10) EXPECTED DAILY RELATED PARTY TRANSACTIONS IN 2020**
  - (11) REAPPOINTMENT OF 2020 ACCOUNTING FIRMS**
  - (12) 2019 WORK REPORT OF INDEPENDENT NON-EXECUTIVE DIRECTORS**
  - (13) NOTICE OF THE ANNUAL GENERAL MEETING**
- AND**
- (14) NOTICE OF THE 2020 SECOND H SHAREHOLDERS' CLASS MEETING**
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A letter from the Board is set out on pages 1 to 24 of this circular. Please refer to pages 119 to 126 of this circular for the notices convening the Annual General Meeting and the H Shareholders' Class Meeting.

Please complete and return the applicable reply as soon as possible in accordance with the instructions on the applicable return if you would like to attend the Annual General Meeting and/or the H Shareholders' Class Meeting, but in any event no later than Saturday, May 16, 2020.

Please complete and return the applicable proxy form in accordance with the instructions printed thereon, if the Shareholders are to appoint a proxy to attend the Annual General Meeting and/or the H Shareholders' Class Meeting.

For H Shareholders, the proxy form and any authorization instruments should be returned to Computershare Hong Kong Investor Services Limited (whose address is at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) as soon as possible, but in any event not less than 24 hours before the time appointed for holding the Annual General Meeting and the H Shareholders' Class Meeting (i.e. 9:30 a.m., Thursday, June 4, 2020). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Annual General Meeting and/or the H Shareholders' Class Meeting or at any adjourned meetings should you so wish.

April 17, 2020

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2. The currency for the amounts included in this Circular, unless otherwise stated, is Renminbi.	

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

“A Share(s)”	the ordinary shares in the issued share capital of the Company with a nominal value of RMB1.00 each, which have been listed on the Shanghai Stock Exchange
“A Shareholders”	holders of A Shares
“A Shareholders’ Class Meeting” or “2020 Second A Shareholders’ Class Meeting”	the 2020 second A Shareholders’ Class Meeting or any adjournment thereof to be convened at 10:30 a.m. on Friday, June 5, 2020 at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC or immediately after the end of the AGM
“Administrative Measures for Issuance”	the Administrative Measures for the Issuance of Securities by Listed Companies
“AGM” or “Annual General Meeting”	the 2019 annual general meeting or any adjournment thereof of the Company to be held at 9:30 a.m. on Friday, June 5, 2020 at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC
“Articles of Association”	the articles of association of the Company, as amended from time to time
“Board” or “Board of Directors”	the board of Directors of the Company
“Board Meeting”	the board meeting of the Company convened on Thursday, March 26, 2020
“Company”	CSC Financial Co., Ltd. (中信建投証券股份有限公司), a joint stock company incorporated in the People’s Republic of China with limited liability, the H Shares of which have been listed and traded on the main board of the Hong Kong Stock Exchange (stock code: 6066) and the A Shares of which have been listed and traded on the Shanghai Stock Exchange (stock code: 601066)
“Company Law”	the Company Law of the People’s Republic of China

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## DEFINITIONS

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“connected person”	has the meaning ascribed to such term under the Hong Kong Listing Rules
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“H Share(s)”	overseas listed foreign invested ordinary shares of RMB1.00 each in the share capital of the Company which are listed and traded in Hong Kong dollars on the Hong Kong Stock Exchange
“H Shareholders”	holders of H Shares
“H Shareholders’ Class Meeting” or “2020 Second H Shareholders’ Class Meeting”	the 2020 second H Shareholders’ class meeting or any adjournment thereof to be convened at 11:30 a.m. on Friday, June 5, 2020 at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC or immediately after the end of the A Shareholders’ Class Meeting
“HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Implementation Rules”	the Implementation Rules for the Non-public Issuance of Stocks by Listed Companies
“Independent Non-executive Director(s)” or “Independent Director(s)”	the independent non-executive Director(s) of the Company
“Independent Third Party(ies)”	persons who, to the best of the Directors’ knowledge having made all reasonable enquiries, are not connected persons of the Company
“Non-executive Director(s)”	non-executive director(s) of the Company

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## DEFINITIONS

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“Non-public Issuance” or “Issuance”	the proposed non-public issuance of not more than 1,277,072,295 A Shares by the Company
“PRC”	the People’s Republic of China, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Securities Law”	the Securities Law of the People’s Republic of China
“Share(s)”	ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, including A Shares and H Share(s)
“Shareholder(s)”	the shareholder(s) of the Company
“Shareholders’ Meetings”	the Annual General Meeting, the A Shareholders’ Class Meeting and the H Shareholders’ Class Meeting
“2019 Shareholders’ Meetings”	the 2019 second extraordinary general meeting, the 2019 first A Shareholders’ class meeting and the 2019 first H Shareholders’ class meeting of the Company held on May 21, 2019
“2020 Shareholders’ Meetings”	the 2020 first extraordinary general meeting, the 2020 first A Shareholders’ class meeting and the 2020 first H Shareholders’ class meeting of the Company held on April 9, 2020
“%”	per cent

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LETTER FROM THE BOARD

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**中信建投証券股份有限公司**  
**CSC FINANCIAL CO., LTD.**

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

**(Stock Code: 6066)**

Mr. Wang Changqing (*Chairman, Executive Director*)  
Mr. Yu Zhongfu (*Vice Chairman, Non-executive Director*)  
Mr. Li Geping (*Executive Director*)  
Ms. Zhang Qin (*Non-executive Director*)  
Ms. Zhu Jia (*Non-executive Director*)  
Mr. Wang Hao (*Non-executive Director*)  
Mr. Wang Bo (*Non-executive Director*)  
Mr. Xu Gang (*Non-executive Director*)  
Mr. Feng Genfu (*Independent Non-executive Director*)  
Ms. Zhu Shengqin (*Independent Non-executive Director*)  
Mr. Dai Deming (*Independent Non-executive Director*)  
Mr. Bai Jianjun (*Independent Non-executive Director*)  
Mr. Liu Qiao (*Independent Non-executive Director*)

*Registered office in the PRC:*  
Unit 4, No. 66 Anli Road  
Chaoyang District  
Beijing  
PRC

*Principal place of business in the PRC:*  
No. 188 Chaonei Avenue  
Dongcheng District  
Beijing  
PRC

*Principal place of  
business in Hong Kong:*  
18/F, Two Exchange Square,  
Central, Hong Kong

April 17, 2020

*To the Shareholders:*

Dear Sir or Madam,

- (1) 2019 WORK REPORT OF THE BOARD OF DIRECTORS**
  - (2) 2019 WORK REPORT OF THE SUPERVISORY COMMITTEE**
  - (3) AMENDMENT OF PROPOSED NON-PUBLIC ISSUANCE OF A SHARES**
  - (4) AMENDMENT OF PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES**
  - (5) AMENDMENT OF DILUTION OF CURRENT RETURNS BY  
THE NON-PUBLIC ISSUANCE OF A SHARES AND REMEDIAL MEASURES**
  - (6) 2019 FINAL FINANCIAL ACCOUNTS PLAN**
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- AND**
- (14) NOTICE OF THE 2020 SECOND H SHAREHOLDERS' CLASS MEETING**

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## LETTER FROM THE BOARD

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### 1. INTRODUCTION

Reference is made to the announcement of the Company dated March 26, 2020 in relation to the amendment of the proposed Non-public Issuance of A Shares, amendment of the Plan for the Non-public Issuance of A Shares and the amendment of the dilution of current returns by the Non-public Issuance of A Shares and remedial measures.

I, on behalf of the Board, would like to invite you to attend the Shareholders' Meetings to be held at 9:30 a.m. on Friday, June 5, 2020 at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC.

### 2. BUSINESS TO BE CONSIDERED AT THE AGM AND/OR THE A SHAREHOLDERS' CLASS MEETING AND THE H SHAREHOLDERS' CLASS MEETING

Resolutions will be proposed at the AGM to approve: (1) the 2019 work report of the Board of Directors; (2) the 2019 work report of the Supervisory Committee; (3) the amendment of the proposed Non-public Issuance of A Shares; (4) amendment of the Plan for the Non-public Issuance of A Shares; (5) the amendment of the dilution of current returns by the Non-public Issuance of A Shares and remedial measures; (6) the 2019 final financial accounts plan; (7) the profit distribution of the Company in 2019; (8) the 2019 annual report; (9) the cap on investment amount for proprietary business in 2020; (10) the expected daily related party transactions in 2020; and (11) the reappointment of 2020 accounting firms.

Resolutions (3) and (4) above are subject to approval by the Shareholders at the Annual General Meeting by way of special resolutions, while the rest of the resolutions are subject to approval by the Shareholders at the Annual General Meeting by way of ordinary resolutions.

Resolutions (3) and (4) are also subject to the approval by the A Shareholders at the A Shareholders' Class Meeting by way of special resolutions, and by the H Shareholders at the H Shareholders' Class Meeting by way of special resolutions.

The purpose of this circular is to provide you with the information on the above resolutions (1) to (11) to enable you to vote for or against the proposed resolutions at the Annual General Meeting, the A Shareholders' Class Meeting and/or the H Shareholders' Class Meeting under fully informed condition.

The resolution to be proposed at the Annual General Meeting for Shareholders' consideration is (12) the 2019 work report of Independent Non-executive Directors.

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## LETTER FROM THE BOARD

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(1) **2019 Work Report of the Board of Directors**

The 2019 work report of the Board of Directors of the Company was considered and approved by the Board on March 26, 2020 and is hereby proposed at the AGM for Shareholders' consideration and approval, details of which are set out in Appendix I to this circular.

(2) **2019 Work Report of the Supervisory Committee**

The 2019 work report of the Supervisory Committee of the Company was considered and approved by the Supervisory Committee on March 26, 2020 and is hereby proposed at the AGM for Shareholders' consideration and approval, details of which are set out in Appendix II to this circular.

(3) **Amendment of the Proposed Non-public Issuance of A Shares**

At the 2019 Shareholders' Meetings, the Shareholders passed the resolution to approve the Non-public Issuance of A Shares.

On February 14, 2020, the CSRC issued the Administrative Measures for the Issuance of Securities by Listed Companies (2020 Amendment) (《上市公司證券發行管理辦法(2020年修訂)》) and the Implementation Rules for the Non-Public Offering of Stocks of Listed Companies (2020 Amendment) (《上市公司非公開發行股票實施細則(2020年修訂)》) (collectively, the “**Refinancing Rules**”). The Refinancing Rules improved the systemic arrangement of non-public issuance of shares, mainly include (i) reducing the issue price from no less than 90% of the average trading price of the shares of a company for the 20 trading days preceding the price determination date to no less than 80%; (ii) shortening the lock-up period of the subscription shares from 36 months and 12 months to 18 months and 6 months, respectively (the former applies to controlling shareholders, actual controllers and their affiliates and strategic investors, and the latter applies to other target subscribers) and disapplying relevant restrictions in relation to sell-down rules; and (iii) changing the number of target subscribers for non-public issuance for main board from no more than 10 subscribers to no more than 35.

In accordance with the amendment of the regulatory rules and in consideration of the actual circumstances of the Company, the Company proposed to amend the resolution in relation to the proposed Non-public Issuance of A Shares as approved in the 2019 Shareholders' Meetings in respect of the number of target subscribers, issue price and lock-up period. The other content of the resolution remains unchanged.



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## LETTER FROM THE BOARD

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Details of the amendment are: (i) the number of target subscribers will be amended from no more than 10 subscribers to no more than 35 subscribers; (ii) the issue price will be amended from no less than 90% of the average trading price of the A Shares of the Company for the 20 trading days preceding the price determination date (excluding the price determination date) to no less than 80% of the average trading price of the A Shares of the Company for the 20 trading days preceding the price determination date (excluding the price determination date); and (iii) the lock-up period during which specific target subscribers holding less than 5% of the Shares of the Company shall not transfer their shares will be amended from 12 months from the date of completion of the Issuance to a period of 6 months from the date of completion of the Issuance.

The amended proposal is as follows:

**A. *Class and nominal value of shares to be issued***

The class of shares under the Non-public Issuance are domestically listed RMB denominated ordinary Shares (A Shares) with a nominal value of RMB1.00 per Share.

**B. *Issue method and time***

Issuance is conducted by way of non-public issuance of Shares to specific subscribers. The Company will issue Shares at an appropriate time within the validity period upon obtaining the approval documents of the CSRC.

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## LETTER FROM THE BOARD

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***C. Target subscribers and subscription method***

The target subscribers for the Non-public Issuance will be no more than 35 target subscribers which satisfy the relevant requirements of the CSRC. The scope of the target subscribers is no more than 35 target subscribers, which are securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors, which satisfy the relevant requirements of the CSRC. A securities investment fund management company subscribing for the shares with two or more of the funds under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for the A Shares with their own capital.

The final target subscribers shall be determined by the Company upon obtaining the written approval for the Non-public Issuance based on the prices offered by the target subscribers in accordance with the requirements of the Implementation Rules and the principle of price priority. All target subscribers shall subscribe the Shares under the Non-public Issuance by cash. Where there are other provisions in relation to the shareholder qualifications and respective review procedures for the target subscribers by the regulatory authorities, those provisions shall be complied with.

The Company has not determined the final target subscribers. In the event that any of the final target subscribers is a connected person of the Company, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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***D. Issue price and pricing principles***

The price determination date of the Non-public Issuance shall be the first day of the issue period of the Non-public Issuance of the Company. The issue price of the Issuance shall be no less than 80% of the average trading price (rounded up to the nearest two decimal places) of the A Shares of the Company for the 20 trading days preceding the price determination date (excluding the price determination date; same for below) or the last audited net asset per Share attributable to the ordinary shareholders of the parent company of the Company, whichever is higher.

For reference only, the audited net asset value per Share attributable to ordinary shareholders of the Company (excluding the impact of the perpetual bonds issued by the Company) as of December 31, 2019 was RMB6.09.

The average trading price of the A Shares of the Company for the 20 trading days preceding the price determination date shall be the total trading amount of A Shares of the Company for the 20 trading days preceding the price determination date divided by the total trading volume of A Shares of the Company for the 20 trading days preceding the price determination date. In the event that there are ex-right or ex-dividend activities causing adjustment to the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the price adjusted by the ex-right or ex-dividend activities.

In the event that the Company distributes dividends, grants bonus shares, allots shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period commencing from the balance sheet date of the latest audited financial reports to the date of Issuance, adjustments shall be made to the abovementioned net assets per Share accordingly.

Upon obtaining the written approval of the CSRC, the final issue price under the Non-public Issuance shall be determined by the Board of the Company or its authorized person(s), under the authorization granted at the Shareholders' Meetings, with the lead underwriter according to the prices offered by the target subscribers and in accordance with the requirements of the CSRC and the principle of price priority.

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## LETTER FROM THE BOARD

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***E. Issue size***

Subject to compliance with the regulator requirements of the places where the Shares of the Company are listed, the number of A Shares to be issued under the Non-public Issuance shall be no more than 1,277,072,295 Shares (inclusive). In the event that the Company grants bonus shares, allots shares, converts capital reserve into share capital or carries out any other ex-right activities during the period commencing from the announcement date of the Board resolution in relation to the Non-public Issuance to the date of Issuance, the size of the Issuance will be adjusted accordingly.

The final issue size under the Non-public Issuance of A Shares shall be determined by the Board of the Company or its authorized person(s), under the authorization granted at the Shareholders' Meetings, with the lead underwriter according to the cap and the issue price approved by the CSRC.

***F. Amount and the use of proceeds***

The total amount of proceeds from the Non-public Issuance is no more than RMB13 billion (inclusive), all of which will be used for replenishment of capital and working capital of the Company after deducting the Issuance expenses in order to expand the Company's business scale and improve competitiveness and ability to withstand risks. The proceeds are mainly used in the following areas:

<b>No.</b>	<b>Investment projects for the proceeds</b>	<b>Proposed investment amount</b>
1	Development of brokerage business	Not exceeding RMB5.5 billion
2	Development of investment trading business	Not exceeding RMB4.5 billion
3	Information system infrastructure	Not exceeding RMB1 billion
4	Capital contribution to subsidiaries	Not exceeding RMB1.5 billion
5	Other arrangements of working capital	<u>Not exceeding RMB500 million</u>
Total		<u><u>Not exceeding RMB13 billion</u></u>

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## LETTER FROM THE BOARD

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***G. Lock-up period***

According to the relevant requirements under the Administrative Measures for Issuance, the Implementation Rules and the Guidelines on Administrative Approval for Securities Companies No. 10 – Increase and Change in Equity Interest of Securities Companies (《證券公司行政許可審核工作指引第10號－證券公司增資擴股和股權變更》), following the completion of the Issuance, the specific target subscribers holding 5% or more (inclusive) of the Shares of the Company shall not transfer their shares for 48 months from the date of completion of Issuance. Specific target subscribers holding less than 5% of the Shares of the Company shall not transfer their shares for 6 months from the date of completion of the Issuance. Where there are provisions of other laws and regulations on the lock-up period, those provisions shall be complied with.

***H. Listing venue***

The shares to be issued under the Non-public Issuance will be listed on the Shanghai Stock Exchange.

***I. Arrangement of accumulated undistributed profits prior to the completion of the Issuance***

Both new Shareholders and existing Shareholders after the Issuance are entitled to the accumulated undistributed profits of the Company prior to the completion of the Non-public Issuance.

***J. Validity period***

Validity period of the resolution for the Non-public Issuance is April 9, 2020 to April 8, 2021, being the period of 12 months from the date when the resolution in relation to the extension of validity period of the plan for the Non-public Issuance of A Shares and the resolution in relation to the extension of validity period of full authorization to the Board to deal with relevant matters in relation to the Non-public Issuance were approved at the 2020 Shareholders' Meetings.

The resolution, as amended, has been approved by the Directors at the Board Meeting, and is hereby proposed for approval by the Shareholders at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting.

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## LETTER FROM THE BOARD

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**(4) Amendment of the Plan for the Non-public Issuance of A Shares**

On February 14, 2020, the CSRC issued the Refinancing Rules. In accordance with the amendments in the Refinancing Rules and in consideration of the Company's actual circumstances, the Company proposed to amend the Plan for the Non-public Issuance of A Shares approved at the 2019 Shareholders' Meetings accordingly. The main amendments relate to the number of target subscribers, issue price and lock-up period. The amended Plan for the Non-public Issuance of A Shares is appended hereto as Appendix III.

The amended Plan has been approved by the Directors at the Board Meeting, and is hereby proposed for approval by the Shareholders at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively.

**(5) Amendment of the Dilution of Current Returns by the Non-public Issuance of A Shares and Remedial Measures**

On February 14, 2020, the CSRC issued the Refinancing Rules. In accordance with the amendments in the Refinancing Rules and in consideration of the Company's actual circumstances, the Company proposed to amend the proposed Non-public Issuance of A Shares with respect to the number of target subscribers, issue price and lock-up period.

Accordingly, the Company conducted analysis on the impact of the amended Non-public Issuance of A Shares on dilution of current returns, and amended the remedial measures for dilution of current returns. Please refer to Appendix IV for specific details.

The amended remedial measures for dilution has been approved by the Directors at the Board Meeting, and is hereby proposed for approval by the Shareholders at the AGM.

**(6) 2019 Final Financial Accounts Plan**

The 2019 final financial accounts plan prepared in accordance with the China Accounting Standards for Business Enterprises was considered and approved by the Board on March 26, 2020 and is hereby proposed at the AGM for consideration and approval, details of which are set out in Appendix V to this circular.

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## LETTER FROM THE BOARD

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**(7) Profit Distribution of the Company in 2019**

As confirmed by the external auditors, the Company (referred to the “Parent Company”, the same thereafter) achieved a net profit of RMB5,397,213,163.55 in 2019.

According to the relevant provisions of the Company Law, the Securities Law, the Financial Regulations of Financial Enterprises (《金融企業財務規則》), the Interim Measures for the Supervision and Administration of the Risk Reserves of Public Securities Investment Funds (《公開募集證券投資基金風險準備金監督管理暫行辦法》) and the Articles of Association, the Company intended to distribute its net profit for 2019 according to the following orders:

According to 10% of net profit, a statutory reserve of RMB539,721,316.36 was drawn;

According to 10% of net profit, a general risk reserve of RMB539,721,316.36 was drawn;

According to 10% of net profit, a trading risk reserve of RMB539,721,316.36 was drawn;

According to 2.5% of mutual funds custodian fee, a risk reserve of RMB524,149.76 was drawn;

According to 10% of aggregate product management fees, a risk reserve of RMB30,678,734.80 was drawn.

The above items totaled RMB1,650,366,833.64, subtracting the Company’s interest on perpetual bonds of RMB371,417,808.22 and subtracting the dividends for 2018 distributed in the year 2019 of RMB1,376,349,342.84 and adding undistributed profit at the beginning of the year of RMB14,416,192,334.88, and the Company’s undistributed profit at the end of 2019 was RMB16,415,271,513.73.

Based on an overall consideration of the long-term development of the Company and the interests of shareholders, 2019 profit distribution budget is as follows:

The Company proposes to distribute in the form of cash dividends, on the basis of 7,646,385,238 Shares in the total issued share capital as of December 31, 2019, RMB2.35 (tax inclusive) for every 10 Shares to all shareholders, amounting to RMB1,796,900,530.93 (tax inclusive) in aggregate, representing 35.03% of net profit attributable to ordinary equity holders of the Company in the consolidated financial statements for 2019. The remaining undistributed profit will be carried forward to the subsequent year. If the total share capital of the Company changes before the share registration date for conducting profit distribution, then the distribution percentage per share remains unchanged while the total distribution amount will be adjusted accordingly, particulars of which will be further announced.

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## LETTER FROM THE BOARD

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Cash dividend is denominated and declared in RMB and payable in RMB to the A Shareholders and in Hong Kong dollars to the H Shareholders. The actual amount declared in Hong Kong dollars will be calculated based on the average of the intermediate exchange rate for conversion of Hong Kong dollars to Renminbi as announced by the People's Bank of China one calendar week prior to the date of convening the Shareholders' general meeting for considering and approving the resolution on profit distribution.

The above resolution was considered and approved by the Board on March 26, 2020 and is hereby proposed at the AGM for Shareholders' consideration and approval.

Cash dividend is expected to be distributed to the H Shareholders listed on the H Share register on Tuesday, June 16, 2020. For the purpose of determining the entitlement of H Shareholders to receive the cash dividend to be distributed, the register of members of the Company will be closed from Thursday, June 11, 2020 to Tuesday, June 16, 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to be entitled to the receipt of cash dividend to be distributed which will be approved at the AGM, the H Shareholders should ensure that all transfer documents together with relevant share certificates, are lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, June 10, 2020. Profit for 2019 (if approved by the Shareholders of the Company at the AGM) is expected to be distributed on or before Wednesday, July 22, 2020 to the H Shareholders listed on the H Share register of the Company on Tuesday, June 16, 2020.

**(8) 2019 Annual Report**

The 2019 annual report of the Company was considered and approved by the Board on March 26, 2020 and is hereby proposed at the AGM for the Shareholders' consideration and approval. The annual report has been published on the HKEXnews website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the website of the Company ([www.csc108.com](http://www.csc108.com)) on Thursday, April 16, 2020, and has been despatched to the Shareholders.



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## LETTER FROM THE BOARD

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**(9) Cap on Investment Amount for Proprietary Business in 2020**

According to the Provisions on Strengthening the Supervision and Administration of Listed Securities Companies (《關於加強上市證券公司監管的規定》) promulgated by the CSRC, “pursuant to the requirements of the listing rules of Shanghai Stock Exchange and Shenzhen Stock Exchange with respect to discloseable transactions, where the amounts of material investment including proprietary investment in securities by listed securities companies exceed certain thresholds such that they have to be disclosed in a timely manner and submitted to the shareholders’ general meeting for approval, such companies may submit the aggregate amount of proprietary investments for consideration and disclosure at shareholders’ general meeting each year, and in the event that any changes occur in the implementation process of these proprietary investments, subject to the provisions of the articles of association, the shareholders’ general meeting may authorize the board to vote on such changes and publish announcements regarding the same.”

According to the requirements above, the Company proposes that the AGM determine the cap on investment amount for proprietary investment, and to authorize and allow the Board to authorize the management on proprietary investment in relation to relevant matters to a certain extent in order to enable flexible allocation of capital and investment direction by the Company according to the market condition and enhance efficiency in decision-making on the proprietary investment. In this regard, the following matters were submitted to the AGM for consideration:

1. To propose to the AGM for approval of the 2020 investment limit for proprietary investment to be no more than the limit prescribed in the administrative regulations and regulatory documents of the CSRC, of which the aggregate amount for proprietary investment in equity securities and equity derivatives for the year of 2020 shall be within 100% of the audited net capital in the end of previous year; the aggregate amount for proprietary investment in non-equity securities and non-equity derivatives for the year of 2020 shall be within 500% of the audited net capital in the previous year. The above limit excludes long term equity investment of the Company, which shall still be determined and executed according to the relevant decision making process. The use of the above limit must comply with other relevant requirements under the SSE Listing Rules and the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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2. To propose to the AGM for authorization to the Board, subject to its compliance with the relevant requirements of proprietary investment management and risk control indicators issued by the CSRC, to determine and adjust the specific amount of the proprietary investment of the Company within the above limit according to the market condition, and to authorize the Board to authorize the management on proprietary investment in relation to relevant matters to a certain extent.

The above resolutions were considered and approved at the Board meeting on March 26, 2020 and is hereby proposed at the AGM for Shareholders' consideration and approval.

