

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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Non-collateralised Structured Products

Base Listing Document relating to Structured Products to be issued by

Guotai Junan Securities (Hong Kong) Limited

(incorporated with limited liability in Hong Kong)

This document, for which we accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving information with regard to us and our warrants (“**Warrants**”), callable bull/bear contracts (“**CBBCs**”) and other structured products (together, the “**Structured Products**”) to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

We, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

The Structured Products are complex products. You should exercise caution in relation to them. The Structured Products involve derivatives. Investors should not invest in the Structured Products unless they fully understand and are willing to assume the risks associated with them. Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and the relevant launch announcement and supplemental listing document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying assets; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index or any company constituting the underlying index. If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

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IMPORTANT INFORMATION

What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or an invitation to the public to subscribe for or to acquire any Structured Products.

What documents should you read before investing in the Structured Products?

You must read this document (including any addendum to this document to be issued from time to time) together with the relevant launch announcement and supplemental listing document (each a “**Launch Announcement and Supplemental Listing Document**”) (including any addendum to such Launch Announcement and Supplemental Listing Document to be issued from time to time) (together, “**Listing Documents**”) before investing in the Structured Products. A Launch Announcement and Supplemental Listing Document will be issued prior to the listing date of each series of Structured Products, which will include detailed commercial terms of the relevant series. You should carefully study the risk factors set out in the Listing Documents.

Is there any guarantee or collateral for the Structured Products?

No. Our obligations under the Structured Products are neither guaranteed by any third party, nor collateralised with any of our assets or other collaterals. When you purchase our Structured Products, you are relying on our creditworthiness only, and of no other person. If we become insolvent or default on our obligations under the Structured Products, you can only claim as an unsecured creditor of the Issuer. In such event, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

Are we regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission (“SFC”) referred to in Rule 15A.13(3)?

We are licensed for type 1 (dealing in securities) and type 4 (advising on securities) regulated activities by the SFC. The Issuer is not regulated by any of the bodies referred to in Rule 15A.13(2) of the Listing Rules.

Are we rated by any credit rating agencies?

We have not been assigned any ratings by any credit rating agencies as at the date of this document.

The Structured Products are not rated.

Are we subject to any litigation?

Save as disclosed in this document, we and our subsidiaries have no litigation or claims of material importance pending or threatened against us or them.

Authorisation for the issue of the Structured Products

The issue of the Structured Products was authorised by our board of directors on 18 February 2019.

Has our financial position changed since 31 December 2018?

Save as disclosed in this document, there has been no material adverse change in our financial or trading position since 31 December 2018.

Do you need to pay any transaction cost?

The Stock Exchange charges a trading fee of 0.005 per cent. and the Securities and Futures Commission charges a transaction levy of 0.0027 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

Do you need to pay any tax?

You may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country of your purchase in addition to the purchase price of each Structured Product. See the section headed “Taxation” for further information.

Placing and sale

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us.

Where can you inspect the relevant documents?

The following documents are available for inspection during usual business hours on any weekday (except Saturdays, Sundays and public holidays) at our office at 14/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong:

- (a) our latest audited financial statements and any interim financial statements;
- (b) the consent letter from Ernst & Young (“**Auditor**”) in relation to the inclusion of its auditor’s reports in this document;
- (c) this document and any addenda or successor document to this document;
- (d) the Launch Announcement and Supplemental Listing Document as long as the relevant series of Structured Products is listed on the Stock Exchange; and
- (e) the instrument executed by us by way of deed poll dated 13 November 2019 (“**Instrument**”) as defined in General Condition 1 (see Appendix 1).

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the costs of making such copies.

The Listing Documents are also available on the website of the HKEX at www.hkexnews.hk and our website at gj-warrants.com.hk.

各上市文件亦可於香港交易所披露易網站 www.hkexnews.hk 以及我們的網站 gj-warrants.com.hk 瀏覽。

Has the Auditor consented to the inclusion of its report to the Listing Documents?

Our Auditor has given and has not withdrawn its written consent to the inclusion of its reports dated 18 April 2019 and 18 April 2018 respectively in this document and/or the references to its name in the Listing Documents, in the form and context in which they are included. Its report was not prepared for incorporation into this document.

The Auditor does not hold our shares or shares in our subsidiaries, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

Authorised representatives

Yu Ka Fai, Henry of 14/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong and Ho Chiu Wah, Ophelia of 27/F, Low Block, Grand Millennium Plaza, 181 Queen’s Road Central, Hong Kong are our authorised representatives.

How can you get further information about us?

You may visit gj-warrants.com.hk to obtain further information about us and/or the Structured Products.

You must note that the information on our website will be of a general nature and cannot be relied upon as accurate and/or correct and will not have been prepared exclusively for the purposes of any particular financial instrument issued by us, including the Structured Products.

Governing law of the Structured Products

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

The Listing Documents are not the sole basis for making an investment decision

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

The Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

This document has not been reviewed by the SFC. You are advised to exercise caution in relation to the offer of the Structured Products.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the General Conditions set out in Appendix 1 and the Product Conditions applicable to the relevant series of Structured Products set out in Appendix 2 and Appendix 3 (together, the “**Conditions**”).

OVERVIEW OF WARRANTS

What is a derivative warrant?

A derivative warrant linked to a share, a unit or an index (each an “**Underlying Asset**”) is an instrument which gives the holder an investment exposure to the Underlying Asset by reference to a pre-set price or level called the Exercise Price or Strike Level on the Expiry Date. It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

How and when can you get back your investment?

Our Warrants are European style warrants. This means they will be automatically exercised on the Expiry Date, entitling the holder to a potential cash amount called the “**Cash Settlement Amount**” (if positive) according to the Conditions in the Listing Documents.

You will receive the Cash Settlement Amount (if any) less any Exercise Expenses upon expiry. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry and you will lose all of your investment in the Structured Products.

How do our Warrants work?

The potential payoff upon expiry of the Warrants is calculated by us by reference to the difference between:

- (a) for Warrants linked to a share or unit trust, the Exercise Price and the Average Price; and
- (b) for