### **(10) Expected Daily Related Party Transactions in 2020**

To further standardize the management on daily related party transactions, the Company made a reasonable forecast on the daily related party transactions that may be entered into by the Company in 2020, details of which are as follows:

#### ***I. General information of daily related party transactions***

##### *(I) Overview of daily related party transactions*

Pursuant to the SSE Listing Rules and the Guidelines for the Implementation of Related Party Transactions of Listed Companies on Shanghai Stock Exchange (《上海證券交易所上市公司關聯交易實施指引》) and other regulations, the Articles of Association of CSC Financial Co., Ltd. and other internal systems, and the Requirements of the Management Systems on Related Party Transactions of CSC Financial Co., Ltd.(《中信建投證券股份有限公司關聯交易管理制度》), the Company made a reasonable forecast on its daily related party transactions for 2020 and submitted to the Board and the Shareholders' general meeting for consideration and approval. The daily related party transactions of the Company falling within the scope of forecast will not be separately proposed to the Board and Shareholders' general meetings for consideration and disclosure.

##### *(II) Overview of the expected related parties and related party relationship*

1. CITIC Securities Co., Ltd. (“**CITIC Securities**”)<sup>(Note 1)</sup>: CITIC Securities holds 5.01% of the total Shares of the Company. It is a listed company on the Shanghai Stock Exchange. For basic information of CITIC Securities, please refer to its announcements.

*Note 1.* CITIC Securities holds liquid stocks in the Company. As of December 31, 2019, CITIC Securities held 5.01% of the Shares.

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## LETTER FROM THE BOARD

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2. Industrial and Commercial Bank of China Limited (“**ICBC**”): Mr. Dong Shi, former director of the Company, served as a director of ICBC<sup>(Note 2)</sup>. ICBC is a listed company on the Shanghai Stock Exchange. For basic information of ICBC, please refer to its announcements.
3. Datang International Power Generation Co., Ltd. (“**Datang Power**”): Mr. Feng Genfu, Independent Director of the Company, served as an independent director of Datang Power<sup>(Note 3)</sup>. Datang International is a listed company on the Shanghai Stock Exchange. For basic information of Datang Power, please refer to its announcements.
4. Zheshang Bank Co., Ltd. (“**CZBANK**”): Mr. Dai Deming, Independent Director of the Company, also serves as an independent director of CZBANK. CZBANK is a listed company on the Shanghai Stock Exchange. For basic information of CZBANK, please refer to its announcements.
5. Power Construction Corporation of China, Ltd. (“**PowerChina**”): Mr. Dai Deming, Independent Director of the Company, also serves as an independent director of PowerChina. PowerChina is a listed company on the Shanghai Stock Exchange. For basic information of PowerChina, please refer to its announcements.
6. China Merchants Bank Co., Ltd. (“**China Merchants Bank**”): Mr. Liu Qiao, Independent Director of the Company, also serves as an independent director of China Merchants Bank. China Merchants Bank is a listed company on the Shanghai Stock Exchange. For basic information of China Merchants Bank, please refer to its announcements.
7. Beijing Capital Corporation Limited (“**Beijing Capital**”): Mr. Liu Qiao, Independent Director of the Company, also serves as an independent director of Beijing Capital. Beijing Capital is a listed company on the Shanghai Stock Exchange. For basic information of Beijing Capital, please refer to its announcements.

*Note 2.* Mr. Dong Shi resigned from his positions as the vice chairman and non-executive director of the Company on November 27, 2019, and as non-executive director of ICBC on February 10, 2020. Mr. Dong Shi served as a director at the Company and ICBC respectively in the past 12 months.

*Note 3.* Mr. Feng Genfu resigned from his position as an independent director of Datang Power on January 20, 2020.

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## LETTER FROM THE BOARD

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*(III) Approval procedures for daily related party transactions*

Pursuant to the SSE Listing Rules and the Guidelines for the Implementation of Related Party Transactions of Listed Companies on Shanghai Stock Exchange (《上海證券交易所上市公司關聯交易實施指引》), the expected daily related party transactions of the Company are required to perform the review procedure for the Board meetings and Shareholders' general meetings.

The Daily Related Party Transaction Agreement (the “**Agreement**”) between the Company and ICBC have been approved at the 2017 annual general meeting of the Company, which would be valid until December 31, 2020. Currently, the major terms of the Agreement have no material changes and are still within the effective period at the Shareholders' general meeting.

Therefore, in 2020, the transactions between the Company and ICBC within the scope of the Agreement will no longer be submitted to the Board meeting and Shareholders' general meeting for consideration. In addition, on October 30, 2018, Information Disclosure Delay and Waiver Management System of CSC Financial Co., Ltd. (《中信建投證券股份有限公司信息披露暫緩與豁免管理制度》) was considered and approved at the eighth meeting of the second session of the Board of the Company, and was disclosed on the websites of Shanghai Stock Exchange and Hong Kong Stock Exchange. According to such system, “where a natural person concurrently serves as an independent director of the Company and other legal person in the absence of any other circumstances constituting a related person relationship, and a transaction conducted by the legal person or entity with the Company may be waived from review and disclosure as required for the related party transaction.” Since Mr. Feng Genfu, Independent Director of the Company, served as an independent director of Datang Power, Mr. Dai Deming, Independent Director of the Company, also serves as an independent director of CZBANK and PowerChina, and Mr. Liu Qiao, Independent Director of the Company, also serves as an independent director of China Merchants Bank and Beijing Capital, the transactions conducted by the Company with Datang Power, CZBANK, PowerChina, China Merchants Bank and Beijing Capital were waived from review and disclosure as required for the related party transaction.

The audit committee of the Board of the Company has reviewed the expected daily related party transactions considered in this resolution without objection. The expected related party transactions were considered and approved by the Board of the Company. Independent opinions have been endorsed and issued by the Independent Directors of the Company approving the same. Such resolution

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## LETTER FROM THE BOARD

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is hereby proposed at the AGM for Shareholders' consideration and approval. When the resolution is considered at the Shareholders' general meeting, Shareholders who have conflicts of interests in relation to the above related party transactions shall abstain from voting on the related party transaction.

*(IV) Expected amount and type of daily related party transactions for 2019*

1. Expected daily related party transactions to be conducted with CITIC Securities

CITIC Securities holds 5.01% of the total Shares of the Company, and constitutes a related party under the SSE Listing Rules. The expected related party transactions between the Company and CITIC Securities for 2020 are as follows:

Type of related party transactions	Description of related party transactions	Expected amount for 2020 <i>(RMB'0,000)</i>
Securities and financial products transactions	Over-the-counter interchangeable financial derivatives business, distribution trading, spot trading, repurchase transactions, subscription for private placement bonds or income certificates, establishment of asset management products and private equity fund, etc.	Subject to actual amount (note)
Income	Fees and commission income	200.00
Expenditure	Fees and commission expenditure	190.00

*Note:* As the securities market conditions are unpredictable, the trading volume is difficult to estimate. By referring to the market practice, the trading volume of securities and financial products is calculated by the actual amount.

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## LETTER FROM THE BOARD

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2. Expected daily related party transaction with ICBC

Pursuant to the Agreement entered into between the Company and ICBC, the type of expected related party transactions entered into with ICBC by the Company and enterprises directly or indirectly controlled by the Company are as follows:

<b>Business types</b>	<b>Specific classification</b>
Credit business	Including but not limited to bond lending, bond repurchases, capital and precious metals lending and other businesses
Non-credit business	Including but not limited to bond trading, precious metal trading, asset management, asset custody, spot sales and other businesses

The annual cap on the related party transactions under the Agreement is RMB30 billion, of which the annual cap on credit transactions is RMB20 billion and the annual cap on non-credit transactions is RMB10 billion. The aforesaid caps on transaction amount are calculated per annum from 1 January 2018, and the Agreement would be valid until December 31, 2020.

### ***II. Summary and pricing principle of daily related party transactions***

Daily related party transactions of the Company are priced based on market price level and industry practice. The pricing is fair and there is no detriment to the interests of the Company and its shareholders.

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## LETTER FROM THE BOARD

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### *III. Purpose of daily related party transactions and the effect on the Company*

- (I) The above daily related party transactions are priced based on market prices. The pricing principle is reasonable and fair and there is no detriment to the interests of the non-related party shareholders of the Company. The relations between the Company and related parties are equal and mutually beneficial and there is no detriment to the rights and interests of the Company.
- (II) The above daily related party transactions occur in the normal course of business operation of the Company, which facilitate the business development of the Company and the improvement of its overall competitiveness.
- (III) The above daily related party transactions have no effect on the independence of the Company. The primary businesses of the Company do not rely on related parties by virtue of the above related party transactions.

Thus, as there is no change in the principal terms of the Agreement entered into between the Company and ICBC, which is within the validity term approved at the Shareholders' general meeting, the daily expected related party transactions of the Company with CITIC Securities in 2020, among the aforesaid daily expected related transactions, are hereby proposed for Shareholders' consideration and approval.

The above resolution was considered and approved by the Board on March 26, 2020 and is hereby proposed at the AGM for Shareholders' consideration and approval. When the proposals are considered at the AGM, Shareholders who have conflicts of interests in relation to the above related party transactions shall abstain from voting on the related party transaction.

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## LETTER FROM THE BOARD

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**(11) Reappointment of 2020 Accounting Firms**

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers are proposed to be re-appointed as the external auditors of the Company for 2020, to provide relevant audit and review services in accordance with China Accounting Standards for Business Enterprises and International Financial Reporting Standards, respectively. PricewaterhouseCoopers Zhong Tian LLP is proposed to be re-appointed as the auditors for internal control of the Company in 2020. The total fees of the domestic and overseas audit and review services for 2020 shall not exceed RMB4.18 million (excluding audit fees for first-level controlled subsidiaries). If the fees increase as a result of changes in the scope and content of the audit and review, it is proposed at the general meeting to authorize the Board to determine the fee.

The above resolution was considered and approved by the Board on March 26, 2020 and is hereby proposed at the AGM for Shareholders' consideration and approval.

**To receive the relevant report:**

**(12) 2019 Work Report of Independent Non-executive Directors**

The 2019 work report of the Independent Non-executive Directors of the Company will be submitted to the AGM for consideration but no resolution is required to be made thereat. Details of the report are set out in Appendix VI to this circular for Shareholders' reference.



## LETTER FROM THE BOARD

### 3. IMPACT OF THE NON-PUBLIC ISSUANCE OF A SHARE ON THE COMPANY'S SHAREHOLDING STRUCTURE

For reference and illustration purposes only, assuming that there are no changes to the total issued share capital of the Company prior to the completion of the Issuance and that subject to the regulatory requirements of the places where the Shares of the Company are listed, a maximum of 1,277,072,295 A Shares are issued under the Issuance (which represents approximately 16.70% of the total issued share capital of the Company as at the date of this circular and approximately 14.31% of the total issued share capital of the Company as enlarged by the issuance of the A Shares under the Issuance), the shareholding structure of the Company immediately before and after completion of the Issuance is set out as follows:

	Immediately before completion of the Issuance		Immediately after completion of the Issuance	
	Number of Shares	Approximate percentage of the Company's total issued share capital	Number of Shares	Approximate percentage of the Company's total issued share capital
A Shares				
Beijing State-owned Capital Operation and Management Center <sup>(1)</sup>	2,684,309,017	35.11%	2,684,309,017	30.08%
Central Huijin Investment Ltd. <sup>(1)</sup>	2,386,052,459	31.21%	2,386,052,459	26.74%
Other A Shareholders	1,315,000,000	17.20%	1,315,000,000	14.74%
New A Shares to be issued under the Issuance	–	–	1,277,072,295	14.31%
<b>Sub-total of A Shares:</b>	6,385,361,476	83.51%	7,662,433,771	85.87%
<b>H Shares</b>	1,261,023,762	16.49%	1,261,023,762	14.13%
<b>Total:</b>	<u>7,646,385,238</u>	<u>100.00%<sup>(2)</sup></u>	<u>8,923,457,533</u>	<u>100.00%</u>

Notes:

- (1) Beijing State-owned Capital Operation and Management Center and Central Huijin Investment Ltd. are substantial Shareholders of the Company, and therefore their shareholding shall not count towards public float of the Company.
- (2) The sum of the percentage of the separate figures is not 100% due to rounding.

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## LETTER FROM THE BOARD

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At the time of the listing of the H Shares on the Hong Kong Stock Exchange, the Hong Kong Stock Exchange has granted the Company, a waiver that the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules be reduced and the minimum percentage of the H Shares from time to time held by the public to be the highest of: (1) 15% of the total issued share capital of the Company; (2) such percentage of H Shares of the total issued share capital of the Company to be held by the public immediately after completion of the Global Offering (assuming the overallotment Option is not exercised); or (3) such percentage of H Shares of the enlarged issued share capital of the Company to be held by the public after the exercise of the Over-allotment Option. Immediately after the issue and allotment of the over-allotment Shares, the number of H Shares in public hands represents not less than 17.40% of the total issued Share. Pursuant to the public information available to the Company and to the best knowledge of the Directors as at the date of this circular, 33.69% of the total issued share capital of the Company (including H Shares and A Shares) is held by the public.

As a result of the proposed Non-public Issuance and assuming a maximum of 1,277,072,295 A Shares are all issued to Independent Third Parties and counted as public float, the Company's public float (including H Shares and A Shares) will be approximately 43.18% and the Company's public float (including H Shares only) will be approximately 14.13%. The Company would still be able to meet the minimum requirement on public float percentage as imposed by the Hong Kong Stock Exchange at the time of the Company's listing of H Shares. The Company will closely monitor its public float percentage to make sure its compliance, at all time, with relevant requirements on public float as stipulated under the Hong Kong Listing Rules and will promptly notify the Hong Kong Stock Exchange of any changes in the Company's public float.

#### **4. REASONS FOR AND BENEFITS OF THE PROPOSED A SHARE OFFERING**

As the economy of the PRC is transformed and upgraded, and as many guiding policies, such as developing multi-level capital markets, are published, which laid a policy foundation for securities companies engaging in innovative capital investment and capital-based intermediary business, the business model of securities companies will undergo transition from the previous commission-based business model to the integrated business model focusing on fee-based intermediary business, capital-based intermediary business, and self-funded investment business, and will gradually become a new niche for profit growth. Under the regulatory system centered on net capital, capital capability will become one of the key factors for securities companies to develop capital-based intermediaries and other innovative business, and enhance competitive advantages. Sufficient capital is the foundation and safeguards for securities companies to realize continuing healthy development and enhance competitive strength.

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## LETTER FROM THE BOARD

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To actively seize the development opportunities in the industry and enhance the Company's competitiveness, the Company intends to expand its capital scale and reinforce the capital strength by way of Non-public Issuance of A Shares. On the basis of consolidating the advantageous business, the Company strengthens the capital-driven business and promotes the development of innovative business, in order to further optimize the income structure, improve resilience capability of risks, and help the Company maintain and steadily strengthen the advantage of innovative capability, thereby creating larger returns to the Shareholders by seizing the strategic opportunities for the Company among the increasingly fierce competition in the industry.

The Directors consider that the additional issuance of A Share is in the interests of the Company and the Shareholders as a whole. The above resolutions are required for the Issuance. In the event that any resolution is not approved by the Shareholders at the AGM, the A Shareholders' Class Meeting or the H Shareholders' Class Meeting, the Company will not proceed with the Issuance and will consider revising the terms of Issuance and have them re-submitted for Shareholders' approval.

### **5. CAPITAL RAISING ACTIVITIES**

As at the date of this circular, the Company has not conducted any fund-raising activities in relation to the issue of the equity securities in the 12 months immediately preceding the date of this circular.

For the upcoming 12 months starting from the date of this circular, based on its working capital need and market conditions, the Company will flexibly raise capital through issuing corporate bonds, short-term corporate bonds, income receipts, and subordinated bonds etc., in order to satisfy the working capital need in relation to the Company's business development.

### **6. RESPONSIBILITY STATEMENT**

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable inquiries, confirm that, as far as they are aware and are satisfied that the information contained in this circular is accurate and complete in all material respects, there is no misleading or fraudulent material and no omission of any of the information contained in this circular or other matters which are misleading.

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## LETTER FROM THE BOARD

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### 7. AGM, THE A SHAREHOLDERS' CLASS MEETING AND THE H SHAREHOLDERS' CLASS MEETING

The Annual General Meeting, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting will be held on Friday, June 5, 2020 at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC. The notices of AGM and the H Shareholders' Class Meeting are set out on pages 119 to 126 of this circular.

Forms of proxy to be used at the AGM and the H Shareholders' Class Meeting (if applicable) are enclosed. If you intend to appoint a proxy to attend the AGM and/or the H Shareholders' Class Meeting, please complete and return the enclosed proxy forms in accordance with the instructions printed thereon. For H Shareholders, the proxy form or any other authorization documents should be returned to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited. Completion and return of the proxy forms will not preclude you from attending and voting at the AGM and/or the H Shareholders Class Meeting or at any adjourned meetings if you so wish.

If you intend to attend the AGM and/or the H Shareholders' Class Meeting in person or by proxy, you are required to return the completed and signed reply slips to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for H Shareholders), on or before Saturday, May 16, 2020 in person, by mail or by fax.

Computershare Hong Kong Investor Services Limited, the Company's H Share registrar, is located at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (Telephone: (852) 2862 8555).

In order to determine the list of Shareholders who are entitled to attend the AGM and the H Shareholders' Class Meeting, the Company will close the register of members of H Shares during the period from Wednesday, May 6, 2020 to Friday, June 5, 2020 (both days inclusive), during which no registration of Shares will be made. H Shareholders who wish to attend the AGM and/or the H Shareholders' Class Meeting are required to send all the transfer documents together with the relevant Shares to Computershare Hong Kong Investor Services Limited which is at Shops 1712–1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to register before 4:30 p.m. of Tuesday, May 5, 2020. At the end of the above business hours, H Shareholders registered in Computershare Hong Kong Investor Services Limited or the office of the Board of the Company (if applicable) are entitled to attend the AGM and the H Shareholders' Class Meeting.

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## LETTER FROM THE BOARD

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### 8. VOTING BY POLL

In accordance with rule 13.39(4) of the Hong Kong Listing Rules, any vote made by the Shareholders at a Shareholders' general meeting shall be conducted by way of poll, except where the chairman of the meeting, in good faith, decides to allow a resolution which only relates to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolutions proposed at the Annual General Meeting will be voted by way of poll.

CITIC Securities Co., Ltd. (which holds 382,849,268 Shares, representing approximately 5.01% of the total Shares) is interested in the resolution to consider and approve the expected daily related party transactions of the Company in 2020 (ordinary resolution number 10), and so it will abstain from voting in the relevant resolution at the Annual General Meeting.

### 9. RECOMMENDATIONS

The Directors consider that all resolutions proposed above are in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Shareholders to vote in favour of all the resolutions to be submitted at the Annual General Meeting and the H Shareholders' Class Meeting.

By order of the Board  
**CSC Financial Co., Ltd.**  
**Wang Changqing**  
*Chairman*

Beijing, the PRC  
April 17, 2020

## I. BASIC SITUATION OF THE BOARD OF THE COMPANY IN 2019

As of December 31, 2019, the Board of the Company comprised 13 Directors, including Mr. WANG Changqing, Mr. YU Zhongfu, Mr. LI Geping, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao, Mr. WANG Bo, Mr. XU Gang, Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao. Among them, Mr. WANG Changqing was the Chairman, Mr. YU Zhongfu was the Vice Chairman. Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao were independent non-executive Directors. Mr. WANG Changqing and Mr. LI Geping were executive Directors, and the others were non-executive Directors.

In 2019, the Board of the Company convened 7 Board meetings for the consideration and adoption of 42 resolutions and hearing of two reports. Except for the annual report of the board of directors, final financial accounts plan, profit distribution plan, annual report, the plan for the non-public issuance of A Shares, and other resolutions which have been considered and adopted and submitted to the general meeting for consideration and adoption, the Board also considered and adopted resolutions on matters such as periodic reports, amendments to accounting policies, appointment of senior management personnel, capital increase of subsidiaries, determination and adjustment of risk management policies, cancellation of certain securities business departments, external donations, compliance reports, risk reports, and internal control evaluation reports, and facilitated the effective implementation of various resolutions upon consideration and adoption.

In 2019, the Board of the Company has diligently fulfilled its duty as a convener of general meetings in accordance with the provisions of the Articles of Associations. The Board convened five general meetings in total for consideration and adoption of 22 resolutions and hearing of one report. The Board diligently arranged the Non-public Issuance of A Shares and the issuance of debt financing instruments, comprehensively implemented the resolutions of the general meetings, and facilitated the sustainable and healthy development of the Company.

## II. IMPLEMENTATION OF MAJOR TASKS OF THE BOARD OF DIRECTORS FOR 2019

### (I) Give play to a strategic leading role and drive the outstanding performance of operations

2019 was the first full fiscal year after the H Shares and A Shares of the Company were listed. The Board always maintains a sense of distress, fully evaluates changes in the business environment and the development trend of the securities industry, studies, establishes, reviews and makes adjustments to the development strategies of the Company, supports executive management to formulate market-competitive business strategies, and facilitates the overall development of various businesses of the Company. Focusing on the capital replenishment, the Board considered and adopted relevant resolutions on the Non-public Issuance of A Shares, and orderly implemented the resolutions in relation to the mandates for issuance of various debt financing instruments. Focusing on the business transformation, the

Board and the Development Strategy Committee under the Board studied and discussed the strategic planning of brokerage business, cross-border business and information technology, considered and adopted the Resolution on the Capital Increase of China Securities Investment Limited, and the Resolution on the Cancellation of Certain Securities Business Departments, and supported the executive management to adjust the organizational structure. Focusing on the talent management, the Board considered and adopted the Resolution on the Addition of Members of the Executive Committee of the Company and Resolution on Adjustment to the Chief Compliance Director and Chief Risk Officer.

According to China Accounting Standards for Business Enterprises, in 2019, the Company achieved consolidated operating revenue of RMB13.693 billion, representing a year-on-year increase of 25.54%; a net profit attributable to equity holders of the parent of RMB5.502 billion, representing a year-on-year increase of 78.19%. As of the end of 2019, the total consolidated assets of the Company amounted to RMB285.670 billion, the equity attributable to equity holders of the parent amounted to RMB56.582 billion, and the return on weighted net assets after excluding the impact of perpetual subordinated debt was 11.51%, which continued to be at the forefront of the industry.

**(II) Strengthen risk compliance management to ensure scientific and effective internal control**

In 2019, the Board considered and adopted the Resolution on 2019 Risk Management Policies of the Company, which defined the risk appetite and tolerance that match the development strategies and objectives of the Company and authorized the executive management to formulate other compatible risk limits and risk control standards approving to the risk appetite, risk tolerance and risk limits determined by the Board to ensure the risks undertaken by the operations of the Company can be measured, controlled and are at a tolerable level.

In addition, the Board also considered and adopted the Resolutions on the Risk Report of the Company for 2018, the 2018 Compliance Report of the Company, the 2018 Internal Control Evaluation Report of the Company, the Risk Report of the Company for the First Half of 2019 and the engagement of the External Evaluation Institution for Compliance Management Effectiveness of the Company for 2019, regularly review the effectiveness of the risk management and compliance management of the Company. The Risk Management Committee and Audit Committee under the Board reviewed the risk management and internal control management from time to time to ensure that the Company has established an internal control system for each of the business and management matters that are included in the scope of assessment, and the system has been effectively implemented.

**(III) Continue to promote capital replenishment and continue to enhance market competitiveness of the Company**

In terms of equity financing, in January 2019, the Board considered and adopted the relevant resolutions on the Non-public Issuance of A Shares of the Company (the “**Issuance**”), proposed non-public issuance of no more than 1.277 billion A Shares with proceeds of no more than RMB13 billion for, among others, the development of investment trading businesses such as proprietary investment in securities, capital intermediary business such as financing and securities lending, credit transaction, capital increase of subsidiaries, and information technology system upgrades. The application of the Issuance has been approved by the China Securities Regulatory Commission.

In terms of debt financing, the Company reasonably designed the term structure of debt financing, carried out debt financing with a rich variety of debt financing types and flexible debt financing strategies, provided stable funding guarantees for the development of various businesses, and effectively reduced the financial costs of the Company. Pursuant to the mandate granted at the general meeting, in 2019, the Company initiated issuance of three tranches of subordinated bonds with an issue size of RMB14,500 million; issuance of one tranche of financial bonds with an issue size of RMB4,000 million; issuance of one tranche of perpetual subordinated bonds with an issue size of RMB5,000 million; issuance of eight tranches of company short-term financing bonds with an aggregated issue size of RMB28 billion (as of December 31, 2019, the outstanding amount to be paid was approximately RMB12 billion); issuance of 837 tranches of structured notes with an aggregated issue size of approximately RMB26 billion (as of December 31, 2019, the outstanding amount to be paid was approximately RMB6 billion). The accumulated issue size of various debt financing instruments of the Company for the year amounted to approximately RMB77.5 billion in aggregate.

**(IV) Fulfill the obligation of information disclosure and strengthen the maintenance of investor relations**

In 2019, the Company performed the obligation of information disclosure in strict compliance with the laws and regulations, and listing rules of the places where the Shares are listed. The Company disclosed more than 260 documents on the websites of Shanghai Stock Exchange and the HKEXnews of the Hong Kong Exchanges and Clearing Limited, including but not limited to the periodic reports, announcements on resolutions, monthly briefings of financial data, monthly returns of equity issuer on movements in securities, announcements on abnormal fluctuations in shares trading, announcements on reduced shareholding by shareholders and other voluntary announcements. The Company issued two clarification announcements in response to market rumors, prompting investors to pay attention to identifying information and prevent risks. In addition, the announcement on expected daily



related party transactions for the year was prepared and timely disclosed by the Company in accordance with the relevant requirements of Shanghai Stock Exchange, and the announcement on the cap of investment amount for proprietary investment business for the year was prepared and timely disclosed by the Company in accordance with the requirements for securities companies by the China Securities Regulatory Commission.

The Company attaches great importance to maintaining investor relations, and the Company has established a good mechanism for communication by means of, among others, receiving visitors, telephone interviews, and email communications, and has proactively maintained investor relations as required by laws and in a compliant manner. In 2019, the Company established an online investors communication meeting mechanism based on periodic performance reports. After the release of quarterly results, the Company held investor communication meetings through the online platform of the Shanghai Stock Exchange Roadshow Center and achieved good results. The Company maintained communication with investors through the investor hotline, investor email, and “SSE E Interactive” platform of the Shanghai Stock Exchange; and established an interconnection mechanism with the customer service hotline of the Company to jointly address concerns of investors.

**(V) Perform corporate social responsibilities and support the development of real economies**

In 2019, the Board continued to motivate the Company to fulfil its corporate social responsibilities and actively implement the targeted poverty alleviation. The Company facilitated financial poverty alleviation through financial aid, governance improvement and advisory services. While relying on professional and resource advantages in the financial sector to help characteristic industries in poverty-stricken counties develop, the Company actively addressed the needs of recorded poor households in poverty-stricken counties, made more donations and provided greater industrial assistance to overcome difficulties locally and poverty as soon as possible. The Company also appointed young cadres to take temporary posts in poverty-stricken counties.

In 2019, the Company donated RMB6.83 million to nearly 20 national poverty-stricken counties, assisted national poverty-stricken counties to raise money amounting to RMB2,700 million. The Company also acted as the lead underwriter to assist enterprises in successfully issuing the first special corporate bond for poverty alleviation in Jiangxi Province with a financing amount of RMB500 million. In terms of green bond issuance, the Company actively served the real economy and ranked the first in the industry with an issue amount of RMB9,500 million. The Company also conducted capital market education and training in a number of national poverty-stricken counties to promote the development of local enterprises and industries.

**(VI) Strengthen the self-improvement and enhance capability of performance of duties**

The Board has closely followed the changes in relevant laws, regulations and regulatory rules, attached importance to survey and research, continued to strengthen its self-improvement and enhanced capability of performance of duties.

In 2019, the Board arranged research and training in a scientific and reasonable manner, focusing on improving corporate governance and strengthening internal control management, transforming the research results into the improvement of the operational efficiency and management effectiveness of the Company. In terms of survey, the Company organized survey conducted by Directors on branches in Xi'an, Shanghai, Jiangsu, Sichuan, Shenzhen and other regions, and heard special reports from subsidiaries such as China Securities Futures and China Securities International, kept abreast of the business development status and development bottlenecks of the Company, and looked into methods to solve problems. In terms of topic research, the Directors led the formation of a special subject group to study the provisions for credit business impairment of securities companies and related risk management issues and completed the topic research report. In terms of training, the Company assisted Directors in participating in the continuous training of directors of listed companies organized by the Beijing Listed Companies Association, and carried out continuous training on rules related to connected transactions, notifiable transactions, and inside information of H share listed companies.

**III. IMPLEMENTATION OF TASKS OF THE SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS FOR 2019**

In 2019, the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee under the Board conducted in-depth research on specific issues and actively expressed opinions in accordance with the working responsibilities and rules of procedure to facilitate scientific and efficient decision making by the Board.

The Development Strategy Committee of the Board convened four meetings (including three enlarged meetings) for the consideration and discussion of four resolutions and hearing of three reports, topics of which mainly include final financial accounts plan, financial plan, capital increase of subsidiaries, development strategy of brokerage business, development strategy of cross-border business, development strategy of information technology and other issues.

The Risk Management Committee convened two meetings for the consideration and discussion of seven resolutions, topics of which mainly include compliance report, internal control report, risk report, risk management policy, cap of investment amount for proprietary investment business and other issues.

The Audit Committee convened four meetings for the consideration and discussion of 12 resolutions, topics of which mainly include internal audit report, external audit report, periodic financial report, accounting policy revision, internal control report, related party transactions, appointment of accounting firm and other issues.

The Remuneration and Nomination Committee convened two meetings for the consideration and discussion of three resolutions, topics of which mainly include the addition of member of the executive committee and remuneration to the operation and management team and other issues.

For the composition and specific work of the special committees of the Board in 2019, please refer to the 2019 annual report of the Company.

#### **IV. PERFORMANCE OF DUTIES OF DIRECTORS IN 2019**

In 2019, Directors strictly fulfilled their duties with due diligence, and prudently considered each topic at the meetings of the Board and special committees of the Board in accordance with relevant laws and regulations, listing rules and regulatory requirements of places where the Shares of the Company are listed and the provisions of the Articles of Association, held sufficient discussion and made prudent decisions in terms of development strategy, risk management and compliance management, business development and other aspects, effectively safeguarding the interest of the Shareholders and promoting the sustainable and sound development of the Company.

Executive Directors of the Company diligently performed the dual roles in decision making as well as policy implementation, actively implemented the resolutions of the general meetings and the Board, conducted in-depth study of development strategy and business strategy of the Company and drove the Company to continue to achieve outstanding business performance, and drove the core business of the Company to continue to maintain a dominant position. Non-executive Directors of the Company carefully considered meeting documents, heard special reports, and made scientific and prudent decisions by way of attending the Board meetings and the meetings of special committees of the Board, timely obtained information of the results of operation of the Company and provided feedbacks and suggestions by way of involving in research and survey as well as trainings, and reviewing of the management documents of the Company during the intervals of meetings. Independent non-executive Directors of the Company faithfully performed their duties, fully demonstrated their professional advantages, independently and persistently delivered opinions, and safeguarded the interests of the Company and the Shareholders, especially for the legitimate interest of the minority Shareholders.

In addition, the Directors of the Company also actively participated in the survey, topic research and training organized by the Board, accurately learned the changes in regulatory rules, and timely obtained information of the operating development status of the Company, had in-depth thoughts about the development strategy, core competitiveness as well as internal control and management of the Company, and formulated effective strategies.

For details of the attendance of Directors at Board meetings and the special committees of the Board in 2019, please refer to the 2019 annual report of the Company.

## V. WORKING PLAN FOR 2020

In 2020, the Board will focus on the following tasks:

### (I) Adhere to strategic leadership and improve the development capabilities of the Company

In 2020, the Board shall promote the formulation of the “14th Five-Year Plan” development plan of the Company and establish a new five-year development vision. The Board shall strengthen the analysis of the business environment and the judgment of the development trend of the industry, and formulate forward-looking and competitive development strategies and business strategies. The Board shall focus on the goals of serving the real economy, preventing and controlling financial risks, and deepening capital market reforms, and promote the full implementation of various development strategies in business management.

### (II) Strengthen risk compliance management and strictly prevent and control financial risks

In 2020, the Board shall continue to strengthen the construction of a risk control and compliance system by focusing on preventing and controlling financial risks, building an industry culture of “compliance, integrity, professionalism, and soundness”. The Board shall further strengthen the concept of “all participation in risk control and priority of risk control” and balance the relationship between business development and risk prevention. The Board shall comprehensively review the effectiveness of compliance management, advocate compliance management concepts, and improve systematic and standardized compliance management methods.

### (III) Promote capital replenishment and support comprehensive business development

In 2020, the Board shall drive the Company to replenish capital through multiple channels, continuously optimize the balance sheet, and strive to improve the return on net assets. The Board shall facilitate the non-public issuance of A Shares. It shall strengthen the forward-looking and initiative of financing in light of the need for capital replenishment, enrich the variety of domestic and foreign debt financing instruments, optimize the debt structure, and control financing costs. The Board shall flexibly use various financing methods to provide stable financial guarantee for business development.

**(IV) Comprehensively promote digital transformation through technology empowerment**

The comprehensive service ability to customers is the core competitiveness of the Company. In recent years, the Company has continuously made efforts in, among others, customer classification and grading, product supply, organizational structure adjustment, and internal collaboration, and achieved certain results. In 2020, the Board shall comprehensively promote the digital transformation of the Company, and formulate a digital transformation plan from the perspective of the comprehensive strategy, taking into account system design, organizational structure adjustment, talent allocation, and capital investment, promote the digital transformation of front, middle and back offices, and gradually realize the empowerment of technology to promote the upgrade of the customer service system of the Company.

**(V) Promote integration of cross-border business and explore new international business models**

In 2020, the Board shall promote the integration work of cross-border business, positioning China Securities International as a platform to serve cross-border business needs of customers, focus on the investment banking, fixed income, derivatives trading and other advantageous businesses of the Company, actively explore new international business development models in risk management, compliance management, business management, organizational structure and other aspects to support the compliance development of the Company in Hong Kong and overseas, and gradually increase the proportion of overseas business revenue.

**I. IMPLEMENTATION OF MAJOR TASKS OF THE SUPERVISORY COMMITTEE FOR 2019**

In 2019, the Supervisory Committee of the Company participated in the review of the material decisions of the Company with strict compliance with relevant provisions of the Company Law, Securities Law and the Articles of Association. It regularly inspected the financial condition and operations of the Company as well as its business operation and risk management, supervised the performance of the Board of the Company, senior management and their respective members, actively safeguarding the legitimate interests of the Shareholders, the Company, employees and other Shareholders. The Supervisory Committee conscientiously performed its responsibility of supervision, fully performing the role of supervising the Company's corporate governance.

In 2019, the Supervisory Committee of the Company held four Supervisory Committee meetings in total, during which 17 resolutions were considered and passed. The Supervisors of the Company observed all Shareholders' general meetings and Board meetings for 2019 and considered resolutions proposed at the meetings. In 2019, the Supervisory Committee of the Company focused on the following tasks:

**(I) Conscientiously performing the responsibility of supervision against significant events of the Company**

In 2019, the Supervisors of the Company observed the Shareholders' general meetings and Board meetings while the chairman of the Supervisory Committee of the Company attended daily meetings of the executive committee of the Company, actively performing the roles of support, supervision and safeguard. The Supervisory Committee carefully supervised the implementation of resolutions adopted at Shareholders' general meetings by the Board as well as the performance of duties of senior management of the Company. The Supervisory Committee also paid attention to the entire process of the executive management in implementing work arrangements and achieving task objectives, actively safeguarding the legitimate interest of the Shareholders.

Members of the Supervisory Committee fully utilized the right to information, the right to propose, the right to inquire, the right to examine and the right to investigate to monitor information disclosure, use of proceeds, management of related party transactions, profit distribution plan, changes in accounting policy and accounting estimates of the Company and other significant events, and conscientiously performed their responsibility of supervision, fully performing the role of supervising the Company's corporate governance.

The Supervisory Committee actively cooperated with regulatory departments and stock exchanges in daily supervision. The Supervisory Committee actively assisted the Company in enhancing communication with regulatory authorities and industry associations, providing advice and suggestions for the standardization of development in the industry, which comprehensively demonstrated the supervisory role performed by the Supervisory Committee.

**(II) Enhancing the Company’s ability in risk aversion through performance of its supervisory duty**

The Supervisory Committee organized and guided the internal audit department of the Company to focus on identifying problems in the operation and management of the Company, focusing on early warning and investigation of various business risks, preventing business risks of the Company, and improving the internal control of the Company, according to the principle of “wide coverage, full perspective, multi-function and zero-tolerance”.

Focusing on risk focus and supervision focus, the Supervisory Committee organized and carried out business inspections on the Science and Technology Innovation Board, and carried out risk investigations on key sections such as client account authority, fund authenticity, client appropriateness management and matching, investor education and risk disclosure. The Supervisory Committee organized the supervision of the business of Hong Kong subsidiaries, and urged Hong Kong subsidiaries to improve the compliance risk control system in accordance with the requirements of the “Administrative Measures on the Overseas Establishment, Acquisition and Shareholding of Securities Companies and Securities Investment Fund Management Companies” of the China Securities Regulatory Commission. The Supervisory Committee organized the inspection of stock pledge business, disclosed key risks, tightening risk control standards on new business to prevent the accumulation of risk business.

In 2019, the Supervisory Committee organized comprehensive and multi-level inspection and supervision, strengthened the supervision of the main risk businesses, key business sections and the effectiveness of internal control, further improved the effectiveness of supervision, and effectively improved the Company’s ability in risk aversion.

**(III) Arranging for assessment of compliance and internal control effectiveness, and driving the Company to strengthen internal control and standardize operations**

The Supervisory Committee of the Company organized and guided the internal audit department to strengthen the audit and supervision over internal control of the Company, engaged external accounting firm to conduct annual compliance management effectiveness evaluation, and conduct special audit on investment banking, custody and operation services, and mutual fund sale business in line with specific regulatory requirements.

The Supervisory Committee required that the focus of compliance evaluation shall be on the corporate compliance culture construction, compliance management system and compliance performance guarantee of the Company, and evaluated whether the compliance consulting, compliance review, compliance monitoring, compliance report, regulatory communication and cooperation, anti-money laundering and information wall management were effectively implemented. The scope of internal control evaluation covered key control points in relation to all of the Company's businesses and management, and comprehensively evaluated the internal control with focus on factors such as internal environment, risk assessment, control activity, information and communication, and internal supervision.

After full evaluation, the Supervisory Committee is of the view that the Company has established and effectively implemented a management system for business and matters included in the scope of compliance evaluation and no material compliance risk occurred. The Company has established and effectively implemented an internal control system for various business and matters included in the scope of internal control evaluation and no major defect or significant deficiency existed. Internal control of each of the Company's businesses is effective in general and the Company's objectives for internal control are achieved.

**(IV) Making deep investigation and survey on front-line businesses to fully perform the functions of support and services provision**

Investigation and survey are effective means of performance of duties by the Supervisory Committee, and also the working tradition of the Company's Supervisory Committee. In 2019, the Supervisory Committee initiated investigation and survey in relation to the Company's core businesses. The Guangdong-Hong Kong-Macao Greater Bay Area is at the forefront of reform and opening up of the PRC. As a rising bay area with world influence, it will have a profound impact on the global industrial structure adjustment and the flow of resources such as capital, technology and talent, broader capital needs will be generated during the planning and construction of the bay area. In order to better seize this business opportunity, the Supervisors of the Company conducted investigation and survey on the



business development in Shenzhen and obtained information of the customer development strategy and customer service system construction to supervise the implementation of strategic goals and business goals. The Supervisors discussed with employees at the primary level and listen to suggestions for rationalization of business development and management.

With respect to the brokerage business, the Supervisors of the Company conducted investigation and survey on a number of business departments in Beijing and Shenzhen to understand the difficulties encountered by the brokerage business in terms of customer base, industry competition, and team building, and heard plans and suggestions from primary business outlets to deal with operational difficulties and enhance market position. In response to the adjustment of outlet layout and the merger of the sales department of the Company, the Supervisory Committee conducted a special investigation and survey to understand the progress and follow-up work arrangements of the removed outlets in key sections such as customer migration, business settlement, personnel placement, system cancellation and emergency plans. Various forms of grassroots investigation and survey have made the supervision, support and service of the Supervisory Committee more effective, and played a supportive role for the steady development of the Company.

## **II. MEETINGS OF SUPERVISORY COMMITTEE AND PERFORMANCE OF DUTIES OF THE SUPERVISORS**

In 2019, the Supervisory Committee of the Company held four meetings in total and the details of which are as follows:

1. On March 18, 2019, the Company convened the 4th meeting of the second session of the Supervisory Committee of the Company, during which the resolution in relation to the 2018 Work Report of the Supervisory Committee of the Company, the resolution in relation to the 2018 Internal Audit Working Report and 2019 Auditing Plan of the Company, the resolution on the amendments to the major accounting policies and accounting estimates of the Company, the resolution on the 2018 profit distribution plan of the Company, the resolution in relation to the 2018 Risk Report of the Company, the resolution in relation to the 2018 Compliance Report of the Company, the resolution in relation to the 2018 Internal Control Evaluation Report of the Company, the resolution in relation to the 2018 Social Responsibility and Environmental, Social and Governance Report of the Company, the resolution in relation to the Special Report for Deposit and Use of Proceeds of the Company for 2018, the resolution on the 2018 annual report and results announcement of the Company and the resolution on the proposed daily related party transactions of the Company in 2019 were considered and approved.

2. On April 25, 2019, the Company convened the 5th meeting of the second session of the Supervisory Committee of the Company, during which the resolution on the 2019 first quarterly report of the Company was considered and approved.
3. On August 23, 2019, the Company convened the 6th meeting of the second session of the Supervisory Committee of the Company, during which the resolution on the 2019 interim report of the Company (A Shares), the resolution on the 2019 interim results announcement and interim report of the Company (H Shares), the resolution on special report for deposit and use of proceeds of the Company for the first half of 2019 and the resolution on the risk report of the Company for the first half of 2019 were considered and approved.
4. On October 29, 2019, the Company convened the 7th meeting of the second session of the Supervisory Committee of the Company, during which the resolution on the 2019 third quarterly report of the Company was considered and approved.

The attendance of meetings of the Supervisory Committee by the Supervisors were as follows:

Name	Position	Number of			
		Supervisory Committee meetings to be attended	Number of meetings attended in person	Number of meetings attended by proxy	Absence
LI Shihua	Chairman of the Supervisory Committee	4	4	0	0
AI Bo	Supervisor	4	4	0	0
ZHAO Lijun	Supervisor	4	4	0	0
LIN Xuan	Employee supervisor	4	4	0	0
ZHAO Ming	Employee supervisor	3	3	0	0
LU Ya	Former employee supervisor	1	1	0	0

**III. SPECIAL OPINIONS FROM THE SUPERVISORY COMMITTEE**

In 2019, the Supervisors of the Company attended the Shareholders' general meetings and Board meetings and considered certain resolutions. The Supervisory Committee conducted supervision and inspection on operating management, material decision-making and material operating activities as well as the financial condition of the Company, and expressed special opinions on the above basis:

- (I) In 2019, the Company was able to operate in compliance with the requirements of the Company Law, the Securities Law, the Articles of Association of CSC Financial Co., Ltd. and regulatory requirements, had lawful and compliant decision-making processes and a sound internal control system. The Supervisory Committee of the Company had no objection to the supervisory matters during the reporting period.
- (II) In 2019, the Company was in good financial condition. PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers issued the auditor's reports with standard unqualified audit opinion for the annual financial report, respectively. The financial report reflected a true and fair representation of the financial condition and operating results of the Company.
- (III) In 2019, the Administrative Measures on Information Disclosure and other related systems of the Company have been effectively implemented, the level of information disclosure management and the quality of information disclosure have been steadily improved, which safeguarded the principle of fairness for information disclosure and protected the legitimate interest of investors. At the same time, the reporting, transmission, review and disclosure of significant events of the Company were in compliance with the regulations of the Administrative Measures on Information Disclosure and other systems, and under good implementation.
- (IV) In 2019, the written opinion of the Supervisory Committee upon review of the 2018 annual report of the Company is as follows: the preparation and consideration process of the annual report complied with laws and regulations and the provisions of the Articles of Association of CSC Financial Co., Ltd.; the content and format of the annual report complied with the requirements of the regulatory authorities; the contents of the annual report were able to truly reflect the operating management, financial condition and other important matters of the Company, and the Supervisory Committee had no objection to the annual report. The Supervisory Committee also reviewed the 2018 Risk Report of the Company, the 2018 Compliance Report of the Company and 2018 Internal Control and Self-assessment Report of the Company, and had no objection to the above reports.

As of the date where the Supervisory Committee considered and approved this report, the written opinion of the Supervisory Committee upon review of the 2019 annual report of the Company is as follows: the preparation and consideration process of the annual report complied with laws and regulations and the provisions of the Articles of Association of CSC Financial Co., Ltd.; the content and format of the annual report complied with the requirements of the regulatory authorities; the contents of the annual report were able to truly reflect the operating management, financial condition and other important matters of the Company, and the Supervisory Committee had no objection to the annual report. The Supervisory Committee also reviewed the 2019 Risk Report of the Company, the 2019 Compliance Report of the Company and 2019 Internal Control and Self-assessment Report of the Company, and had no objection to the above reports.

#### IV. WORKING PLAN FOR 2020

In 2020, the Supervisory Committee will focus on the promotion and implementation of the following tasks:

- (I) Members of the Supervisory Committee will carry out supervision on the material decision-making of operating management by attending Board meetings and meetings of the executive committee of the Company, oversee the Board during the implementation of resolutions at Shareholders' general meetings, and supervise the executive management at all levels to persist on the implementation of all resolutions adopted at the Shareholders' general meetings and Board meetings. They will earnestly perform their responsibilities as stipulated under the Articles of Association and require each of the business and management departments of the Company to comply with the provisions of various regulatory authorities and industry associations, and the internal policy of the Company.
- (II) The Supervisory Committee will continue to hold Supervisory Committee meetings periodically, according to requirements of the work, to consider material issues, internal control, compliance management, risk management as well as other major issues encountered by the Company during its development which Supervisory Committee focuses on. It will hold special topic discussions, conduct grassroots investigations and surveys to identify problems and give recommendations, and consistently enhance the level of supervision of the Supervisory Committee and its abilities to perform duties.

- (III) The Supervisory Committee will organize internal auditing work and guide the supervision and inspection of businesses and management activities conducted by the internal audit department, and conduct evaluation on internal control and compliance effectiveness. Through considering the internal audit work report, monitoring the rectification and implementation status and by other means, the Supervisory Committee will perform its responsibilities of supervision and inspection. In 2020, the internal audit work of the Company will insist on problem-oriented principles, play an all-round supervision and protection role, and strictly prevent the occurrence of material risks, material violations and material fraud by the way of extensive audit coverage and deep excavation, strengthen risk management from multiple perspectives such as governance, decision-making, operation and monitoring, improve internal control, upgrade the ability of business in risk aversion, and by way of supervision, in turn support the sound development of the Company.

Stock Short Name: CSC (A Share)

Stock Code: 601066 (A Share)

Stock Short Name: CSC Securities (H Share)

Stock Code: 6066 (H Share)



**中信建投証券股份有限公司**  
**CSC FINANCIAL CO., LTD.**

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

**(Stock Code: 6066)**

**China Securities Co., Ltd.**  
**Proposal for Non-public Issuance of A Shares**  
**(Amendments)**

**March 2020**

**STATEMENT OF THE ISSUER**

1. The Company and all members of its Board warrant that the Information of the Proposal is true, accurate and complete and does not contain any false information, misleading statement or material omission.
2. The Company assumes the liability for any changes in operation and revenue of the Company after the Non-Public Issuance of Shares. Any investment risks arising from the Non-Public Issuance of Shares shall be borne by the investors.
3. The Proposal is the statement of the Board of the Company on the Non-Public Issuance of Shares, and any contradictory statement constitutes misinterpretation.
4. Investors shall consult their stock brokers, lawyers, professional accountants or other professional advisers for any questions and doubts.
5. Matters mentioned in the Proposal do not represent any substantive judgment, confirmation, authorisation or approval from the approving authorities regarding the Non-Public Issuance of Shares. Effectiveness and completion of the matters relating to the Non-Public Issuance of Shares mentioned in the Proposal shall be subject to approval or authorisation by competent authorities.

**SPECIAL REMINDERS**

Terms or abbreviations referred to in this section shall have the same meanings as those defined in “Definitions” section in this Proposal.

1. Relevant matters in relation to the Non-public Issuance have been considered and approved at the 10th meeting of the second session of the Board of the Company, 2019 Second Extraordinary General Meeting, 2019 First A Shareholders’ Class Meeting and 2019 First H Shareholders’ Class Meeting, and have also been approved by the China Securities Regulatory Commission. On January 13, 2020, the Company convened the seventeenth meeting of the second session of the Board to consider and approve the relevant resolutions in relation to the extension of the validity period of the resolutions issued in the shareholders’ general meeting; On March 26, 2020, the Company convened the twentieth meeting of the second session of the Board, at which adjustments were made to the plan for the issuance of the Non-public Issuance of Shares.

In accordance with the relevant laws and regulations, the Issuance is subject to the approvals at the general meeting.

2. The target subscribers for the Non-public Issuance of Shares will be no more than 35 target subscribers which satisfy the relevant requirements of the CSRC. The scope of the target subscribers is no more than 35 target subscribers, which are securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors, which satisfy the relevant requirements of the CSRC. A securities investment fund management company subscribing for the shares with two or more of the funds under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for the A Shares with their own capital.

The final target subscribers shall be determined by the Company upon obtaining the written approval for the Non-public Issuance based on the prices offered by the target subscribers in accordance with the requirements of the Implementation Rules and the principle of price priority.

All target subscribers shall subscribe the Shares under the Non-public Issuance by cash.

Where there are other provisions in relation to the shareholder qualifications and respective review procedures for the target subscribers by the regulatory authorities, those provisions shall be complied with.

3. The Price Determination Date of the Non-public Issuance shall be the first day of the issue period of the Non-public Issuance of the Company. The issue price of the Issuance shall be no less than 80% of the average trading price (rounded up to the nearest two decimal places) of the A Shares of the Company for the 20 trading days preceding the Price Determination Date (excluding the Price Determination Date; same for below) or the last audited net asset per Share attributable to the ordinary shareholders of the parent company of the Company, whichever is higher.

The average trading price of the A Shares of the Company for the 20 trading days preceding the Price Determination Date shall be the total trading amount of A Shares of the Company for the 20 trading days preceding the Price Determination Date divided by the total trading volume of A Shares of the Company for the 20 trading days preceding the Price Determination Date. In the event that there are ex-right or ex-dividend activities causing adjustment to the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the price adjusted by the ex-right or ex-dividend activities.

In the event that the Company distributes dividends, grants bonus shares, allots shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period commencing from the balance sheet date of the latest audited financial reports to the Issuance date, adjustments shall be made to the abovementioned net assets per Share accordingly.



The final issue price under the Non-public Issuance shall be determined by the Board of the Company or its authorized person(s), under the authorization granted at the general meeting, with the lead underwriter according to the prices offered by the target subscribers and in accordance with the requirements of the CSRC and the principle of price priority.

4. Subject to compliance with the regulatory requirements of the places where the Shares of the Company are listed, the number of A Shares to be issued under the Non-public Issuance shall be no more than 1,277,072,295 Shares (inclusive). In the event that the Company grants bonus shares, allots shares, converts capital reserve into share capital or carries out any other ex-right activities during the period commencing from the announcement date of the Board resolution in relation to the Non-public Issuance to the Issuance Date, the size of the Issuance will be adjusted accordingly.

The final issue size under the Non-public Issuance of A Shares shall be determined by the Board of the Company or its authorized person(s), under the authorization granted at the general meeting, with the lead underwriter according to the cap and the issue price approved by the CSRC.

5. The total amount of proceeds from the Non-public Issuance is no more than RMB13 billion (inclusive), all of which will be used for replenishment of capital and working capital of the Company after deducting the Issuance expenses in order to expand the Company's business scale and improve competitiveness and ability to withstand risks. The proceeds are mainly used in the following areas:

<b>No.</b>	<b>Investment projects for the proceeds</b>	<b>Proposed investment amount</b>
1	Development of brokerage business	Not more than RMB5.5 billion
2	Development of investment trading business	Not more than RMB4.5 billion
3	Information system infrastructure	Not more than RMB1 billion
4	Capital contribution to subsidiaries	Not more than RMB1.5 billion
5	Other arrangements of working capital	Not more than RMB500 million
	<b>Total</b>	<b>Not more than RMB13 billion</b>

6. According to the relevant requirements under the Administrative Measures for Issuance, the Implementation Rules and the Guidelines on Administrative Approval for Securities Companies No.10 – Increase and Change in Equity Interest of Securities Companies 《(證券公司行政許可審核工作指引第10號－證券公司增資擴股和股權變更)》, following the completion of the Issuance, the specific target subscribers holding 5% or more (inclusive) of the Shares of the Company shall not transfer their shares for 48 months from the date of completion of Issuance. Specific target subscribers holding less than 5% of the Shares of the Company shall not transfer their shares for 6 months from the date of completion of the Issuance. Where there are provisions of other laws and regulations on the lock-up period, those provisions shall be complied with.
7. Both new Shareholders and existing Shareholders after the Issuance are entitled to the accumulated undistributed profits of the Company.
8. For details in relation to the profit distribution and cash dividend policies of the Company and their implementation for the past three years, please refer to “Section IV Profit Distribution Policy and Implementation of the Company” in this Proposal.
9. Upon completion of the Non-public Issuance of Shares, earnings per share and other indicators of the Company are at risk of decline in the short term, and current returns of the existing Shareholders of the Company are exposed to dilution risks. Investors are advised to pay attention to the risks that the Non-public Issuance of Shares may result in the dilution of current returns of shareholders. Although the Company has formulated remedial measures in response to the dilution risks on current returns, such measures shall not be deemed as guarantee of the future profits of the Company. Investors shall not make investment decisions based on the above. The Company will not be liable for the losses suffered by investors due to the investment decisions made based on the above. Investors are advised to exercise caution.

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## DEFINITIONS

*In this Proposal, unless otherwise indicated in the context, the following expressions or abbreviations have the meanings set out below:*

“Issuer” or “the Company”	China Securities Co., Ltd.
“A Share(s)”	the RMB-denominated ordinary shares listed on the Shanghai Stock Exchange with a nominal value of RMB1.00 each, which are traded in RMB
“H Share(s)”	the foreign invested ordinary shares listed on the Hong Kong Stock Exchange with a nominal value of RMB1.00 each, which are traded in HK dollars
“Non-public Issuance” or “Issuance”	the proposed issuance of not more than 1,277,072,295 (inclusive) A Shares with the total amount of proceeds not more than RMB13 billion (inclusive) by way of non-public issuance by CSC Securities
“Proposal”	the Proposal for Non-public Issuance of A Shares of China Securities Co., Ltd.
“Price Determination Date”	the first day of the issue period of the Non-public Issuance
“FICC”	fixed income securities, currencies and commodities
“China Securities Futures”	China Futures Co., Ltd.
“China Securities Capital”	China Capital Management Co., Ltd.
“China Securities International”	China (International) Finance Holding Co., Ltd.
“China Securities Funds”	China Fund Management Co., Ltd.
“China Securities Investment”	China Securities Investment Company Limited

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**APPENDIX III THE PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES**

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“CSRC”	China Securities Regulatory Commission
“Shanghai Stock Exchange”	Shanghai Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Board”	the board of directors of China Securities Co., Ltd.
“Listing Rules”	Shanghai Stock Exchange Listing Rules
“Articles of Association”	the Articles of Association of China Securities Co., Ltd.
“Administrative Measures for Issuance”	the Administrative Measures for the Issuance of Securities by Listed Companies (2020 Revision)
“Implementation Rules”	the Implementation Rules for the Non-public Issuance of Stocks by Listed Companies (2020 Revision)
“RMB”, “RMB0’000”, “RMB00’000’000”	RMB, RMB0’000, RMB00’000’000

**Section I Summary of the Proposal for Non-public Issuance of A Shares****I. ISSUER**

Name in Chinese:	中信建投証券股份有限公司
Name in English:	China Securities Co., Ltd. and CSC Financial Co., Ltd. (carrying on business in Hong Kong with this registered English name)
Date of establishment:	2 November 2005
Listing venues:	Shanghai Stock Exchange and Hong Kong Stock Exchange
Stock Short Name:	CSC (A Share); CSC Securities (H Share)
Stock Code:	601066 (A Share); 6066 (H Share)
Legal representative:	Wang Changqing
Registered address:	Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Postal code:	100101
Registered capital:	RMB7,646,385,238
Telephone No.:	010-65608107
Fax No.:	010-65186399

Website:	<a href="http://www.csc108.com">http://www.csc108.com</a>
Scope of business:	securities brokerage; securities investment consulting; financial advisory business relating to securities trading and securities investment activities; securities underwriting and sponsorship; proprietary securities trading; securities asset management; agency sale of securities investment funds; provision of intermediary business to futures companies; margin financing and securities lending business; agency sale of financial products; stock options market making; custodian for securities investment fund; sale of precious metal products. (Enterprises shall independently select operating items and carry out business activities according to laws; the business items subject to approval under the laws shall be carried out after the approval by relevant authorities; it is not allowed to engage in the business activities which are prohibited or restricted by the city's industrial policies.)

## II. BACKGROUND AND PURPOSE OF THE NON-PUBLIC ISSUANCE

With the entry of China's economy into the new normal and deepening of reform of the capital market, there coexist both opportunities and challenges in the securities industry. The Report of the 19th National Congress of the Communist Party of China clearly states that it is necessary to deepen the reform of financial system to strengthen the capability of financial industry to serve the real economy, increase the proportion of direct financing, and promote the healthy development of multi-level capital market; the 13th Five-Year Plan proposes to proactively foster an open and transparent capital market with healthy development, increase the proportion of direct financing, reduce leverage ratio and develop multi-level equity financing market, which indicates that the securities industry will usher in important development opportunities.

Meanwhile, as the opening up of the securities industry is advancing in an orderly manner, foreign capital is allowed to hold as to 51% equity interest in domestic securities companies, making it possible for foreign capital to control securities companies, which means domestic securities companies will encounter with more competition from foreign-invested financial institutions. At this stage, certain powerful securities companies have begun to expand their existing business scale or branch into new business domains through horizontal mergers and acquisitions, showing a sign of differentiation in the securities industry.

As the economy of our country is transformed and upgraded, and as many guiding policies, such as developing multi-level capital markets, are published, which laid a policy foundation for securities companies engaging in innovative capital investment and capital-based intermediary business, the business model of securities companies will undergo transition from the previous commission-based business model to the integrated business model focusing on fee-based intermediary business, capital-based intermediary business, and self-funded investment business, and will gradually become a new niche for profit growth. Under the regulatory system centered on net capital, capital capability will become one of the key factors for securities companies to develop capital-based intermediaries and other innovative business, and enhance competitive advantages. Sufficient capital is the foundation and safeguards for securities companies to realize continuing healthy development and enhance competitive strength.

The Company has always been adhering to the core value of “recognition for achievement, ability and status”, and the concepts of “risk management as priority” and “healthy development” to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company cultivated its domestic business while expanding into international market to explore potential quality customers. The Company aimed to leverage its competitive edge in the investment banking business to steadily develop innovative business, became a large best-in-class full-service investment bank based in the PRC with global vision and benefit from the development trends in the PRC and global capital market.

To actively seize the development opportunities in the industry and enhance the Company’s competitiveness, the Company intends to expand its capital scale and reinforce the capital strength by way of Non-public Issuance of A Shares. On the basis of consolidating the advantageous business, the Company strengthens the capital-driven business and promotes the development of innovative business, in order to further optimize the income structure, improve risk resistance capability, and help the Company maintain and steadily strengthen the advantage of innovative capability, thereby creating larger returns to the Shareholders by seizing the strategic opportunities for the Company among the increasingly fierce competition in the industry.



**III. TARGET SUBSCRIBERS AND THEIR RELATIONSHIPS WITH THE COMPANY**

The target subscribers for the Non-public Issuance will be no more than 35 target subscribers which satisfy the relevant requirements of the CSRC. The scope of the target subscribers is no more than 35 target subscribers, which are securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors, which satisfy the relevant requirements of the CSRC. A securities investment fund management company subscribing for the shares with two or more of the funds under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for the A Shares with their own capital.

The Company has not yet determined the specific target subscribers, and therefore it is impossible to determine the relationships between target subscribers and the Company.

The final target subscribers shall be determined by the Company upon obtaining the written approval for the Non-public Issuance based on the prices offered by the target subscribers in accordance with the requirements of the Implementation Rules and the principle of price priority.

All target subscribers shall subscribe the shares under the Non-public Issuance by cash.

Where there are other provisions in relation to the shareholder qualifications and respective review procedures for the target subscribers by the regulatory authorities, those provisions shall be complied with.

**IV. SUMMARY OF THE ISSUANCE PLAN****(I) Class and nominal value of shares to be issued**

The class of shares under the Non-public Issuance are domestically listed RMB-denominated ordinary shares (A Shares) with a nominal value of RMB1.00 each.

**(II) Method and time of Issuance**

Issuance is conducted by way of non-public issuance of shares to specific subscribers. The Company will issue shares at an appropriate time within the validity period of the approval documents of the CSRC.

**(III) Target subscribers and subscription method**

The target subscribers for the Non-public Issuance will be no more than 35 target subscribers which satisfy the relevant requirements of the CSRC. The scope of the target subscribers is no more than 35 target subscribers, which are securities investment fund management companies, securities firms, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors (QFII), and other domestic institutional and individual investors, which satisfy the relevant requirements of the CSRC. A securities investment fund management company subscribing for the shares with two or more of the funds under its management shall be deemed as one single target subscriber. Trust investment companies shall only subscribe for the A Shares with their own capital.

The final target subscribers shall be determined by the Company upon obtaining the written approval for the Non-public Issuance based on the prices offered by the target subscribers in accordance with the requirements of the Implementation Rules and the principle of price priority.

All target subscribers shall subscribe the shares under the Non-public Issuance by cash.

Where there are other provisions in relation to the shareholder qualifications and respective review procedures for the target subscribers by the regulatory authorities, those provisions shall be complied with.

**(IV) Issue price and pricing principles**

The price determination date of the Non-public Issuance shall be the first day of the issue period of the Non-public Issuance of the Company. The issue price of the Issuance shall be no less than 80% of the average trading price (rounded up to the nearest two decimal places) of the A Shares of the Company for the 20 trading days preceding the price determination date (excluding the price determination date; same for below) or the last audited net asset per share attributable to the ordinary shareholders of the parent company of the Company, whichever is higher.

The average trading price of the A Shares of the Company for the 20 trading days preceding the price determination date shall be the total trading amount of A Shares of the Company for the 20 trading days preceding the price determination date divided by the total trading volume of A Shares of the Company for the 20 trading days preceding the price determination date. In the event that there are ex-right or ex-dividend activities causing adjustment to the share prices during the 20 trading days, the trading prices for the trading days before such adjustment shall be calculated on the basis of the price adjusted by the ex-right or ex-dividend activities.

In the event that the Company distributes dividends, grants bonus shares, allots shares, converts capital reserve into share capital or carries out any other ex-right or ex-dividend activities during the period commencing from the balance sheet date of the latest audited financial reports to the Issuance date, adjustments shall be made to the abovementioned net assets per share accordingly.

The final issue price under the Non-public Issuance shall be determined by the Board of the Company or its authorized person(s), under the authorization granted at the general meeting, with the lead underwriter according to the prices offered by the target subscribers and in accordance with the requirements of the CSRC and the principle of price priority.

**(V) Issue Size**

Subject to compliance with the regulatory requirements of the places where the Shares of the Company are listed, the number of A Shares to be issued under the Non-public Issuance shall be no more than 1,277,072,295 Shares (inclusive). In the event that the Company grants bonus shares, allots shares, converts capital reserve into share capital or carries out any other ex-right activities during the period commencing from the announcement date of the Board resolution in relation to the Non-public Issuance to the Issuance Date, the size of the Issuance will be adjusted accordingly.

The final issue size under the Non-public Issuance of A Shares shall be determined by the Board of the Company or its authorized person(s), under the authorization granted at the general meeting, with the lead underwriter according to the cap and the issue price approved by the CSRC.

**(VI) Amount and the use of proceeds**

The total amount of proceeds from the Non-public Issuance is no more than RMB13 billion (inclusive), all of which will be used for replenishment of capital and working capital of the Company after deducting the Issuance expenses in order to expand the Company's business scale and improve competitiveness and ability to withstand risks. The proceeds are mainly used in the following areas:

No.	Investment project for the proceeds	Proposed investment amount
1	Development of brokerage business	Not more than RMB5.5 billion
2	Development of investment trading business	Not more than RMB4.5 billion
3	Information system infrastructure	Not more than RMB1 billion
4	Capital contribution to subsidiaries	Not more than RMB1.5 billion
5	Other arrangements of working capital	Not more than RMB500 million
	<b>Total</b>	<b>Not more than RMB13 billion</b>

**(VII) Lock-up period of the Issuance**

According to the relevant requirements under the Administrative Measures for Issuance, the Implementation Rules and the Guidelines on Administrative Approval for Securities Companies No. 10 – Increase and Change in Equity Interest of Securities Companies 《證券公司行政許可審核工作指引第10號－證券公司增資擴股和股權變更》), following the completion of the Issuance, the specific target subscribers holding 5% or more (inclusive) of the shares of the Company shall not transfer their shares for 48 months from the date of completion of Issuance. Specific target subscribers holding less than 5% of the shares of the Company shall not transfer their shares for 12 months from the date of completion of the Issuance. Where there are provisions of other laws and regulations on the lock-up period, those provisions shall be complied with.

**(VIII) Listing venue**

The shares under the Non-public Issuance will be listed on the Shanghai Stock Exchange.

**(IX) Arrangement of accumulated undistributed profits prior to completion of the Issuance**

Both new Shareholders and existing Shareholders after the Issuance are entitled to the accumulated undistributed profits of the Company.

**(X) Validity period**

Validity period of the resolution for the Non-public Issuance is 12 months from the date when the resolutions relating to the Issuance are considered and approved at the general meeting, the A shareholders' class meeting and the H shareholders' class meeting.

In relation to the validity period of the resolutions, the 2020 First Extraordinary General Meeting and the 2020 First A Shareholders' and H Shareholders' Class Meeting will be convened by the Company on April 9, 2020, to consider and approve the Resolution on the Extension of the Validity Period of the Resolution of the General Meeting in relation to the Non-Public Issuance of A Shares of the Company, and the Resolution on the Proposal to the Shareholder's Meetings to Extend the Validity Period of Full Authorization of the Board to Deal with Relevant Matters in Relation to the Non-public Issuance. Where the relevant resolutions have been considered and approved by the General Meeting, the validity period of the resolutions concerning the Non-public issuance will be extended for a period of 12 months with effect from April 9, 2020, to April 8, 2021.

**V. WHETHER THE ISSUANCE CONSTITUTES A RELATED PARTY TRANSACTION**

The Non-public Issuance does not constitute a related party transaction.

**VI. WHETHER THE ISSUANCE LEADS TO A CHANGE IN THE CONTROL OF THE COMPANY**

There are no controlling shareholders and actual controllers in the Company prior to the Issuance. There will be no controlling shareholders and actual controllers upon completion of the Issuance. As such, the Non-public Issuance does not involve any change in the control of the Company.

**VII. WHETHER THE ISSUANCE PLAN HAS OBTAINED APPROVALS FROM RELEVANT COMPETENT AUTHORITIES AND THE PROCEDURES PENDING TO BE SUBMITTED FOR APPROVAL**

The Proposal for Non-public Issuance has been considered and approved at the 10th meeting of the second session of the Board of the Company, 2019 Second Extraordinary General Meeting, 2019 First A Shareholders' Class Meeting and 2019 First H Shareholders' Class Meeting, and have also been approved by the China Securities Regulatory Commission. On January 13, 2020, the Company convened the seventeenth meeting of the second session of the Board to consider and approve the relevant resolutions in relation to the extension of the validity period of the resolutions issued in the shareholders' general meeting; On March 26, 2020, the Company convened the twentieth meeting of the second session of the Board, at which adjustments were made to the plan for the issuance of the Non-public Issued of Shares, and the above matters are subject to the consideration and approval at the general meeting of the Company. Upon consideration and approval at the general meeting, in accordance with the provisions of the Company Law, the Securities Law, the Administrative Measures of Issuance, the Implementation Rules and other relevant laws, regulations and regulatory documents, the Company will apply to the Shanghai Stock Exchange and the Shanghai Branch of China Securities Depository and Clearing Corporation Limited for the issuance and listing of shares to complete all approval procedures for the Non-public Issuance of Shares.

## Section II Feasibility Analysis by the Board on the Use of Proceeds

### I. PLANS FOR USE OF PROCEEDS FROM THE NON-PUBLIC ISSUANCE

Subject to regulatory requirements of the places where the Shares of the Company are listed, the number of A Shares to be issued under the Non-public Issuance shall be no more than 1,277,072,295 Shares (inclusive), with the total proceeds not exceeding RMB13 billion. All proceeds, after deducting issuance expenses, will be used for capital increase and working capital replenishment. Proceeds from the Issuance would help the Company to optimize its capital structure and business portfolio, and further improve its ability to better serve the real economy. The proceeds will be mainly used in the following aspects:

No.	Investment project for the proceeds	Proposed investment amount
1	Development of brokerage business	Not more than RMB5.5 billion
2	Development of investment trading business	Not more than RMB4.5 billion
3	Information system infrastructure	Not more than RMB1 billion
4	Capital contribution to subsidiaries	Not more than RMB1.5 billion
5	Other arrangements of working capital	Not more than RMB500 million
	<b>Total</b>	<b>Not more than RMB13 billion</b>

#### (i) Developing the brokerage business to improve the ability to better serve the real economy

No more than RMB5.5 billion of the proceeds from the Issuance is intended for expanding the scale of brokerage business, which includes expansion of the scale of margin trading and securities lending, stock pledge and other credit transactions.

It will be the overall trend that the financial sector serves the real economy. From the perspective of securities industry, funds provided through stock pledge mainly flow to the real economy, helping some companies out of financing difficulties. Funds or securities offered through margin trading and securities lending can better realize the value discovery function of capital market. Since 2012, the brokerage business that features margin trading and securities lending and stock pledged repo transactions has become an important part of assets and liabilities operations for securities companies. As at the end of 2019, values of margin trading and securities lending on both the Shenzhen and Shanghai markets amounted to RMB1,019.285 billion.

The Company obtained from CSRC the qualification for margin trading and securities lending in 2010, and then in 2012 the qualification for refinancing pilot program. The Company was listed among the first batch of companies for the pilot program of agreed repurchase type securities trading after the release of Shanghai Stock Exchange new regulations, and obtained the qualification for pilot program of stock pledged repo transactions and the qualification of the Shenzhen Stock Exchange for equity incentive exercise financing business. While ensuring that risks are measurable, controllable and tolerable, the Company promoted its securities financing business with both endeavor and prudence, offering a range of solutions to its clients. As at the end of 2019, the balance of margin trading and securities lending amounted to RMB29.282 billion, recording a market share of 2.87%; the balance of the principal and interest of stock pledged repo transactions reached RMB29.997 billion.

Under the backdrop of declining commission rate, the Company seeks to improve its profitability and market competitiveness by developing the brokerage business and satisfying client demands for comprehensive financial services. Therefore, the Company has further capital requirements for moderately expanding the scale of brokerage business. Furthermore, by increasing investments into the brokerage business with proceeds from the Issuance, the Company can better meet requirements related to risk control indicators and guarantee a reasonable growth of brokerage business.

**(ii) Developing the investment trading business to enhance market competitiveness**

No more than RMB4.5 billion of the proceeds from the Issuance is intended for developing the investment trading business.

The investment and trading businesses of securities companies have become a significant force in the market in recent years. Investments of securities companies are breaking away from directivity and shifting to diversification, and securities companies are having more mature investment strategies and stronger market competitiveness. According to operating data of securities companies for 2017 released by the Securities Association of China, revenue from proprietary businesses exceeded that generated from securities brokerage businesses for the first time, becoming the first major source of income.



With respect to fixed income proprietary business, the Company maintains a robust proprietary investment style. Riding on market trends, the proprietary bond business realizes synergy between sound allocation and active directional trading and records satisfactory performance. On July 3, 2018, the Company was qualified as a quotation institution of the “Bond Connect”. The experience of foreign investment banks is that revenue from FICC products (including fixed income financial products, foreign exchanges and bulk commodities) and their derivatives takes up a larger proportion in the overall revenue from trading and investment businesses. It is also a development trend for China’s securities companies, and, in turn, sets higher standards on the scale of securities portfolio, investment ability, product innovation and business layout of securities companies. The Company is actively exploring investment opportunities related to gold, crude oil, foreign exchanges and their derivatives and effectively align them with traditional fixed income products, aiming to realize synergy of FICC related businesses.

With respect to equity proprietary business, the Company pays close attention to the macro economy and micro economic data, and develops a strong ability to ward off systemic business risks. In July 2014, the Company became qualified to conduct NEEQ market-making business, providing market-making services by fundamental selection and valuation to pursue a balance between value and growth. With respect to derivatives trading business, the Company actively explores new business models and enriches its internal capital investment strategies to meets clients’ different service demands while promoting stable development of existing businesses.

In the future, the Company will enhance market research and analysis and seize opportunities to offer better investment and sales services related to fixed income products, improve FICC portfolio, strengthen investment research ability and product design ability in respect of different product segments, and improve market-making services. In the meantime, it will pay close attention to economic trends and policy changes, leverage the fundamental- based pricing, uphold the concept of value investing and seize structured opportunities in the market, so as to achieve stable income that matches with market environment. To optimize the business portfolio and expand the scale of investment trading business, the Company intends to invest some of the proceeds into developing the investment trading business.

**(iii) Increasing investment in information system building to improve the overall informationization**

No more than RMB1 billion of proceeds from the Issuance is intended for increasing investment in information system building.

New technologies, including big data, Internet Plus, cloud computing, artificial intelligence and blockchain, are changing the social economy and the whole financial sector. The information system is an important vehicle for the operation of securities market, and is of great significance to sound development of the securities market, protection of investors' interest and enhancement of market competitiveness. Fintech, the fruit of deep integration of technology and finance, introduces new technologies, applications, process and products into the securities industry, and creates new service model and business pattern, which in turn promotes development of the whole securities industry. As clients highly value the ability of offering intelligent, integrated and efficient services, information system infrastructure, serving as the basis of front businesses, affects the comprehensive service abilities of securities companies to a large extent.

In addition, regulatory requirements tend to be more demanding and much stricter. A number of special IT regulations about the securities industry have been announced, indicating a higher standard on the requirement and ability of IT infrastructure and of securities companies. In the Provisions on Classified Supervision and Administration of Securities Companies amended by CSRC in 2017, information system building investment is regarded as an important indicator. The Regulation on Comprehensive Risk Management of Securities Companies amended by the Securities Association of China in 2016 also provides that securities companies shall establish risk management information systems that are in line with their business complexity and risk indicator systems.

Faced with new trends and new environment emerging from external competition and internal business transformation, the Company has to ensure that its information technology system adapt to corporate management and business development. In this regard, the Company intends to increase investments into information system building with proceeds from the Issuance, so as to improve the overall informationization and the ability of Fintech to support business development.

**(iv) Making capital contribution to subsidiaries to facilitate all-round development**

No more than RMB1.5 billion of proceeds from the Issuance is intended for capital contribution to subsidiaries to facilitate all-round development.

In its history of more than ten years, the Company seizes opportunities brought about by innovative development of China's securities industry and rapidly grows into a large and integrated investment bank that secures a leading position in the industry. At present, the Company wholly owns China Securities Futures, China Securities Capital, China Securities International and China Securities Investment, and has control over China Securities Funds. Among them, China Securities Futures is principally engaged in futures brokerage, investment advisory, asset management and other relevant services. China Securities Capital is principally engaged in private equity investment management services. China Securities Funds is principally engaged in funds management and relevant services. China Securities Investment is principally engaged in financial product investment, equity investment and other investment businesses in compliance with laws and regulations. China Securities International is principally engaged in corporate financing, asset management, securities brokerage, investment research and other international investment and financing services.

In response to regulatory requirements and with an aim to promote the large-scale and group-wide development of securities businesses, the Company intends to contribute capital to China Securities Investment with some of the proceeds, thereby reinforcing the capital strength of China Securities Investment, realizing synergy between the parent and subsidiaries and among subsidiaries and providing clients with diversified, professional and integrated financial products and services, which will help diversify income of the Company and boost all-round development.

**(v) Other arrangements of working capital**

No more than RMB500 million of proceeds from the Issuance is intended for other working capital arrangements.

As the capital market continues to develop and the industry accelerates its pace of innovation, the securities industry will embrace a great development potential in the future. The Company will keep a close watch to regulatory policy changes and industry development opportunities; basing on its strategic development objective and actual operation, it will allocate proceeds from the Issuance reasonably and satisfy its reasonable requirements for working capital during business development in a timely manner to ensure that all businesses are in orderly progress.

**II. NECESSITY OF THE ISSUANCE****(i) The Issuance is a necessary measure for the realization of the Company's strategic development objective**

The Company devotes itself to building a China-based, large and integrated securities company with international horizons and comprehensive advantages. It adheres to the business mode that values coordinated development of light and heavy capital businesses, continuously stimulates the synergies among each business line and optimizes the incentive mechanism. During the "13th-Five Year Plan" period, the Company proposes the business mode of "valuing both light and heavy capital businesses and achieving coordinated development". Heavy asset businesses requires substantial investments and become the major force for revenue growth. From the other perspective, such businesses are able to support light asset businesses and preserve the competitiveness of the Company. To realize its strategic development objective, the Company will continuously invest in investment banking, wealth management, trading and institutional client services, investment management, international development and set-up of middle offices and back offices. The Issuance will provide a strong financial support to the Company's future development strategy; therefore, it is a necessary measure for the realization of strategic development objective.

**(ii) Reinforcing capital strength and consolidating industry position**

As China deepens reform in the capital market, the securities industry is facing intensified competition. On the one hand, the securities industry has a low rate of market concentration and universally homogeneous competition. Some competitive securities companies had started to expand business scale or get into new business fields via horizontal mergers and acquisitions with an aim to promote synergic business development and improve comprehensive competitiveness and risk resistance capacity, which results in a differentiation trend in the securities industry. On the other hand, the opening-up of securities industry is being promoted gradually, allowing foreign investors to have shareholding up to 51% in domestic securities companies, and will further abolish the 51% foreign ownership restriction in 2020. As the securities industry is further opened to the world, China's securities companies will face greater competition from foreign-funded financial institutions. Given the intensified competition, the Company is in need of reinforcing capital strength and comprehensively improving its competitiveness on basis of consolidating existing advantages.

As at December 31, 2019, total asset on consolidated basis reached RMB285.670 billion. The Company realized RMB13.693 billion of revenue and RMB5.502 billion of net profit attributable to shareholders of the parent in 2019; all financial indicators and business performance ranked top in the industry. Nevertheless, the Company still needs to reinforce its capital strength when compared with leading securities companies of larger scale. Some peers have recently realized net capital improvement via equity refinancing activities, and the Company is facing greater challenge in maintaining capital strength and industry position. Amid the fierce market competition, the Issuance will help the Company to consolidate its industry position and improve its comprehensive competitiveness, lay a solid foundation for business development and help the Company to gain an advantage in market competition.

**(iii) Following the industry trend of transforming profit model and optimizing business portfolio**

The traditional sources of profit of China's securities companies are three major traditional businesses, namely securities brokerage, securities proprietary trading, and underwriting and sponsorship, which is regarded as a relatively single profit model. A number of guiding policies for economic transformation and upgrading and development of multi-level capital market have been rolled out in recent years, which provides a policy foundation for securities companies to engage in innovative capital investments and brokerage businesses, including margin trading and securities lending, stock pledged repo transactions, agreed repurchase type securities trading, asset management, asset-backed securitization, proxy sale of financial products and direct investment. The business model of securities companies will shift from the traditional model dominated by channel commission based business to the integrated model valuing fee-based business, brokerage business and internal capital investment, which will become a new force for profit growth. In the macro environment of prudent regulation, securities companies are actively exploring innovative businesses, which, in turn, sets a higher requirement on the capital strength of securities companies.

In such context, it is imperative for the Company to replenish its capital, enhance capital-driven businesses and promote development of innovative businesses while consolidating its current strengths, so as to optimize income structure, diversify risks, maintain and steadily improve the advantage in respect of innovation ability and lower the impact of market uncertainties.

**(iv) Reducing the liquidity risk and improving risk resistance capacity**

Risk management is prerequisite for securities companies to realize sustainable development, and the ability to maintain risks in a measurable, controllable and tolerable range and prevent risk event is related to the profitability of securities companies and even a key to the survival and development of securities companies. The Guidelines for the Management of Liquidity Risks of Securities Companies effective from March 1, 2014 and the amended Measures for the Administration of Risk Control Indicators of Securities Companies and its supporting rules effective from October 1, 2016 set higher standards on the capital strength and risk management of securities companies. From January 2017, seven securities companies including the Company (later expanded to eleven securities companies) have been involved in the preparation work for consolidated supervision pilot program with the guidance of CSRC, gradually establishing and improving a comprehensive risk control system that covers both the parent and subsidiaries to improve the group-wide risk management ability, and consolidating both domestic and overseas subsidiaries into the supervision report. All measures above send a signal that regulatory authorities are setting higher standards on the risk management ability of securities companies.

The securities industry is capital intensive, and the capital scale directly determines the business scale, and even directly relates to the risk resistance capacity. As the business scale of the Company continues to grow, it is possible that the liquidity risk would be led by unmatched assets and liabilities structures. To effectively prevent the liquidity risk, the Company optimizes its liquidity risk management policy, improves the liquidity risk stress test mechanism and the liquidity risk indicator forecast mechanism, and amends the liquidity risk contingency plan. Nevertheless, reasonable capital replenishment is still an important means to resist risks. Proceeds from the Issuance are conducive to capital structure optimization, liquidity risk reduction and risk resistance capacity improvement.

**III. FEASIBILITY OF THE ISSUANCE****(i) The Non-public Issuance satisfies the conditions prescribed by relevant laws, regulations and regulatory documents**

The Company has a sound corporate governance structure, has established a comprehensive risk management and internal control system, and possesses high-quality assets and sound financial position, and its profitability is strong and sustainable. The Company satisfies the conditions for non-public issuance of domestic RMB-denominated ordinary shares (A Shares) that are prescribed by the Administrative Measures for Issuance, the Implementation Rules, Q&A on Issuance Supervision – Supervision Requirements on Directing and Regulating the Financing Acts of Listed Companies (Revision) and other relevant laws, regulations and regulatory documents.

**(ii) The Non-public Issuance is in line with national industry policy orientations**

In May 2014, the State Council issued the Several Opinions on Further Promoting the Sound Development of Capital Markets, which proposed to promote the differentiated, professional and characteristic development of securities institutions and to facilitate the establishment of several modern investment banks with international competitiveness and strong brand influence and of systemic importance.

In May 2014, CSRC issued the Opinions on Further Promoting the Innovative Development of Securities Institutions. From three aspects, constructing modern investment banks, supporting business and product innovation and promoting supervision transformation, the document specified major tasks and specific measures to advance innovative development of securities institutions, and explicitly encouraged securities institutions to expand financing channels and conduct equity and debt financing activities.

In June 2016, CSRC amended the Measures for the Administration of Risk Control Indicators of Securities Companies and the supporting rules. The document aims to improve the effectiveness of risk control indicators and promote the long-term, sound and steady development by referring to the latest industry development trend, improving the calculation basis for net capital and risk capital reserve, incorporating leverage ratio and liquidity supervision into the scope of indicators, and clarifying the counter-cyclical regulation mechanism.

As the business scale grows rapidly and industry regulatory policies are gradually adjusted, the current net capital cannot meet business development requirements of the Company. The Issuance is an act to respond to the proposal of CSRC to encourage securities companies to replenish their capital, and is in line with national industry policy orientations.

**Section III Discussion and Analysis by the Board on Impact of  
the Issuance on the Company**

**I. CHANGES IN BUSINESSES, THE ARTICLES OF ASSOCIATION, SHAREHOLDING STRUCTURE, SENIOR MANAGEMENT AND REVENUE STRUCTURE AFTER THE ISSUANCE**

Current business scope of the Company is: securities brokerage; securities investment consultation; financial advisory business relating to securities trading and securities investment; securities underwriting and sponsorship; securities proprietary trading; securities asset management; proxy sale of securities investment fund; provision of futures intermediary services for futures companies; margin financing and securities lending; proxy sale of financial products; stock options market making; securities investment fund custodian; sale of precious metals. (Business activities shall be carried out with the Company's free choice according to law; business activities which are subject to relevant approval in accordance with applicable laws shall be carried out only after obtaining of such approvals granted by competent regulatory authorities; no business activities in the prohibited or restricted categories of the municipal industry policies shall be carried out.)

The impact of the Issuance on businesses, the Articles of Association, shareholding structure, senior management and revenue structure of the Company is the following:

- (i) Upon completion of the Non-public Issuance, businesses, senior management and revenue structure of the Company will not change significantly due to the Issuance.
- (ii) Upon completion of the Non-public Issuance, total share capital of the Company will be enlarged, and original shareholding will be diluted; but the shareholding structure of the Company will not change significantly. Total A share capital of the Company will be more than RMB400 million, and the public float will maintain at a level of above 10% of the total shares of the Company, which is in compliance with relevant regulations of the Listing Rules with respect to the conditions for issuance of A Shares.
- (iii) Upon completion of the Non-public Issuance, the registered capital and total A Shares of the Company will be changed, and the Company will amend relevant articles in the Articles of Association according to the results of the Non-public Issuance.



**II. CHANGES IN THE FINANCIAL POSITION, PROFITABILITY AND CASH FLOWS AFTER THE ISSUANCE****(i) Impact on financial position**

Upon completion of the Non-public Issuance, the scale of total asset, net asset and net capital of the Company will be increased accordingly, and the gearing ratio will be lower, which will help optimize the Company's capital structure and effectively reduce financial risks. The Issuance will enable the Company to build a sounder financial structure, and provide the Company with greater business development potential while effectively improving the Company's risk resistance capacity. The Company will benefit from this and realize sustained and steady development.

**(ii) Impact on profitability**

Under the regulation system in which net capital is the core indicator, the business scale and risk resistance capacity of securities companies are closely related to their net capital. Through the Issuance, the Company will rapidly increase its net capital, accelerate business development and improve its overall profitability and risk resistance capacity.

**(iii) Impact on cash flows**

Upon completion of the Non-public Issuance, subscribers will subscribe for shares in cash; therefore, the Non-public Issuance will affect cash flows from financing activities for the period when proceeds are transferred to the Company. Such proceeds will support the Company's business expansion, and will have positive impact on future cash flows from operating activities.

**III. CHANGES IN BUSINESS RELATIONSHIP, MANAGEMENT RELATIONSHIP, CONNECTED TRANSACTIONS AND HORIZONTAL COMPETITION BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES**

The Company has no controlling shareholder before the Non-public Issuance, and the Issuance will not result in any controlling shareholder. Therefore, upon completion of the Non-public Issuance, there will be no changes of business relationship, management relationship, horizontal competition and connected transactions between the Company and the controlling shareholder and its related parties.

**IV. FUNDS AND ASSETS OCCUPIED BY THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES, OR GUARANTEES OFFERED BY THE COMPANY FOR THE BENEFIT OF THE CONTROLLING SHAREHOLDER AND ITS RELATED PARTIES UPON COMPLETION OF THE ISSUANCE**

The Company has no controlling shareholder before the Non-public Issuance, and the Issuance will not result in any controlling shareholder. Therefore, upon completion of the Issuance, the Company has no funds or assets occupied by the controlling shareholder and its related parties, or guarantees offered by the Company for the benefit of the controlling shareholder and its related parties.

**V. SIGNIFICANT INCREASE IN LIABILITIES (INCLUDING CONTINGENT LIABILITIES) RESULTED FROM THE ISSUANCE, AND WHETHER ANY UNREASONABLE FINANCE COST IS INCURRED**

As at December 31, 2019, consolidated gearing ratio of the Company was 75.37% (accounts payable to brokerage clients have been excluded from assets and liabilities; the same below). Calculated by the upper limit of proceeds from the Issuance, being RMB13 billion, consolidated gearing ratio of the Company following the completion of the Issuance is estimated to be 71.36% (not taking account other changes in assets and liabilities). The Company has a more sound financial position and a more reasonable capital structure; there is no significant increase in liabilities (including contingent liabilities) resulted from the Issuance, and there is no ultra-low debt ratio or unreasonable finance cost incurred.

**Section IV Profit Distribution Policy and Implementation of the Company**

**I. PROFIT DISTRIBUTION POLICY OF THE COMPANY**

According to the current effective Articles of Association of the Company, the policies of the profit distribution of the Company are as follows:

Article 252 The basic principles of the profit distribution policy of the Company shall be as follows:

- (1) the Company attaches much importance to providing reasonable returns to investors and maintaining the continuity and stability of the Company's dividend distribution policy, while taking into account the company's long-term interests, the overall interests of all shareholders and the company's sustainable development;

- (2) the profit distributed by the Company shall not exceed its accumulated distributable profit, and the Company shall ensure that, upon the implementation of the profit distribution policy, all risk control indicators shall conform to the requirements for the early warning standards set forth in the Administrative Measures for Risk Control Indicators of Securities Companies 《(證券公司風險控制指標管理辦法)》;
- (3) the Company shall give priority to the distribution of dividends in cash.

Article 253 The policy of profit distribution of the Company is as follows:

- (1) forms of profit distribution: The Company may distribute its profits in cash, shares or a combination of both or in any other forms as permitted by the laws;
- (2) conditions and proportions of dividends in cash: Provided that the Company does not have material investment plans, major cash expenses, etc. and that the capital needs for normal operation of the Company are met, the profits distributed by the Company in cash shall not be less than 10% of the distributable profits of the same year, and within any consecutive three years, the accumulated profit distribution in cash shall not be less than 30% of the average annual distributable profit for those three years;
- (3) intervals of profit distributions: The Company generally distributes its profit on a yearly basis. The Board may propose interim distribution of profits (including interim distribution of cash dividends) according to the Company's profitability and capital needs and other conditions;
- (4) conditions of distributing dividends: Provided that the Company's operation is in good condition and that the Board considers the distribution of share dividends is beneficial to the overall interest of all shareholders of the Company due to a mismatch between the Company's stock price and its scale of share capital, the Company may distribute dividends in the form of shares if the above cash dividend conditions are met;
- (5) differential cash dividend policy: The Board may propose a differential dividend policy in accordance with the requirements of applicable laws, regulations and listing rules and the procedures prescribed in these Articles of Association.

Article 254 Decision-making procedures and mechanisms of profit distribution plans are as follows:

- (1) the profit distribution plan of the Company shall be formulated by the Board. The Board shall fully discuss the rationality of the profit distribution plan and formulate the special proposal to be implemented upon consideration and approval at the general meeting. Independent Directors shall give clear opinions. Before the specific plan of profit distribution is considered at the general meeting, the Company shall actively communicate with the shareholders, especially the minority shareholders, via multiple channels, fully listen to the views, complaints and requests of the minority shareholders, and timely respond to the concerns of the minority shareholders. When the profit distribution plan is considered at the general meeting, the shareholders shall be provided with access to online voting.
- (2) if the Company cannot determine the profit distribution plan for the current year in accordance with the established cash dividend policy or the minimum cash dividend ratio under exceptional circumstances, the Company shall disclose the specific reasons and the clear opinions of the Independent Directors in the annual report. The profit distribution plan of the Company shall be adopted by 2/3 or more of the voting rights held by the shareholders attending the general meeting.
- (3) in the event of any war, natural disasters and other force majeure, or changes in the external business environment of the Company having a significant impact on the Company's production and operation, or if the Company's own business or financial position has changed greatly or the relevant laws, regulations or regulatory requirements have been changed or adjusted, or if the Board deems necessary, the Company may adjust the profit distribution policy.

Should the Company adjust the profit distribution policy, the Board shall have a detailed discussion about the feasibility of the adjustment and form a special proposal to be submitted to the general meeting subject to approval by 2/3 or more of the voting rights held by the shareholders attending the general meeting. Independent Directors shall give clear opinions. Before the specific plan of adjusted profit distribution policy is considered at the general meeting, the Company shall actively communicate with the shareholders, especially the minority shareholders, via multiple channels, fully listen to the views, complaints and requests of the minority shareholders, and timely respond to the concerns of the minority shareholders. When the adjustment of profit distribution policy is considered at the general meeting, the shareholders shall be provided with access to online voting.

**II. CASH DIVIDEND AND USE OF UNDISTRIBUTED PROFITS OF THE COMPANY IN RECENT THREE YEARS****(I) PROFIT DISTRIBUTION PLAN IN RECENT THREE YEARS**

Details of the Company's profit distribution to ordinary shareholders in cash in the last three years are as follows:

**1. Profit distribution plan for the year 2016**

The profit distribution regarded the total share capital of the Company amounting to 7,246,385,238 shares as of the record date of bonus and profit distribution as the basic number. The Company distributed cash dividend of RMB1.80 (tax inclusive) per 10 shares, and distributing cash dividend of RMB1,304,349,342.84 in total.

**2. Profit distribution plan for the year 2017**

The profit distribution regarded the total share capital of the Company amounting to 7,646,385,238 shares as of the record date of bonus and profit distribution as the basic number. The Company distributed cash dividend of RMB1.80 (tax inclusive) per 10 shares, and cash dividend of RMB1,376,349,342.84 in total.

**3. Profit distribution plan for the year 2018**

The profit distribution regarded the total share capital of the Company amounting to 7,646,385,238 shares as of the record date of bonus and profit distribution as the basic number. The Company distributed cash dividend of RMB1.80 (tax inclusive) per 10 shares, and cash dividend of RMB1,376,349,342.84 in total.

In addition, the proposed 2019 annual profit distribution plan is as follows: the Company proposes to distribute in the form of cash dividends, on the basis of 7,646,385,238 Shares in the total issued share capital as of December 31, 2019, RMB2.35 (tax inclusive) for every 10 Shares to all shareholders, amounting to RMB1,796,900,530.93 (tax inclusive) in aggregate, representing 35.03% of net profit attributable to ordinary equity holders of the parent in the consolidated financial statements for 2019. The remaining undistributed profit will be carried forward to the subsequent year. The profit distribution plan shall be submitted to the 2019 Annual General Meeting for consideration and approval.

## (II) CASH DIVIDENDS IN RECENT THREE YEARS

Cash dividends in recent three years are as follows:

Year of distribution	Dividend payout for every 10 shares (yuan) (tax inclusive)	Amount of cash dividend (yuan) (tax inclusive)	Net profit attributable to ordinary shareholders of the parent in the consolidated statements for the year of dividend distribution (yuan)	Percentage of net profit attributable to ordinary shareholders of the parent in the consolidated statements
2018	1.80	1,376,349,342.84	2,793,459,930.82	49.27%
2017	1.80	1,376,349,342.84	3,721,427,677.06	36.98%
2016	1.80	1,304,349,342.84	4,965,251,675.20	26.27%
Accumulated amount of cash dividend in the recent three years (yuan)				4,057,048,028.52
Average net profit attributable to ordinary shareholders of the parent in the consolidated statements in the recent three years (yuan)				3,826,713,094.36
Accumulated amount of cash dividend in the recent three years/Average net profit attributable to ordinary shareholders of the parent in the consolidated statements in the recent three years				106.02%

*Note:* Net profit attributable to ordinary shareholders of the parent excluded the impact of the interest paid for the perpetual bonds issued by the Company. From 2016 to 2018, accumulated amount of cash dividend distributed by the Issuer (tax included) was RMB4.057 billion, accounting for 106.02% of the net profit attributable to the ordinary shareholders of the parent on a consolidated basis, and the cash dividend distribution plan for the recent three years conforms to the relevant provisions set out in the Articles of Association currently in force.

**(III) USE OF UNDISTRIBUTED PROFIT IN THE RECENT THREE YEARS**

In the recent three years, the Company utilized the undistributed profit in satisfying its net capital requirements, particularly in the normal business development for the principal businesses of the Company.

**III. SHAREHOLDER'S RETURN PLAN OF THE COMPANY FOR THE NEXT THREE YEARS**

The Company was listed on the Shanghai Stock Exchange on June 20, 2018. On June 8, 2017, the Company convened the 2016 annual general meeting, the 2017 first domestic shareholders' class meeting and the 2017 first H shareholders' class meeting, at which the "Plan Regarding Shareholders' Return for the Three Years after the Initial Public Offering and the Listing of A Shares" was reviewed and approved, and the main contents are set out as follows:

- (i) The Company may distribute profits by way of cash, stocks, or combination of both, or other methods as permitted by laws and regulations. The Company shall adopt a cash dividend distribution policy which allows shareholders to share the achievements in the growth and development of the Company, with reasonable investment return, by taking into consideration all relevant factors, such as development stage and capital requirements.
- (ii) The Company adopts cash dividend as its main profit distribution method, i.e. the Company shall distribute cash dividend where a profit is realized in such year with positive accumulated undistributed profit and there is distributable profit after loss compensation, and the withdrawal of various provident funds and reserves in compliance with the laws, the Company should distribute cash dividend; The scale of profit distribution by the Company shall not exceed the amount of accumulated distributable profit. If there are no material investment plans or material cash expenditure or other events, and under the circumstance that the capital requirement of the Company is satisfied for normal operation, the profit distributed by the Company by way of cash on annual basis shall not be lower than 10% of the distributable profit realized in such year; meanwhile, in any three consecutive years, the accumulated profit distributed by the Company by way of cash shall not be lower than 30% of the annual average distributable profits realized in such three years.
- (iii) The Company shall distribute its profit on an annual basis. The Board of the Company may recommend the distribution of interim cash dividend according to the operating conditions of the Company, which is subject to the principle of profit distribution and the satisfaction of the conditions to cash dividend distribution.

- (iv) The Company may propose the implementation of the distribution plan on stocks and dividends under a sound operation and when the Board is of the view that the stock price of the Company does not match the scale of the share capital of the Company and the distribution of stocks and dividends is conducive to the interests of all shareholders as a whole while satisfying the above-mentioned cash dividend distribution, taking into full consideration the potential growth, the dilution of net assets per share of the Company and other factors.
- (v) The Board of the Company shall propose a differentiated cash dividend policy by taking into full consideration the characteristics of the industry where it operates, its own development stage, operation model and profitability level, and whether there is material arrangement on capital expenditure and other factors, and distinguishing the following circumstances, subject to the procedures as stipulated in the Articles of Association:
1. Where the Company is at a mature stage of development with no material arrangement on capital expenditure, and when the profit distribution is made, the cash dividend shall account for at least 80% to the profit distribution.
  2. Where the Company is at a mature stage of development with material arrangement on capital expenditure, and when the profit distribution is made, the cash dividend shall account for at least 40% to the profit distribution.
  3. Where the Company is at a growing stage of development with material arrangement on capital expenditure, and when the profit distribution is made, the cash dividend shall account for at least 20% to the profit distribution.

In case of difficulty in distinguishing the development stage of the Company and there is material arrangement on capital expenditure, profit distribution shall be made in accordance with the provisions of the preceding paragraph.

Based on the current actual operation of the Company, the above-mentioned material arrangement on capital expenditure of the Company refers to the proposed foreign investment, acquisition of assets, purchase of assets, or other capital expenditures due to business expansion by the Company within the next 12 months, or where the accumulated expenditure on investment is estimated to reach or exceed 15% of the latest audited net assets of the Company, and such other circumstances as determined by CSRC or the Stock Exchange.



The Company is currently at the growing stage. Where there is any material arrangement on capital expenditure within the next 12 months, and when the profit distribution is made, the cash dividends shall account for at least 20% to the profit distribution; where there is no material arrangement on capital expenditure within the next 12 months, the cash dividends shall account for at least 40% to the profit distribution.

- (vi) In the event of any of the following circumstances, the Company may adjust the proportion of such cash dividends, subject to the requirements of relevant laws and regulations as well as approval at the annual general meeting of the Company by way of a special resolution:
1. When there is a change in or adjustment to relevant laws and regulations;
  2. When there is an early warning on the risk control indicator for net capital. With the current regulatory background of the securities industry with net capital as the core, in formulating the profit distribution plan, the Company shall conduct a comprehensive assessment and sensitivity analysis on the impact of the profit distribution plan on the risk control indicators and the business operations of the Company to ensure that, after the implementation of the profit distribution plan, the risk control indicators of the Company, such as net capital, will not be lower than the standards for early warning as required in the “Administrative Measures for Risk Control Indicators of Securities Companies”. Where the scale of dividend distribution of the Company leads to an early warning on risk control indicators, in turn affects the scale and development potential of each of the Company’s businesses, the proportion of dividend distribution shall be adjusted accordingly.

### **Section V Risk Alert in relation to the Dilution of Current Returns by the Non-public Issuance of A Shares and Remedial Measures**

In order to protect the interests of medium and small investors, the Company analyzed the impact of the Issuance on the dilution of current returns and developed specific remedial measures to diluted current returns in accordance with the requirements of the Opinions of the General Office of the State Council on Further Enhancing the Protection of Legitimate Rights and Interests of Medium and Small Investors in Capital Markets (Guo Ban Fa [2013] No. 110), the Several Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) and the Guiding Opinions on the Dilution of Current Returns by Initial Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) issued by CSRC and other provisions. Specific details are set out below:

#### **I. CHANGES IN EARNINGS PER SHARE OF THE COMPANY UPON COMPLETION OF THE ISSUANCE**

The total share capital of the Company prior to the Issuance was 7,646,385,238 Shares. Subject to compliance with the regulatory requirements of the places where the Shares of the Company are listed, the number of shares to be issued shall be no more than 1,277,072,295 Shares (inclusive). The total amount of proceeds from the Issuance, after deducting relevant issuance expenses, will be used for replenishment of capital and working capital of the Company in order to expand the Company's business scale and improve its market competitiveness and risk resistance capacity. When the proceeds from the Issuance are in place, the total share capital and net asset size of the Company will be significantly increased. Due to the time needed for the proceeds from the Issuance to generate benefits, the indicator of current returns of the Company may be exposed to the dilution risk upon completion of the Issuance if the Company fails to record a growth in its operating results at a corresponding rate.

##### **(i) Main assumptions and premises**

1. It is assumed that there will be no material adverse changes in the macroeconomic environment, the development trend of the industry and the operating conditions of the Company in 2020.
2. It is assumed that the Issuance will be completed prior to June 30, 2020. The completion time, which will be used only for the purpose of calculating the impact of the dilution of current returns under the Issuance on main financial indicators, shall be subject to the time when the Issuance is actually completed as approved by CSRC.

3. It is assumed that 1,277,072,295 Shares are to be issued under the Issuance and the total amount of proceeds is RMB13 billion, without taking into consideration the impact of issuance expenses. The actual amount of proceeds received from the Issuance shall be finalized subject to the approval of the regulatory authority, status of issuance and subscription, issuance expenses, etc.
4. No consideration is given to the impact on the production, operation, financial condition, etc. of the Company (such as operating revenue, financial expenses and investment income) upon receipt of the proceeds from the Issuance.
5. Estimate of the total share capital of the Company is based on the total share capital of 7,646,385,238 shares of the Company as at December 31, 2019, not considering the changes in share capital caused by factors other than the impact of the Non-public Issuance of A Shares.
6. The net profit attributable to shareholders of the parent in 2019 is RMB5,502 million and net profit attributable to shareholders of the parent after deducting non-recurring profit and loss in 2019 is RMB5,487 million.

Perpetual bond interest payable by the Company in 2019 is RMB371 million. Therefore, the net profit attributable to ordinary shareholders of the parent in 2019 is RMB5,130 million and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2019 is RMB5,116 million.

It is assumed that net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2020 increased by 10%, remained stable and decreased by 10%, respectively, as compared with 2019.

The above assumptions do not constitute the profit forecast of the Company and investors should not rely on such assumptions in making investment decisions and the Company shall not be liable to any losses caused thereon.

## (ii) Impact on main financial indicators of the Company upon the Issuance

Set out below are the analysis on earnings per share prior to and upon the completion of the Issuance based on above assumptions:

Item	2019/December 31, 2019	2020/December 31, 2020	
		Prior to the Issuance	Upon the Issuance
Total share capital (100 million shares)	76.46	76.46	89.23
Weighted average total ordinary share capital (100 million shares)	76.46	76.46	82.85
<b>Assumption I: net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2019 both increased by 10% as compared with 2018</b>			
Net profit attributable to ordinary shareholders of the parent (RMB100 million)	51.30	56.43	56.43
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss (RMB100 million)	51.16	56.28	56.28
Basic earnings per share (RMB yuan/share)	0.67	0.74	0.68
Diluted earnings per share (RMB yuan/share)	0.67	0.74	0.68
Basic earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.74	0.68
Diluted earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.74	0.68

Item	2020/December 31, 2020		
	2019/December 31, 2019	Prior to the Issuance	Upon the Issuance
<b>Assumption II: net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2019 remained stable as compared with 2018</b>			
Net profit attributable to ordinary shareholders of the parent (RMB100 million)	51.30	51.30	51.30
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss (RMB100 million)	51.16	51.16	51.16
Basic earnings per share (RMB yuan/share)	0.67	0.67	0.62
Diluted earnings per share (RMB yuan/share)	0.67	0.67	0.62
Basic earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.67	0.62
Diluted earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.67	0.62

Item	2019/December 31, 2019	2020/December 31, 2020	
		Prior to the Issuance	Upon the Issuance
<b>Assumption III: net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2020 both decreased by 10% as compared with 2019</b>			
Net profit attributable to ordinary shareholders of the parent (RMB100 million)	51.30	46.17	46.17
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss (RMB100 million)	51.16	46.04	46.04
Basic earnings per share (RMB yuan/share)	0.67	0.60	0.56
Diluted earnings per share (RMB yuan/share)	0.67	0.60	0.56
Basic earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.60	0.56
Diluted earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.60	0.56

*Note:* Basic earnings per share and diluted earnings per share are prepared pursuant to Calculation and Disclosure of Return on Net Assets and Earnings per Share, No. 9 of the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public.

As estimated based on the above assumptions, there will be certain dilution effects on earnings per share of the Company in 2020 caused by the Issuance.

**(iii) Description about the estimate**

The above assumption analysis of the Company in relation to the estimate does not constitute the profit estimate of the Company. Investors should not rely on such analysis in making investment decisions and the Company shall not be liable to any losses caused thereon.

The number of shares, total amount of proceeds and the completion time of the Issuance in relation to the estimate are just estimated values, and shall be finalized subject to the approval of regulatory authority, status of issuance and subscription.

**II. RISK ALERT IN RELATION TO THE DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE**

The total share capital and net asset size of the Company will be significantly increased upon completion of the Issuance. Due to the time needed for the proceeds from the Issuance to generate benefits, the realization of profits and shareholder's returns by the Company will still mainly rely on the existing businesses of the Company. On the premise of increase in the total share capital of the Company, the indicator of current returns of the Company may be exposed to the dilution risk upon completion of the Issuance if the Company fails to record a growth in its operating results at a corresponding rate.

**III. NECESSITY AND RATIONALITY OF THE ISSUANCE**

For the necessity and rationality of the Issuance, please refer to "II. Necessity of the Issuance" and "III. Feasibility of the Issuance" in "Section II Feasibility Analysis of the Board on the Use of Proceeds" in the Proposal.

**IV. RELATIONSHIP BETWEEN INVESTMENT PROJECTS FOR THE PROCEEDS AND EXISTING BUSINESSES OF THE COMPANY****(i) Operation status and development trend of existing business segments of the Company**

With a full-service platform, the Company provides customers, including enterprises, financial institutions, governmental agencies and individuals, with integrated full range of products and services at home and abroad. Its main businesses are classified into four segments: investment banking, wealth management, trading and institutional customer services and investment management.

For 2016, 2017, 2018 and 2019, operating revenues of the Company were RMB13,259 million, RMB11,303 million, RMB10,907 million and RMB13,693 million, respectively, and net profits of the Company were RMB5,313 million, RMB4,062 million, RMB3,103 million and RMB5,530 million, respectively.

**(ii) Risk exposure and improvement measures**

Risks faced by the Company include political and legal risk, business and operational risk, financial risk and information technology risk. The Company always pays great attention to the development of risk management system, and has established an all-round risk management and internal control system. The Company established the risk management concept of “Risk Control Priority & Full Participation in Risk Control”, required risk management work to be carried out on the premise of achieving the strategic objective of the overall business of the Company with risks controlled within an acceptable range, ensured risks to be measurable and controllable, as well as a reasonable risk – return ratio, so as to guarantee that the Company operates on a going-concern basis in compliance with regulatory requirements. The Company continuously improves risk management system according to its business development needs, changes in market environment and regulatory requirements. The all-round risk management mechanism has been continuously improved and is operating in an effective manner.

**(iii) Relationship between investment projects for the proceeds and existing businesses of the Company**

The total amount of proceeds from the Issuance is no more than RMB13 billion (inclusive), all of which will be used for replenishment of capital and working capital of the Company after deducting the issuance expenses in order to expand the Company’s business scale.

Upon completion of the Issuance, the main businesses of the Company will remain unchanged, and the capital strength of the Company will be further improved, which will help the Company expand its business scale and enhance its market competitiveness and risk resistance capacity.



**V. PERSONNEL, TECHNOLOGY, MARKET RESERVE AND OTHER RESERVES FOR INVESTMENT PROJECTS FOR THE PROCEEDS OF THE COMPANY**

In terms of personnel reserve, the Company always attaches great importance to encouraging and cultivating the entrepreneurship of employees, and motivating employees to work diligently and faithfully. A majority of the operating management of the Company joined the Company since its establishment in 2005 and have an average of more than 19 years of experience in securities industry. Department leaders of the Company have an average of more than 18 years of work experience in the securities industry and a majority of them joined the Company since the foundation of the Company. As the basis for the continuous growth of the Company, a stable team has guaranteed the sustainability of the business strategy of the Company and allowed employees to pay more attention to the long-term interests of the Company. With great importance attached to career development of employees, the Company invested more resources in improving the professional competence and comprehensive quality of employees. The above personnel reserve has laid a solid foundation for business expansion upon completion of fund raising.

In terms of technology reserve, the powerful information technology infrastructure played a key role in business expansion and risk management. The Company has taken a series of measures to improve the stability and reliability of information technology system, in order to control the risks closely related to information technology in business operations, and further guarantee the business continuity and information security. Each year, the Company continuously invests significant resources to improve information technology system and support the continuous growth of business through providing safe and stable technical services. In the future, the Company will continuously strengthen information technology support in software and hardware by taking measures including the establishment of a quick-response, full-coverage, one-stop and highly specialized business support technology architecture through the application of new technologies, including big data and Internet Finance.

In terms of market reserve, by fully capitalizing on the innovation-driven development of the securities industry in China, the Company has rapidly developed into an industry-leading large-scale comprehensive investment bank within a short business history of more than 10 years. The Company has established a business network headquartered in Beijing, spreading across China. As of December 31, 2019, the Company had a total of 295 securities business departments and 25 futures branch organizations located in 30 provinces, autonomous regions and municipalities in China; the Company had a total of 9.0041 million of customer funds accounts; market value of securities entrusted by customers reached RMB2.32 trillion, accounting for a 5.37% market share and ranking fifth in the industry. On the ranking of securities companies for 2018 (in terms of operating results) released by the Securities Association of China, the Company ranked ninth by operating revenue, and ninth by net profit.

**VI. MAIN MEASURES TO BE TAKEN BY THE COMPANY IN RESPONSE TO THE DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE**

The Issuance may result in a decrease in the current returns to investors to a certain extent. In order to guarantee the rational use of the proceeds and effectively prevent the dilution risk on current returns, the Company proposes to take the following measures to guarantee shareholder's returns and fully protect the interests of minority shareholders.

**(i) Continuously promoting the all-round development of business and developing diversified profit-making channels**

In addition to driving the stable growth of existing businesses, the Company will also develop opportunities for business innovation, constantly pay close attention to the development trend of financial industry, drive the all-round development of business by providing customers with all-round financial services, keep expanding business domains, explore new profit growth points, and strive to be the first mover amid the increasingly competitive market.

**(ii) Regulating the management and use of the proceeds**

In order to regulate the management and use of the proceeds and protect the interests of investors, the Company has formulated the Administrative Measures for the Proceeds of China Securities Co., Ltd., which sets out the specific provisions for the deposit, use, changes of investment, and supervision over the use of the proceeds, in accordance with the requirements of the Securities Law, the Administrative Measures for Issuance, the Administrative Regulations for Proceeds of Companies Listed on the Shanghai Stock Exchange and other laws, regulations and other relevant regulatory documents as well as the Articles of Association. The Company will implement stricter policies on the management of the proceeds, use the proceeds in a rational and effective manner, and prevent the risks on the use of the proceeds.

**(iii) Strengthening operation and management as well as internal control while improving operational efficiency and profitability**

In the future, the Company will further improve its operation and management level and increase the overall profitability of the Company. The Company will strive to improve the utilization efficiency of capital, optimize and strengthen decision-making process on investment, increase the utilization efficiency of capital and reduce financial expenses of the Company. The Company will also strengthen its internal control and effectively utilize the effect of corporate management. The Company will promote comprehensive budget management, optimize budget management process, strengthen cost management and reinforce supervision over budget execution, thereby fully and effectively controlling the risks on the operation and management of the Company.

**(iv) Reinforcing risk management measures**

The Company will keep enhancing the development of the all-round risk management system, keep improving its risk management ability in credit risk, market risk, operational risk, liquidity risk and other relevant risks, strengthen risk prevention and control in key areas, continuously carry out risk identification, measurement, monitoring and control, disposal and reporting in key areas properly and improve the risk management ability of the Company in an all-round way.

**(v) Maintaining stable policies on shareholder's returns**

The Company has formulated provisions on profit distribution in the Articles of Association in accordance with the Notice on Matters in relation to Further Implementing Cash Dividend of Listed Companies, the Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend of Listed Companies and other relevant requirements issued by CSRC. The Articles of Association of the Company expressly stipulated the policies on cash dividend, proportion of cash dividend and other matters, and provided the minimum proportion of profit distribution by the Company in cash under normal circumstances, to allow investors to enjoy stable expected returns. The Company attaches great importance to the protection of shareholders' interests and will keep maintaining the consistency and stability of policies on profit distribution with an aim to create long-term values for shareholders.

**(vi) Continuously improving corporate governance and providing institutional safeguards for the development of the Company**

The Company will, in strict accordance with the requirements of the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies and other laws, regulations and other regulatory documents, keep streamlining the corporate governance structure, ensure the full exercise of rights by shareholders, and exercise of functions and powers by the Board in making scientific, rapid and prudent decisions in accordance with the provisions of laws and regulations and the Articles of the Association, and diligent performance of duties by independent directors, and protect the interests of the Company as a whole, in particular the legitimate rights and interests of minority shareholders, so as to provide institutional safeguards for the development of the Company.

**VII. UNDERTAKINGS MADE BY DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY ON REMEDIAL MEASURES TO THE DILUTION OF CURRENT RETURNS BY THE ISSUANCE OF SHARES**

The directors and senior management of the Company have undertaken to perform their duties faithfully and diligently and protect the legitimate rights and interests of the Company and all shareholders as a whole, and have made the following undertakings on the proper implementation of the remedial measures to the dilution of current returns to be taken by the Company in accordance with relevant requirements of CSRC:

1. not to transfer benefits to other organizations or individuals at nil consideration or on unfair terms nor otherwise prejudice the interests of the Company.
2. to control relevant duty-related expenses related to the Company, and guarantee that any such duty-related consumption expenses are necessary expenditure in performing my duties, and to strictly abide by the supervision and management of the Company.
3. not to utilize the Company's assets for the purpose of investment and consumption activities that are irrelevant to my duties.
4. to conscientiously procure the remuneration system formulated by the Board or the Remuneration and Nomination Committee to be related to the execution of the remedial measures to current returns of the Company, and to strictly comply with relevant systems.
5. to conscientiously procure the exercise conditions, if any, under the equity incentive of the Company proposed to be announced by the Company to be related to the execution of the remedial measures to current returns of the Company.
6. (Where there is a failure in fulfilling the above undertakings) to provide specific reasons for the failure in fulfilling the above undertakings at the general meeting and on the newspapers designated by CSRC to make an apology to shareholders and public investors, and to assume the legal liability for any losses suffered by the Company or shareholders as a result of violation of the above undertakings made by me.

I undertake to make additional undertakings in accordance with relevant regulations in due course where the regulatory authority develops other detailed provisions on remedial measures and relevant undertakings and such undertakings fail to satisfy the detailed provisions of the regulatory authority subsequent to the date of the above undertakings.

**Section VI Related Risks of the Non-public Issuance of Shares**

The investors shall consider each of the following risks prudently in assessing the Non-public Issuance by the Company, in addition to the information otherwise provided in the Proposal:

**I. RISKS ON THE INSTABILITY OF OPERATING RESULTS CAUSED BY THE FLUCTUATION IN MACRO ECONOMY AND CAPITAL MARKETS**

The capital markets in the PRC are operating under a particular cycle under various factors, such as the overall economic development, macro-economic policies, international economic environment, industrial regulatory policies and investment psychology. Recently, businesses of local securities companies mainly include securities brokerage business, investment banking business, proprietary business, margin trading and short selling business and asset management business, etc., which shows a relatively significant dependence and relevance to the long-term development and the short-term trend in capital markets, thus resulting in a relatively substantial fluctuation in operating results. The Company has been continuously increasing the profitability level of each business by optimizing business structure and strengthening internal management. However, owing to the fact that the operation of each of its businesses is closely related to the cyclic changes in capital markets, the operating results and the profitability of the Company may be adversely affected if the macro-economy or capital market experiences sluggishness for a longer period or there is severe and unfavorable fluctuation in capital markets in the short run.

**II. RISKS ON INDUSTRIAL COMPETITION**

Currently, local securities companies are in face of homogeneous operation, with profit mainly derived from traditional businesses, namely securities brokerage, investment banking, asset management and proprietary securities business, hence resulting in the increasingly fierce competition in the industry. In recent years, various securities companies expand their capital scales rapidly by way of capital increase, issuance and listing, non-public offering, etc., with increased points of sales and expansion of innovative businesses, thus leading to a more intensified competition. In addition, financial institutions engaging in banking, trust, insurance and relevant businesses are also tapping into various businesses in capital markets such as securities underwriting, financial consultation and asset management by capitalizing on its advantage in channels and customer resources, which has caused the partial diversification of the customers of securities companies. The gradual penetration of Internet finance has put an end to the regional and channel advantages of securities companies in the past, while driving the brokerage business, asset management business, investment banking business, research business and other cross-cutting services as well as product integration. As such, securities companies are facing competition with non-conventional financial institutions such as internet providers in terms of business operation.

Along with the further implementation of opening-up policies on local capital markets, China has opened the door of domestic securities market to foreign securities companies, which has attracted a number of renowned securities companies to join the market competition in the local securities industry through the establishment of joint ventures with local securities companies. Meanwhile, in April 2018, CSRC issued the “Administrative Measures for Foreign-invested Securities Companies”, which allows the holding of securities joint ventures through foreign investments while the business scope of such securities joint ventures are broadened. The further accelerated progress on open up in the securities industry will bring about more intensified competitions in the industry in the future.

### III. POLICY AND LEGAL RISKS

Recently, the local securities industry has adopted a management system that mainly relies on the centralized supervision and management on national securities markets by CSRC in accordance with laws, supported by a self-disciplined management mechanism executed by Securities Industry Association, stock exchange and other self-disciplined organizations over their members. The securities industry has formed a regulatory mechanism with a set of laws and regulations, including the Securities Law, the Regulation on the Supervision and Administration of Securities Companies, and the Administrative Measures for the Risk Control Indicators for Securities Companies. Under such mechanism, the securities business of the Company is subject to the supervision by securities regulatory departments and the laws and regulations in terms of business license, risk control, network settings and daily management, etc. If, in the future, the Company violates the regulations in daily operation, and regulatory measures or punishments are imposed by the regulatory department, there will be adverse impacts on the Company’s reputation, in turn may affect the results and development of Company in the future.

In addition, where there is a change in laws, regulations and policies in relation to economic issues (such as financial and monetary policies, interest rate policies, business license policies and the standard for service charged), it may trigger a fluctuation in securities markets and a change in the development environment of the securities industry, hence imposing negative impacts on the commencement of each business of the Company.

### IV. RISKS ON BUSINESS OPERATION

#### (i) Risks on investment banking business

The investment banking business of the Company mainly includes equity financing business, debt financing business and financial consultation business and is primarily exposed to sponsorship risk and underwriting risk. Along with the transformation of regulatory policies, the risks and responsibilities to be assumed by the Company for its investment banking business will be more significant.

In engaging in investment banking business, the Company may be exposed to the following risks: punishments by securities regulatory authorities as a result of failure in fulfilling its full responsibility and conducting sufficient works on due diligence and deficiencies in the information disclosure in the public offering documents in terms of truthfulness, accuracy and completeness; loss of reputation as a result of unsuccessful issuance caused by an unreasonable proposal on listing by way of conversion and the improper judgement on the development prospect of the Company; underwriting risk as a result of unreasonable pricing of securities issuance, issuance of bonds with terms that fail to satisfy the needs of investors, or inappropriate timing for issuance caused by inaccurate judgment on the market; and risks on non-compliance or breach of contract as a result of improper undertakings made in the course of business contracting.

**(ii) Risks on wealth management business**

The wealth management business of the Company mainly includes brokerage and wealth management business, the margin trading and short selling business and re-purchase business.

In terms of brokerage and wealth management businesses, the Company provides individual and corporate customers with stocks, bonds, funds, derivatives and other tradable securities brokerage services. The trading volume of the securities brokerage business is subject to the overall economic condition, macroeconomic and monetary policies, market condition, fluctuation in interest rate, investor's behavior, and other factors. Where there is any unfavorable change in the relevant factors, the trading volume in the market will be exposed to the risk on downward movement, which may cause a decline in commission generated from the brokerage business. In addition, the rapid development of Internet Finance, gradual promotion of off-site account opening business and the further marketization of commission rates have made the market competition of brokerage business intensified. If there is a significant decrease in the trading volume of stocks under market conditions, a decline in the commission rate for securities trading due to intensified competition and a narrow coverage of customers via its channels, the business volume of the brokerage and wealth management businesses of the Company would be decreased and there would be negative impact on the operating results of the Company.

In engaging the margin trading and short-selling business, repurchase business and other financing businesses, the Company encounters the risk on loss caused by, among others, default by its customers or counterparties. Moreover, if the Company is unable to maintain and increase its market share amid market competition and broaden the pool of quality customers, or fails to maintain sufficient capital reserves, there may be a deterioration in financing businesses with a decline in revenue.

**(iii) Risks on trading and institutional customer service business**

The trading and institutional customer service business of the Company mainly includes stock trading and trading business, fixed income sale and trading business, investment and research business, lead brokerage business, QFII and RQFII businesses and other investment businesses. The operation of the trading and institutional customer service business of the Company is highly influenced by market trend. If the securities business experiences a slackened market in the future, the operating results of the trading and institutional customer service business of the Company may be adversely impacted, thus affecting the profitability of the Company as a whole. Meanwhile, as the local market is currently at the growing stage, restrictions on investment choices and hedging strategies may suppress the capability of the Company in creating stable returns for its customers, in turn causing the loss of customers. In addition, factors such as inadequate research, imprecise decision-making, improper investment timing, and improper procedure executed by the staff of the Company in selecting investment varieties and specific investment targets may adversely affect related investment and trading businesses, overall operating results and financial condition of the Company.

**(iv) Risks on investment management business**

The investment management business of the Company mainly includes asset management business, fund management business and private equity investment business. Income from the investment management business is mainly comprised of management fees, performance-based remuneration and service charges, of which management fee income shall be subject to the asset scale, rate of management fee and existence period of products whereas performance-based remuneration and service charges are closely related to the scale of purchase and redemption and the yield of open-end products.

The continuous dampened market condition in the securities industry may affect the level of interest and intention of investors to subscribe for and hold wealth management products, which leads to a downsized scale of investment management products, hence reducing the management fee income from the investment management business of the Company. The continuous downturn of market condition will also cause the decrease in product yield, and so the performance-based remuneration and service charges from the investment management business of the Company, thus imposing adverse impacts on the income from the investment management business of the Company. In addition, due to the continuous introduction of financial and wealth management products by domestic insurance companies, commercial banks, trust companies and fund companies, the competition in the investment management business field is increasingly fierce. If the investment management products of the Company are unable to attract more investors in order to expand the scale of management, the income growth of the investment management business of the Company will be affected.



**V. FINANCIAL RISKS**

Given to the capital-intensive nature of the securities industry, it is necessary for the Company to maintain sufficient liquidity and adopt diversified financing channels to prevent potential liquidity risks. In the course of operation, the Company is highly influenced by macroeconomic policies, market changes, operating conditions, customer credit and other factors. If the capital markets experience any significant change in the future, or the Company records a substantial amount of underwriting from the investment banking business or an excessive scale of investment in proprietary business, the Company will be exposed to liquidity risks to a certain extent, resulting in the difficulty in making a turnover in the capital of the Company while having an adverse impact on the financial condition and operation of the Company.

**VI. RISK ON INFORMATION TECHNOLOGY**

The operation and back-end management of each of the businesses of the Company highly rely on computer networks and information management systems. Information technology plays a key role in driving the businesses of the Company, however, at the same time, brings about certain risks. If there is any interruption of the information technology system of the Company as a result of, among others, poor quality of electronic equipment and system software, the level of operation and maintenance for the Company's systems, excessive business volume in application software, level of industry service providers; virus and hacker attacks, data loss and leakage, abnormal access to right of administration, power supply, communication supply and disasters, the reputation and service quality of the Company may be affected, in turn bringing along economic losses and legal disputes.

**VII. RISK ON APPROVAL ON THE NON-PUBLIC ISSUANCE OF SHARES**

The Non-public Issuance of Shares shall be subject to the consideration and approval at the general meeting of the Company. There is uncertainty as to whether the relevant approval will be obtained and, if so, the time for the final approval.

**VIII. DILUTION RISK ON CURRENT RETURNS**

The proceeds from the Non-public Issuance of Shares are utilized as capital replenishment, so as to improve the overall competitiveness of the Company. However, it takes a long process and period of time to put in place the investment projects for the proceeds in a moderate manner and generate benefits therefrom. Prior to generation of benefits from the investment projects for the proceeds, the realization of profit and shareholder's returns by the Company continues to mainly rely on the existing businesses. In the case that the Company records an increase in total share capital and net assets, the financial indicators for current returns such as earnings per share and weighted average return on net assets will be exposed to the dilution risk in the short run.

**Section VII Other Discloseable Matters**

As of the signing date of this Proposal, there are no other matters in relation to the Non-public Issuance that need to be disclosed.

By order of the Board CSC Financial Co., Ltd.

March 26, 2020

**China Securities Co., Ltd.****Announcement on the Dilution of Current Returns by the Non-public Issuance of A Shares and Remedial Measures (Revised)**

In order to protect the interests of medium and small investors, the Company analyzed the impact of the Issuance on the dilution of current returns and developed specific remedial measures to diluted current returns in accordance with the requirements of the Opinions of the General Office of the State Council on Further Enhancing the Protection of Legitimate Rights and Interests of Medium and Small Investors in Capital Markets (Guo Ban Fa [2013] No. 110), the Several Opinions of the State Council on Further Promoting the Sound Development of Capital Markets (Guo Fa [2014] No. 17) and the Guiding Opinions on the Dilution of Current Returns by Initial Offering, Refinancing and Material Asset Restructuring (CSRC Announcement [2015] No. 31) issued by CSRC and other provisions. Specific details are set out below:

**I. CHANGES IN EARNINGS PER SHARE OF THE COMPANY UPON COMPLETION OF THE ISSUANCE**

The total share capital of the Company prior to the Issuance was 7,646,385,238 shares. Subject to compliance with the regulatory requirements of the places where the Shares of the Company are listed, the number of shares to be issued shall be no more than 1,277,072,295 Shares (inclusive). The total amount of proceeds from the Issuance, after deducting relevant issuance expenses, will be used for replenishment of capital and working capital of the Company in order to expand the Company's business scale and improve its market competitiveness and risk resistance capacity. When the proceeds from the Issuance are in place, the total share capital and net asset size of the Company will be significantly increased. Due to the time needed for the proceeds from the Issuance to generate benefits, the indicator of current returns of the Company may be exposed to the dilution risk upon completion of the Issuance if the Company fails to record a growth in its operating results at a corresponding rate.

**(i) Main assumptions and premises**

1. It is assumed that there will be no material adverse changes in the macroeconomic environment, the development trend of the industry and the operating conditions of the Company in 2020.
2. It is assumed that the Issuance will be completed prior to June 30, 2020. The completion time, which will be used only for the purpose of calculating the impact of the dilution of current returns under the Issuance on main financial indicators, shall be subject to the time when the Issuance is actually completed as approved by CSRC.

3. It is assumed that 1,277,072,295 Shares are to be issued under the Issuance and the total amount of proceeds is RMB13 billion, without taking into consideration the impact of issuance expenses. The actual amount of proceeds received from the Issuance shall be finalized subject to the approval of the regulatory authority, status of issuance and subscription, issuance expenses, etc.
4. No consideration is given to the impact on the production, operation, financial condition, etc. of the Company (such as operating revenue, financial expenses and investment income) upon receipt of the proceeds from the Issuance.
5. Estimate of the total share capital of the Company is based on the total share capital of 7,646,385,238 Shares of the Company as at December 31, 2019, not considering the changes in share capital caused by factors other than the impact of the Non-public Issuance of A Shares.
6. The net profit attributable to shareholders of the parent in 2019 is RMB5,502 million and net profit attributable to shareholders of the parent after deducting non-recurring profit and loss in 2019 is RMB5,487 million.

Perpetual bond interest payable by the Company in 2019 is RMB371 million. Therefore, the net profit attributable to ordinary shareholders of the parent in 2019 is RMB5,130 million and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2019 is RMB5,116 million.

It is assumed that net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss in 2020 increased by 10%, remained stable and decreased by 10%, respectively, as compared with 2019.

The above assumptions do not constitute the profit forecast of the Company and investors should not rely on such assumptions in making investment decisions and the Company shall not be liable to any losses caused thereon.

## (ii) Impact on main financial indicators of the Company upon the Issuance

Set out below are the analysis on earnings per share prior to and upon the completion of the Issuance based on above assumptions:

Item	2019/December 31, 2019	2020/December 31, 2020	
		Prior to the Issuance	Upon the Issuance
Total share capital (100 million shares)	76.46	76.46	89.23
Weighted average total ordinary share capital (100 million shares)	76.46	76.46	82.85
<b>Assumption I: net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non- recurring profit and loss in 2020 both increased by 10% as compared with 2019</b>			
Net profit attributable to ordinary shareholders of the parent (RMB100 million)	51.30	56.43	56.43
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss (RMB100 million)	51.16	56.28	56.28
Basic earnings per share (RMB yuan/share)	0.67	0.74	0.68
Diluted earnings per share (RMB yuan/share)	0.67	0.74	0.68
Basic earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.74	0.68
Diluted earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.74	0.68

Item	2019/December 31, 2019	2020/December 31, 2020	
		Prior to the Issuance	Upon the Issuance
<b>Assumption II: net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non- recurring profit and loss in 2020 remained stable as compared with 2019</b>			
Net profit attributable to ordinary shareholders of the parent (RMB100 million)	51.30	51.30	51.30
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss (RMB100 million)	51.16	51.16	51.16
Basic earnings per share (RMB yuan/share)	0.67	0.67	0.62
Diluted earnings per share (RMB yuan/share)	0.67	0.67	0.62
Basic earnings per share after deducting non- recurring profit and loss (RMB yuan/share)	0.67	0.67	0.62
Diluted earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.67	0.62
<b>Assumption III: net profit attributable to ordinary shareholders of the parent and net profit attributable to ordinary shareholders of the parent after deducting non- recurring profit and loss in 2020 both decreased by 10% as compared with 2019</b>			
Net profit attributable to ordinary shareholders of the parent (RMB100 million)	51.30	46.17	46.17
Net profit attributable to ordinary shareholders of the parent after deducting non-recurring profit and loss (RMB100 million)	51.16	46.04	46.04
Basic earnings per share (RMB yuan/share)	0.67	0.60	0.56

Item	2019/December 31, 2019	2020/December 31, 2020	
		Prior to the Issuance	Upon the Issuance
Diluted earnings per share (RMB yuan/share)	0.67	0.60	0.56
Basic earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.60	0.56
Diluted earnings per share after deducting non-recurring profit and loss (RMB yuan/share)	0.67	0.60	0.56

*Note:* Basic earnings per share and diluted earnings per share are prepared pursuant to Calculation and Disclosure of Return on Net Assets and Earnings per Share, No. 9 of the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public.

As estimated based on the above assumptions, there will be certain dilution effects on earnings per share of the Company in 2020 caused by the Issuance.

**(iii) Description about the estimate**

The above assumption analysis of the Company in relation to the estimate does not constitute the profit estimate of the Company. Investors should not rely on such analysis in making investment decisions and the Company shall not be liable to any losses caused thereon.

The number of shares, total amount of proceeds and the completion time of the Issuance in relation to the estimate are just estimated values, and shall be finalized subject to the approval of regulatory authority, status of issuance and subscription.

**II. RISK ALERT IN RELATION TO THE DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE**

The total share capital and net asset size of the Company will be significantly increased upon completion of the Issuance. Due to the time needed for the proceeds from the Issuance to generate benefits, the realization of profits and shareholder's returns by the Company will still mainly rely on the existing businesses of the Company. On the premise of increase in the total share capital of the Company, the indicator of current returns of the Company may be exposed to the dilution risk upon completion of the Issuance if the Company fails to record a growth in its operating results at a corresponding rate.

**III. NECESSITY AND RATIONALITY OF THE ISSUANCE****(I) Necessity of the Issuance****1. *The Issuance is a necessary measure for the realization of the Company's strategic development objective***

The Company devotes itself to building a China-based, large and integrated securities company with international horizons and comprehensive advantages. It adheres to the business mode that values coordinated development of light and heavy capital businesses, continuously stimulates the synergies among each business line and optimizes the incentive mechanism. During the “13th-Five Year Plan” period, the Company proposes the business mode of “valuing both light and heavy capital businesses and achieving coordinated development”. Heavy asset businesses requires substantial investments and become the major force for revenue growth. From the other perspective, such businesses are able to support light asset businesses and preserve the competitiveness of the Company. To realize its strategic development objective, the Company will continuously invest in investment banking, wealth management, trading and institutional client services, investment management, international development and set-up of middle offices and back offices. The Issuance will provide a strong financial support to the Company's future development strategy; therefore, it is a necessary measure for the realization of strategic development objective.

**2. *Reinforcing capital strength and consolidating industry position***

As China deepens reform in the capital market, the securities industry is facing intensified competition. On the one hand, the securities industry has a low rate of market concentration and universally homogeneous competition. Some competitive securities companies had started expansion in business scale or get into new business fields via horizontal mergers and acquisitions with an aim to promote synergic business development and improve comprehensive competitiveness and risk resistance capacity, which results in a differentiation trend in the securities industry. On the other hand, the opening-up of securities industry is being promoted gradually, allowing foreign investors to have shareholding up to 51% in domestic securities companies, and will further abolish the 51% foreign ownership restriction in 2020. As the securities industry is further opened to the world, China's securities companies will face greater competition from foreign-funded financial institutions. Given the intensified competition, the Company is in need of reinforcing capital strength and comprehensively improving its competitiveness on basis of consolidating existing advantages.



As at December 31, 2019, total asset on consolidated basis reached RMB285.670 billion. The Company realized RMB13.693 billion of revenue and RMB5.502 billion of net profit attributable to shareholders of the parent in 2019; all financial indicators and business performance ranked top in the industry. Nevertheless, the Company still needs to reinforce its capital strength when compared with leading securities companies of larger scale. Some peers have recently realized net capital improvement via equity refinancing activities, and the Company is facing greater challenge in maintaining capital strength and industry position. Amid the fierce market competition, the Issuance will help the Company to consolidate its industry position and improve its comprehensive competitiveness, lay a solid foundation for business development and help the Company to gain an advantage in market competition.

**3. *Following the industry trend of transforming profit model and optimizing business portfolio***

The traditional sources of profit of China's securities companies are three major traditional businesses, namely securities brokerage, securities proprietary trading, and underwriting and sponsorship, which is regarded as a relatively single profit model. A number of guiding policies for economic transformation and upgrading and development of multi-level capital market have been rolled out in recent years, which provides a policy foundation for securities companies to engage in innovative capital investments and brokerage businesses, including margin trading and securities lending, stock pledged repo transactions, agreed repurchase type securities trading, asset management, asset-backed securitization, proxy sale of financial products and direct investment. The business model of securities companies will shift from the traditional model dominated by channel commission based business to the integrated model valuing fee-based business, brokerage business and internal capital investment, which will become a new force for profit growth. In the macro environment of prudent regulation, securities companies are actively exploring innovative businesses, which, in turn, sets a higher requirement on the capital strength of securities companies.

In such context, it is imperative for the Company to replenish its capital, enhance capital-driven businesses and promote development of innovative businesses while consolidating its current strengths, so as to optimize income structure, diversify risks, maintain and steadily improve the advantage in respect of innovation ability and lower the impact of market uncertainties.

**4. *Reducing the liquidity risk and improving risk resistance capacity***

Risk management is a prerequisite for securities companies to realize sustainable development, and the ability to maintain risks in a measurable, controllable and tolerable range and prevent risk event is related to the profitability of securities companies and even a key to the survival and development of securities companies. The Guidelines for the Management of Liquidity Risks of Securities Companies effective from March 1, 2014 and the amended Measures for the Administration of Risk Control Indicators of Securities Companies and its supporting rules effective from October 1, 2016 set higher standards on the capital strength and risk management of securities companies. From January 2017, seven (later increased to 11) securities companies (including the Company) carried out preparations for the pilot of consolidated supervision under the guidance of the China Securities Regulatory Commission, gradually established and improved a comprehensive risk management system covering parent and subsidiary companies to enhance the ability of group risk management, and consolidated both domestic and overseas subsidiaries in the regulatory statements. All measures above send a signal that regulatory authorities are setting higher standards on the risk management ability of securities companies. All measures above send a signal that regulatory authorities are setting higher standards on the risk management ability of securities companies.

The securities industry is capital intensive, and the capital scale directly determines the business scale, and even directly relates to the risk resistance capacity. As the business scale of the Company continues to grow, it is possible that the liquidity risk would be led by unmatched assets and liabilities structures. To effectively prevent the liquidity risk, the Company optimizes its liquidity risk management policy, improves the liquidity risk stress test mechanism and the liquidity risk indicator forecast mechanism, and amends the liquidity risk contingency plan. Nevertheless, reasonable capital replenishment is still an important means to resist risks. Proceeds from the Issuance are conducive to capital structure optimization, liquidity risk reduction and risk resistance capacity improvement.

**(II) Feasibility of the Issuance****1. *The Non-public Issuance satisfies the conditions prescribed by relevant laws, regulations and regulatory documents***

The Company has a sound corporate governance structure, has established a comprehensive risk management and internal control system, and possesses high-quality assets and sound financial position, and its profitability is strong and sustainable. The Company satisfies the conditions for non-public issuance of domestic RMB-denominated ordinary shares (A Shares) that are prescribed by the Administrative Measures for Issuance, the Implementation Rules, Q&A on Issuance Supervision – Supervision Requirements on Directing and Regulating the Financing Acts of Listed Companies (Revision) and other relevant laws, regulations and regulatory documents.

**2. *The Non-public Issuance is in line with national industry policy orientations***

In May 2014, the State Council issued the Several Opinions on Further Promoting the Sound Development of Capital Markets, which proposed to promote the differentiated, professional and characteristic development of securities institutions and to facilitate the establishment of several modern investment banks with international competitiveness and strong brand influence and of systemic importance.

In May 2014, CSRC issued the Opinions on Further Promoting the Innovative Development of Securities Institutions. From three aspects, constructing modern investment banks, supporting business and product innovation and promoting supervision transformation, the document specified major tasks and specific measures to advance innovative development of securities institutions, and explicitly encouraged securities institutions to expand financing channels and conduct equity and debt financing activities.

In June 2016, CSRC amended the Measures for the Administration of Risk Control Indicators of Securities Companies and the supporting rules. The document aims to improve the effectiveness of risk control indicators and promote the long-term, sound and steady development by referring to the latest industry development trend, improving the calculation basis for net capital and risk capital reserve, incorporating leverage ratio and liquidity supervision into the scope of indicators, and clarifying the counter-cyclical regulation mechanism.

As the business scale grows rapidly and industry regulatory policies are gradually adjusted, the current net capital cannot meet business development requirements of the Company. The Issuance is an act to respond to the proposal of CSRC to encourage securities companies to replenish their capital, and is in line with national industry policy orientations.

#### **IV. RELATIONSHIP BETWEEN INVESTMENT PROJECTS FOR THE PROCEEDS AND EXISTING BUSINESSES OF THE COMPANY**

##### **(i) Operation status and development trend of existing business segments of the Company**

With a full-service platform, the Company provides customers, including enterprises, financial institutions, governmental agencies and individuals, with integrated full range of products and services at home and abroad. Its main businesses are classified into four segments: investment banking, wealth management, trading and institutional customer services and investment management.

For 2016, 2017, 2018 and 2019, operating revenues of the Company were RMB13,259 million, RMB11,303 million, RMB10,907 million and RMB13,693 million, respectively, and net profits of the Company were RMB5,313 million, RMB4,062 million, RMB3,103 million and RMB5,530 million, respectively.

##### **(ii) Risk exposure and improvement measures**

Risks faced by the Company include political and legal risk, business and operational risk, financial risk and information technology risk. The Company always pays great attention to the development of risk management system, and has established an all-round risk management and internal control system. The Company established the risk management concept of “Risk Control Priority & Full Participation in Risk Control”, required risk management work to be carried out on the premise of achieving the strategic objective of the overall business of the Company with risks controlled within an acceptable range, ensured risks to be measurable and controllable, as well as a reasonable risk – return ratio, so as to guarantee that the Company operates on a going-concern basis in compliance with regulatory requirements. The Company continuously improves risk management system according to its business development needs, changes in market environment and regulatory requirements. The all-round risk management mechanism has been continuously improved and is operating in an effective manner.

**(iii) Relationship between investment projects for the proceeds and existing businesses of the Company**

The total amount of proceeds from the Issuance is no more than RMB13 billion (inclusive), all of which will be used for replenishment of capital and working capital of the Company after deducting the issuance expenses in order to expand the Company's business scale.

Upon completion of the Issuance, the main businesses of the Company will remain unchanged, and the capital strength of the Company will be further improved, which will help the Company expand its business scale and enhance its market competitiveness and risk resistance capacity.

**V. PERSONNEL, TECHNOLOGY, MARKET RESERVE AND OTHER RESERVES FOR INVESTMENT PROJECTS FOR THE PROCEEDS OF THE COMPANY**

In terms of personnel reserve, the Company always attaches great importance to encouraging and cultivating the entrepreneurship of employees, and motivating employees to work diligently and faithfully. A majority of the operating management of the Company joined the Company since its establishment in 2005 and have an average of more than 19 years of experience in securities industry. Department leaders of the Company have an average of more than 18 years of work experience in the securities industry and a majority of them joined the Company since the establishment of the Company. As the basis for the continuous growth of the Company, a stable team has guaranteed the sustainability of the business strategy of the Company and allowed employees to pay more attention to the long-term interests of the Company. With great importance attached to career development of employees, the Company invested more resources in improving the professional competence and comprehensive quality of employees. The above personnel reserve has laid a solid foundation for business expansion upon completion of fund raising.

In terms of technology reserve, the powerful information technology infrastructure played a key role in business expansion and risk management. The Company has taken a series of measures to improve the stability and reliability of information technology system, in order to control the risks closely related to information technology in business operations, and further guarantee the business continuity and information security. Each year, the Company continuously invests significant resources to improve information technology system and support the continuous growth of business through providing safe and stable technical services. In the future, the Company will continuously strengthen information technology support in software and hardware by taking measures including the establishment of a quick-response, full-coverage, one-stop and highly specialized business support technology architecture through the application of new technologies, including big data and Internet finance.

In terms of market reserve, by fully capitalizing on the innovation-driven development of the securities industry in China, the Company has rapidly developed into an industry-leading large-scale comprehensive investment bank within a short business history of more than 10 years. The Company has established a business network headquartered in Beijing, spreading across China. As of December 31, 2019, the Company had a total of 295 securities business departments and 25 futures branch organizations located in 30 provinces, autonomous regions and municipalities in China; the Company had a total of 9.0041 million of customer funds accounts; market value of securities entrusted by customers reached RMB2.32 trillion, accounting for a 5.37% market share and ranking at fifth in the industry. On the ranking of securities companies for 2018 (in terms of operating results) released by the Securities Association of China, the Company ranked ninth by operating revenue, and ninth by net profit.

#### **VI. MAIN MEASURES TO BE TAKEN BY THE COMPANY IN RESPONSE TO THE DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUANCE**

The Issuance may result in a decrease in the current returns to investors to a certain extent. In order to guarantee the rational use of the proceeds and effectively prevent the dilution risk on current returns, the Company proposes to take the following measures to guarantee shareholder's returns and fully protect the interests of minority shareholders.

**(i) Continuously promoting the all-round development of business and developing diversified profit-making channels**

In addition to driving the stable growth of existing businesses, the Company will also develop opportunities for business innovation, constantly pay close attention to the development trend of financial industry, drive the all-round development of business by providing customers with all-round financial services, keep expanding business domains, explore new profit growth points, and strive to be the first mover in the increasingly competitive market.

**(ii) Regulating the management and use of the proceeds**

In order to regulate the management and use of the proceeds and protect the interests of investors, the Company has formulated the Administrative Measures for the Proceeds of China Securities Co., Ltd., which sets out the specific provisions for the deposit, use, changes of investment, and supervision over the use of the proceeds, in accordance with the requirements of the Securities Law, the Administrative Measures for Issuance, the Administrative Regulations for Proceeds of Companies Listed on the Shanghai Stock Exchange and other laws, regulations and other relevant regulatory documents as well as the Articles of Association. The Company will implement stricter policies on the management of the proceeds, use the proceeds in a rational and effective manner, and prevent the risks on the use of the proceeds.

**(iii) Strengthening operation and management as well as internal control while improving operational efficiency and profitability**

In the future, the Company will further improve its operation and management level and increase the overall profitability of the Company. The Company will strive to improve the utilization efficiency of capital, optimize and strengthen decision-making process on investment, increase the utilization efficiency of capital and reduce financial expenses of the Company. The Company will also strengthen its internal control and effectively utilize the effect of corporate management. The Company will promote comprehensive budget management, optimize budget management process, strengthen cost management and reinforce supervision over budget execution, thereby fully and effectively controlling the risks on the operation and management of the Company.

**(iv) Reinforcing risk management measures**

The Company will keep enhancing in the development of the all-round risk management system, keep improving its risk management ability in credit risk, market risk, operational risk, liquidity risk and other relevant risks, strengthen risk prevention and control in key areas, continuously carry out risk identification, measurement, monitoring and control, disposal and reporting in key areas properly and improve the risk management ability of the Company in an all-round way.

**(v) Maintaining stable policies on shareholder's returns**

The Company has formulated provisions on profit distribution in the Articles of Association in accordance with the Notice on Matters in relation to Further Implementing Cash Dividend of Listed Companies, the Regulatory Guidelines for Listed Companies No. 3 – Cash Dividend of Listed Companies and other relevant requirements issued by CSRC. The Articles of Association of the Company expressly stipulated the policies on cash dividend, proportion of cash dividend and other matters, and provided the minimum proportion of profit distribution by the Company in cash under normal circumstances, to allow investors to enjoy stable expected returns. The Company attaches great importance to the protection of shareholders' interests and will keep maintaining the consistency and stability of policies on profit distribution with an aim to create long-term values for shareholders.

(vi) **Continuously improving corporate governance and providing institutional safeguards for the development of the Company**

The Company will, in strict accordance with the requirements of the Company Law, the Securities Law and the Code of Corporate Governance for Listed Companies and other laws, regulations and other regulatory documents, keep streamlining the corporate governance structure, ensure the full exercise of rights by shareholders, and exercise of functions and powers by the Board in making scientific, rapid and prudent decisions in accordance with the provisions of laws and regulations and the Articles of the Association, and diligent performance of duties by independent directors, and protect the interests of the Company as a whole, in particular the legitimate rights and interests of minority shareholders, so as to provide institutional safeguards for the development of the Company.

**VII. UNDERTAKINGS MADE BY DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY ON REMEDIAL MEASURES TO THE DILUTION OF CURRENT RETURNS BY THE ISSUANCE OF SHARES**

The directors and senior management of the Company have undertaken to perform their duties faithfully and diligently and protect the legitimate rights and interests of the Company and all shareholders as a whole, and have made the following undertakings on the proper implementation of the remedial measures to the dilution of current returns to be taken by the Company in accordance with relevant requirements of CSRC:

1. not to transfer benefits to other organizations or individuals at nil consideration or on unfair terms nor otherwise prejudice the interests of the Company.
2. to control relevant duty-related expenses related to the Company, and guarantee that any such duty-related consumption expenses are necessary expenditure in performing my duties, and to strictly abide by the supervision and management of the Company.
3. not to utilize the Company's assets for the purpose of investment and consumption activities that are irrelevant to my duties.
4. to conscientiously procure the remuneration system formulated by the Board or the Remuneration and Nomination Committee to be related to the execution of the remedial measures to current returns of the Company, and to strictly comply with relevant systems.



5. to conscientiously procure the exercise conditions, if any, under the equity incentive of the Company proposed to be announced by the Company to be related to the execution of the remedial measures to current returns of the Company.
  
6. (Where there is a failure in fulfilling the above undertakings) to provide specific reasons for the failure in fulfilling the above undertakings at the general meeting and on the newspapers designated by CSRC to make an apology to shareholders and public investors, and to assume the legal liability for any losses suffered by the Company or shareholders as a result of violation of the above undertakings made.

I undertake to make additional undertakings in accordance with relevant regulations in due course where the regulatory authority develops other detailed provisions on remedial measures and relevant undertakings and such undertakings fail to satisfy the detailed provisions of the regulatory authority subsequent to the date of the above undertakings

The Board of China Securities Co., Ltd.  
March 26, 2020

The external agencies have confirmed and approved the Annual Financial Statement of the Company for 2019, and issued an audit report with standard unqualified opinion. According to their opinion, the Company's financial report has been prepared in accordance with the provisions of the Chinese Accounting Standards for Business Enterprises and has fairly reflected its financial position as of 31 December 2019 and its operating results and cash flows in 2019 in all major aspects. The report of financial position and operating results of the Company (unless otherwise stated, the financial data in this resolution are based on the data from the audited consolidated statements (A Shares), involving shareholders' equity, net profit, and total comprehensive income based on those attributable to the shareholders of the parent company) are presented below for your consideration.

## Financial position and operating results of the Company for 2019

*Unit: RMB'00 million*

Item	A Share(s)			H Share(s)		
	End of 2019	End of 2018	Increase/ Decrease	End of 2019	End of 2018	Increase/ Decrease
Total assets	2,856.70	1,950.82	46.44%	2,856.70	1,950.82	46.44%
Total liabilities	2,287.75	1,472.19	55.40%	2,287.75	1,472.19	55.40%
Shareholders' equity	565.82	475.77	18.93%	565.82	475.77	18.93%
Net capital	539.56	410.30	31.50%	539.56	410.30	31.50%

  

Item	A Share(s)			H Share(s)		
	2019	2018	Increase/ Decrease	2019	2018	Increase/ Decrease
Operating revenue/total revenue and other revenue	136.93	109.07	25.54%	194.07	164.92	17.68%
Operating expenses/total expenses	65.28	68.67	-4.93%	122.46	124.48	-1.62%
Net profit	55.02	30.87	78.19%	55.02	30.87	78.19%
Total comprehensive income	57.72	34.16	68.95%	57.72	34.16	68.95%

*Note:* In the financial report of A Shares and H Shares, the difference between operating revenue and total revenue and other revenue, and operating expenses and total expenses mainly represents revenue and expenses of fees and interests. A Shares are reflected on net basis and H Shares are reflected on separate basis.

**I. FINANCIAL POSITION OF THE COMPANY IN 2019****(I) Asset Position**

As of the end of 2019, total assets of the Company on consolidated basis amounted to RMB285,670 million, representing a year-on-year (“YoY”) increase of RMB90,588 million, or 46.44% (after deducting accounts payable to brokerage clients, total assets of the Company on consolidated basis amounted to RMB231,044 million, representing a YoY increase of 44.36%). The main changes are as follows: cash and bank accounts and settlement reserve showed a YoY increase of RMB49,163 million; and assets in investments (mainly including investments in associates and investments in financial assets) showed a YoY increase of RMB38,740 million.

**(II) Liability Position**

As of the end of 2019, total liabilities of the Company on consolidated basis amounted to RMB228,775 million, representing a YoY increase of RMB81,556 million, or 55.40% (after deducting accounts payable to brokerage clients, total liabilities of the Company on consolidated basis amounted to RMB174,149 million, representing a YoY increase of 55.24%). The main changes are as follows: financial assets sold under repurchase agreements recorded a YoY increase of RMB23,001 million; short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and bonds payable showed a YoY increase of RMB20,759 million; accounts payable to brokerage clients showed a YoY increase of RMB19,587 million; and funds from underwriting securities agency showed a YoY increase of RMB15,044 million.

**(III) Shareholders’ Equity and Net Capital**

As of the end of 2019, shareholders’ equity of the Company on consolidated basis amounted to RMB56,582 million, representing a YoY increase of RMB9,005 million, or 18.93%. The main changes are as follows: the proceeds raised amounted to RMB4,981 million after the issuance of perpetual subordinated bonds of the Company in 2019; the Company realized net profit of RMB5,502 million, realized other comprehensive income of RMB270 million, distributed cash dividend of RMB1,376 million and accrued interest on perpetual bonds of RMB371 million.

As of the end of 2019, net capital of the Company amounted to RMB53,956 million, representing a YoY increase of RMB12,926 million or 31.50%. The Company strictly controlled the risks, with a risk coverage ratio of 275.19%, a liquidity coverage ratio of 252.17% and a net stable funding ratio of 162.06%. All risk control indicators of business complied with relevant requirements issued by the China Securities Regulatory Commission.

**II. OPERATING RESULTS IN 2019****(I) Operating revenue**

In 2019, the consolidated operating revenue of the Company amounted to RMB13,693 million, representing a YoY increase of RMB2,786 million, or 25.54%, among which:

1. Net fee income from brokerage business amounted to RMB2,847 million, representing a YoY increase of RMB555 million, mainly attributable to a YoY increase in the trading volume of stocks and funds;
2. Net fee income from investment banking business amounted to RMB3,685 million, representing a YoY increase of RMB550 million, mainly attributable to a YoY increase in bond financing scale and launch of the Science and Technology Innovation Board;
3. Net fee income from asset management business amounted to RMB793 million, representing a YoY increase of RMB102 million, mainly attributable to an increase in income from active management business;
4. Net interest income amounted to RMB1,559 million, representing a YoY decrease of RMB434 million, primarily attributable to a decrease in interest income from margin financing and securities lending business of the Company;
5. Investment gains (inclusive of the gains and losses arising from changes in fair value) amounted to RMB4,399 million, representing a YoY increase of RMB1,974 million, mainly attributable to the recovery of secondary market and an increase in proprietary business scale of the Company.

**(II) Operating expenses**

In 2019, the consolidated operating expenses of the Company amounted to RMB6,528 million, representing a YoY decrease of RMB339 million or 4.93%, mainly attributable to the reversal of credit impairment losses for the year.

**(III) Profit**

In 2019, the Company realized net profit on consolidated basis of RMB5,502 million, representing a YoY increase of RMB2,415 million or 78.19%; return on weighted average equity of 11.51%, representing a YoY increase of 4.72 percentage points. Upon incorporating other comprehensive income, the Company realized RMB5,772 million of total comprehensive income on consolidated basis, representing a YoY increase of RMB2,356 million or 68.95%. In light of the above analysis, the Company seized the opportunities and recorded satisfactory operating results under the conditions of market recovery, which lays a solid foundation for sustainable and sound development in the future.

**I. GENERAL INFORMATION OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS**

As at the end of 2019, the Board of the Company comprised of a total of five Independent Non-executive Directors, namely Mr. Feng Genfu, Ms. Zhu Shengqin, Mr. Dai Deming, Mr. Bai Jianjun and Mr. Liu Qiao. Among others, Mr. Feng Genfu and Ms. Zhu Shengqin were initially appointed at the Shareholders' general meeting in April 2015, and Mr. Dai Deming, Mr. Bai Jianjun and Mr. Liu Qiao were initially appointed at the Shareholders' general meeting in August 2016. The re-election of Directors above was approved at the Shareholders' general meeting in April 2018. For details of the latest biographies of Independent Non-executive Directors of the Company, please refer to the 2019 annual report of the Company.

**II. PERFORMANCE OF DUTIES OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS****(I) Positions held in the Board committees**

The Independent Non-executive Directors of the Company actively attended the Shareholders' general meetings, Board meetings as well as Board committee meetings. Every Board committees included Independent Non-executive Directors as members. The convener of both the audit committee and the remuneration and nomination committee were served by an Independent Non-executive Director, and more than half of the members of both the aforesaid Board committees consisted of Independent Non-executive Directors.

As at the end of 2019, the positions held by Independent Non-executive Directors of the Company in the Board committees were as follows:

<b>Name</b>	<b>Positions held in the Board committees</b>
Feng Genfu	Member of the development strategy committee and member of the audit committee
Zhu Shengqin	Member of the audit committee and member of the remuneration and nomination committee
Dai Deming	Chairman of the audit committee and member of the remuneration and nomination committee
Bai Jianjun	Chairman of the remuneration and nomination committee and member of the risk management committee
Liu Qiao	Member of the risk management committee and member of the remuneration and nomination committee

**(II) Attendance of the Board meetings and Board committee meetings**

In 2019, in accordance with the Articles of Association, the Rules of Procedures for Board Meetings of the Company and relevant requirements of rules of procedures for all Board committees, the Independent Non-executive Directors of the Company attended the Board meetings and meetings of Board committees, to consider and discuss the relevant resolutions, conscientiously carried out preliminary review of various resolutions before the meetings, and had full understanding of the background and decision-making matters of the resolutions. During the meetings, the Directors actively expressed opinions and participated in discussion to ensure that precise decisions were made on significant matters.

**1. Attendance of Board meetings**

In 2019, the Company held 7 Board meetings in total, and the attendance of the Independent Non-executive Directors at the Board meetings was as follows:

<b>Name</b>	<b>Number of Board meetings to be attended</b>	<b>Number of meetings attended in person</b>	<b>Number of meetings attended by proxy</b>
Feng Genfu	7	7	0
Zhu Shengqin	7	7	0
Dai Deming	7	7	0
Bai Jianjun	7	7	0
Liu Qiao	7	7	0

## 2. Attendance of Board committee meetings

The Board of the Company has established four special committees. In 2019, the development strategy committee, the risk management committee, the audit committee and the remuneration and nomination committee respectively held four, two, four and two meeting(s). The attendance of Independent Non-executive Directors at the meetings was as follows:

Name	Development	Risk	Remuneration	
	Strategy	Management	Audit	Nomination
	Committee	Committee	Committee	Committee
Feng Genfu	4/4	–	4/4	–
Zhu Shengqin	–	–	4/4	2/2
Dai Deming	–	–	4/4	2/2
Bai Jianjun	–	2/2	–	2/2
Liu Qiao	–	2/2	–	2/2

*Notes:* The above table shows “the actual attendance/number of meetings to be attended”.

For details of resolutions considered at the Shareholders’ general meetings, Board meetings and Board committee meetings as well as attendance of Independent Non-executive Directors of the Company at the Shareholders’ general meetings, please refer to the 2019 annual report of the Company.

### (III) Major concerns raised and independent opinions issued

According to the duties authorized by laws and regulations as well as Articles of Association, Independent Non-executive Directors of the Company focused on the issuance of shares, amendment to accounting policies, profit distribution, deposit and use of the proceeds raised, appointment of senior management personnel, related party transactions, appointment of accounting firms and other matters, and issued independent opinions in accordance with listing rules of the stock exchanges where the shares of the Company are listed.

1. Issuance of shares. The Independent Non-executive Directors of the Company expressing independent opinions in the relevant resolutions on non-public issuance of A shares of the Company are of the view that the issuance plan is available and practicable and the use of raised proceeds is beneficial to the increase in the competitiveness of the Company in compliance with the development strategy of the Company. Therefore, the relevant resolution has been approved.



2. Amendment to accounting policies. The Independent Non-executive Directors of the Company expressing independent opinion in the resolutions on amendment to the major accounting policies and accounting estimates of the Company are of the view that the amendment plans are in line with the interests of the Company and its Shareholders, which can reflect the Company's financial position and operating results in an objective and fair manner. There is no harm to the interests of the Company and its Shareholders. Therefore, the relevant resolution has been approved.
3. Profit distribution. The Independent Non-executive Directors of the Company expressing independent opinion in the 2018 profit distribution are of the view that the profit distribution is in compliance with the provisions of laws, regulations, normative documents and the Articles of Association and other internal systems, and is in line with the actual conditions of the Company and the overall and long-term interests of Shareholders, favorable for the long-term development of the Company. Therefore, the relevant resolution was approved.
4. Deposit and use of the proceeds raised. The Independent Non-executive Directors of the Company expressing independent opinion in the deposit and use of the proceeds raised in 2018 and the first half of 2019 profit distribution are of the view that the deposit and use of the proceeds raised are in compliance with the requirements issued by the China Securities Regulatory Commission and Shanghai Stock Exchange without any changes made to the use of proceeds in a disguised form, or any harm to the interests of Shareholders, or any violation of regulations. The content prepared by the Board is true, accurate and complete and that there is no false and misleading statement or material omission herein. Therefore, the relevant resolution has been approved.
5. Appointment of senior management personnel. The Independent Non-executive Directors of the Company expressing independent opinions in the addition of members of the Executive Committee of the Company, adjustment to chief compliance officer and chief risk officer, are of in view that the candidates meet the requirements of senior management of listed securities companies, and the process of appointment is in compliance with laws and regulations. Therefore, the relevant resolution has been approved.

6. Related party transactions. The Independent Non-executive Directors of the Company expressing independent opinions in the expected daily related party transactions in 2019, are of the view that the pricing principle is reasonable and fair and there is no detriment to the interests of the non-related party shareholders of the Company or the Company. The above daily related party transactions occur in the normal course of business operation of the Company, which facilitate the business development of the Company and the improvement of its overall competitiveness. The above daily related party transactions have no effect on the independence of the Company. The primary businesses of the Company do not rely on related parties. Therefore, the relevant resolution has been approved.
7. Appointment of accounting firms. The Independent Non-executive Directors of the Company express independent opinions in the reappointment of 2019 accounting firms. Pursuant to the comprehensive assessments of the institution that is proposed to be appointed, the relevant resolution has been approved.
8. Major concerns raised by the audit committee of the Board. The audit committee of the Board, comprising of Independent Non-executive Directors who are its convener and constitute more than half of its members, specifically monitored the process and results of internal and external audit, and reviewed financial information and disclosure. In 2019, the audit committee of the Board reviewed several matters including the amendments to accounting policies, implementation of external audit, financial data in periodic reports, implementation of internal audit and related party transactions of the Company, and have approved the relevant resolutions and agreed to submit the resolutions to the Board for consideration.
9. Major concerns raised by the Remuneration and Nomination Committee of the Board. The remuneration and nomination committee of the Board, comprising of Independent Non-executive Directors who are its convener and constitute more than half of its members, specifically concerned about the criteria for selection and appointment of Directors and senior management, provided recommendations to candidates, and reviewed internal remuneration package of Directors and senior management. In 2019, the remuneration and nomination committee of the Board reviewed the resolutions on the addition of members of the Executive Committee, adjustment to chief compliance officer and chief risk officer and the resolutions on annual bonus for the executive management, and approved the relevant resolutions and agreed to submit the resolutions to the Board for consideration.

**III. ASSESSMENT ON PERFORMANCE OF DUTIES FOR 2019**

In 2019, the Independent Non-executive Directors of the Company were able to devote adequate time and efforts to their duties in strict compliance with the relevant requirements of laws, regulations, regulatory rules and the Articles of Associations, exerting their professional advantages, engaging in all decision-making of the Board in an honest, diligent, independent and prudent manner so as to effectively safeguard the interests of the Company, focus on the legitimate interests of minority Shareholders, and contributed their efforts on the sustainable and sound development of the Company.

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## NOTICE OF THE ANNUAL GENERAL MEETING

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# 中信建投証券股份有限公司 CSC FINANCIAL CO., LTD.

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

**(Stock Code: 6066)**

## NOTICE OF THE 2019 ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the 2019 annual general meeting (the “AGM”) of CSC Financial Co., Ltd. (the “**Company**”) will be held at 9:30 a.m. on Friday, June 5, 2020 at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, People's Republic of China (the “PRC”), to consider and, if thought fit, approve the following resolutions:

Unless otherwise specified, capitalized terms used in this notice shall have the same meaning as those defined in the circular (the “**Circular**”) of the Company dated April 17, 2020. Please refer to the Circular for details of the proposed resolutions.

### AS SPECIAL RESOLUTIONS

To consider and approve:

- (1) the amended resolution on the Non-public Issuance of A Shares of the Company;
  - (a) class and nominal value of shares to be issued;
  - (b) issue method and time;
  - (c) target subscribers and subscription method;
  - (d) issue price and pricing principles;
  - (e) issue size;
  - (f) amount and the use of proceeds;
  - (g) lock-up period;
  - (h) listing venue;

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## NOTICE OF THE ANNUAL GENERAL MEETING

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- (i) arrangement of accumulated undistributed profits prior to the completion of the issuance; and
  - (j) validity period; and
- (2) the amended resolution on the Plan for the Non-public Issuance of A Shares;

### AS ORDINARY RESOLUTIONS

To consider and approve:

- (3) the 2019 Work Report of the Board of Directors of the Company;
- (4) the 2019 Work Report of the Supervisory Committee of the Company;
- (5) the amended resolution on the dilution of current returns by the Non-public Issuance of A Shares and remedial measures;
- (6) the 2019 Final Financial Accounts Plan of the Company;
- (7) the Profit Distribution of the Company in 2019;
- (8) the 2019 annual report of the Company;
- (9) the Cap on Investment Amount for Proprietary Business of the Company in 2020;
- (10) the expected daily related party transactions of the Company in 2020;
- (11) the re-appointment of 2020 accounting firms of the Company and the auditor fees thereof, and authorize the Board to adjust and determine the specific audit and review fees based on the actual situation.

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# NOTICE OF THE ANNUAL GENERAL MEETING

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## AS REPORTING DOCUMENT

To review:

- (12) the 2019 Work Report of the Independent Non-executive Directors of the Company.

The above resolutions and report were considered and approved by the Board/Supervisory Committee on March 26, 2020. It is now submitted to shareholders for consideration and approval at the AGM.

By order of the Board  
**CSC Financial Co., Ltd.**  
**Wang Changqing**  
*Chairman*

Beijing, the PRC

April 17, 2020

*Notes:*

### **1. ELIGIBILITY FOR ATTENDING THE AGM AND CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed for the purpose of determining Shareholders' entitlement to attend the AGM from Wednesday, May 6, 2020 to Friday, June 5, 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to attend the AGM, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders) no later than 4:30 p.m. on Tuesday, May 5, 2020 to complete registration. Holders of H Shares who are registered with Computershare Hong Kong Investor Services Limited at the close of business on the aforementioned date are entitled to attend the AGM.

Where there are joint holders of any shares, the one whose name stands first on the register of members shall be entitled to attend and vote at the AGM in respect of such shares.

### **2. 2019 PROFIT CASH DIVIDEND**

The Board recommended the distribution of profit cash dividend for the year 2019 of RMB2.35 per ten shares (tax inclusive) ("**2019 Profit Cash Dividend**"), and if such dividend is declared by the Shareholders through an ordinary resolution, it is expected to be paid on or around Wednesday, July 22, 2020 to the Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, June 16, 2020. In order to be entitled to the receipt of cash dividend to be distributed which will be approved in the AGM, the register of members of the Company will be closed from Thursday, June 11, 2020 to Tuesday, June 16, 2020 (both days inclusive), during which period no transfer of Shares will be registered, the H Shareholders should ensure that all transfer documents together with relevant share certificates, are lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, June 10, 2020.

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## NOTICE OF THE ANNUAL GENERAL MEETING

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### 3. PROXY

- (1) Any Shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy need not be a Shareholder.
- (2) The instrument appointing a proxy must be in writing by the appointor or his attorney duly authorized in writing, or if the appointor is a legal entity, either under seal or signed by a Director or a duly authorized attorney.

To be valid, the proxy form together with the notarized power of attorney or other documents of authorization, if any, must be completed and delivered to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders), no later than 24 hours before the time fixed for the AGM (i.e. 9:30 a.m., Thursday, June 4, 2020) or 24 hours before the time of any adjournment thereof. The proxy form for the AGM is enclosed herewith.

Completion and return of the proxy form will not preclude the Shareholders from attending and voting at the AGM or at any adjourned meeting if they so wish.

### 4. REGISTRATION PROCEDURES FOR ATTENDING THE AGM

#### (1) Shareholder or his/her proxy shall produce proof of identity when attending the AGM

- (a) Legal representatives of legal person shareholders who attend the meeting shall produce their own identity cards and effective proof of their capacity as legal representatives. Proxies of legal person shareholders shall produce their own identity cards and the form of proxy duly signed by the legal representatives of the legal person shareholders according to laws.
  - (b) Individual Shareholders who attend the meeting in person shall produce their identity cards or other effective document or proof of identity. Proxies of individual Shareholders shall produce effective proof of identity and form of proxy.
- (2) H Shareholders intending to attend the AGM in person or by their proxies should return the completed and signed reply slip for attending the AGM in person, by post or by fax to Computershare Hong Kong Investor Services Limited on or before Saturday, May 16, 2020.

### 5. VOTING BY POLL

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the resolutions to be proposed at the AGM will be voted by poll. Results of the poll voting will be posted on the website of the Company at [www.csc108.com](http://www.csc108.com) and on the HKExnews website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) upon the conclusion of the AGM.

### 6. MISCELLANEOUS

- (1) The duration of the AGM is expected not to exceed half a day. Shareholders who attend the AGM shall arrange for their own transportation and accommodation at their own expenses.
- (2) The address of Computershare Hong Kong Investor Services Limited is at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (Telephone: (852) 2862 8555, Fax: (852) 2865 0990).

For the matters relating to the attendance of the AGM by A Shareholders, please refer to the notice of meeting and other relevant documents published by the Company on website of the Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn))



**中信建投証券股份有限公司**  
**CSC FINANCIAL CO., LTD.**

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

(Stock Code: 6066)

- (1) 2019 WORK REPORT OF THE BOARD OF DIRECTORS
  - (2) 2019 WORK REPORT OF THE SUPERVISORY COMMITTEE
  - (3) AMENDMENT OF PROPOSED NON-PUBLIC ISSUANCE OF A SHARES
  - (4) AMENDMENT OF PLAN FOR THE NON-PUBLIC ISSUANCE OF A SHARES
  - (5) AMENDMENT OF DILUTION OF CURRENT RETURNS BY  
THE NON-PUBLIC ISSUANCE OF A SHARES AND REMEDIAL MEASURES
  - (6) 2019 FINAL FINANCIAL ACCOUNTS PLAN
  - (7) PROFIT DISTRIBUTION OF THE COMPANY IN 2019
  - (8) 2019 ANNUAL REPORT
  - (9) CAP ON INVESTMENT AMOUNT FOR PROPRIETARY BUSINESS IN 2020
  - (10) EXPECTED DAILY RELATED PARTY TRANSACTIONS IN 2020
  - (11) REAPPOINTMENT OF 2020 ACCOUNTING FIRMS
  - (12) 2019 WORK REPORT OF INDEPENDENT NON-EXECUTIVE DIRECTORS
  - (13) NOTICE OF THE ANNUAL GENERAL MEETING
- AND**
- (14) NOTICE OF THE 2020 SECOND H SHAREHOLDERS' CLASS MEETING

**NOTICE IS HEREBY GIVEN** that the 2020 second H Shareholders' class meeting of CSC Financial Co., Ltd. (the "**Company**") will be held at 11:30 a.m. on Friday, June 5, 2020 (or immediately after the 2020 Second A Shareholders' Class Meeting) at the Multi-function Hall, B1/F, Office Building of CSC Financial Co., Ltd., No. 188 Chaonei Avenue, Dongcheng District, Beijing, PRC, to consider and, if thought fit, approve the following resolution. Unless otherwise specified, capitalized terms used in this notice shall have the same meaning as those defined in the circular of the Company dated April 17, 2020.



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## NOTICE OF THE 2020 FIRST H SHAREHOLDERS' CLASS MEETING

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### AS SPECIAL RESOLUTIONS

To consider and approve:

- (1) the amended resolution on the Non-public Issuance of A Shares of the Company;
  - (a) class and nominal value of shares to be issued;
  - (b) issue method and time;
  - (c) target subscribers and subscription method;
  - (d) issue price and pricing principles;
  - (e) issue size;
  - (f) amount and the use of proceeds;
  - (g) lock-up period;
  - (h) listing venue;
  - (i) arrangement of accumulated undistributed profits prior to the completion of the issuance; and
  - (j) validity period; and
- (2) the amended resolution on the Plan for the Non-public Issuance of A Shares.

By order of the Board  
**CSC Financial Co., Ltd.**  
**Wang Changqing**  
*Chairman*

Beijing, the PRC  
April 17, 2020

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## NOTICE OF THE 2020 FIRST H SHAREHOLDERS' CLASS MEETING

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Notes:

### 1. ELIGIBILITY FOR ATTENDING THE H SHAREHOLDERS' CLASS MEETING AND CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the purpose of determining Shareholders' entitlement to attend the H shareholders' class meeting from Wednesday, May 6, 2020 to Friday, June 5, 2020 (both days inclusive), during which period no transfer of Shares will be registered. In order to attend the H shareholders' class meeting, Shareholders should ensure that all transfer documents, accompanied by the relevant share certificates, are lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, May 5, 2020 to complete registration. Holders of H Shares who are registered with Computershare Hong Kong Investor Services Limited or the Company's Board Office (where appropriate) at the close of business on the aforementioned date are entitled to attend the H shareholders' class meeting.

Where there are joint holders of any shares, the one whose name stands first on the register of members shall be entitled to attend and vote at the H shareholders' class meeting in respect of such shares.

### 2. PROXY

- (1) Any Shareholder entitled to attend and vote at the H shareholders' class meeting is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf. A proxy need not be a Shareholder.
- (2) The instrument appointing a proxy must be in writing by the appointor or his attorney duly authorized in writing, or if the appointor is a legal entity, either under seal or signed by a Director or a duly authorized attorney.

To be valid, the proxy form together with the notarized power of attorney or other documents of authorization, if any, must be completed and delivered to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 24 hours before the time fixed for the H shareholders' class meeting (i.e. 11:30 a.m., Thursday, June 4, 2020) or 24 hours before the time of any adjournment thereof. The proxy form for the H shareholders' class meeting is enclosed herewith.

Completion and return of the proxy form will not preclude the Shareholders from attending and voting at the H shareholders' class meeting or at any adjourned meeting if they so wish.

### 3. REGISTRATION PROCEDURES FOR ATTENDING THE H SHAREHOLDERS' CLASS MEETING

- (1) Shareholder or his/her proxy shall produce proof of identity when attending the H shareholders' class meeting:
  - (a) Legal representatives of legal person shareholders who attend the meeting shall produce their own identity cards and effective proof of their capacity as legal representatives. Proxies of legal person shareholders shall produce their own identity cards and the form of proxy duly signed by the legal representatives of the legal person shareholders according to laws.
  - (b) Individual Shareholders who attend the meeting in person shall produce their identity cards or other effective document or proof of identity. Proxies of individual Shareholders shall produce effective proof of identity and form of proxy.

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## NOTICE OF THE 2020 FIRST H SHAREHOLDERS' CLASS MEETING

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- (2) Shareholders intending to attend the H shareholders' class meeting in person or by their proxies should return the completed and signed reply slip for attending the H shareholders' class meeting in person, by post or by fax to Computershare Hong Kong Investor Services Limited on or before Saturday, May 16, 2020.

#### 4. VOTING BY POLL

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by poll. Accordingly, the resolution to be proposed at the H shareholders' class meeting will be voted by poll. Results of the poll voting will be posted on the website of the Company at [www.csc108.com](http://www.csc108.com) and on the HKExnews website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) upon the conclusion of the H shareholders' class meeting.

#### 5. MISCELLANEOUS

- (1) The duration of the H shareholders' class meeting is expected not to exceed half a day. Shareholders who attend the H shareholders' class meeting shall arrange for their own transportation and accommodation at their own expenses.
- (2) The address of Computershare Hong Kong Investor Services Limited is at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (Telephone: (852) 2862 8555, Fax: (852) 2865 0990).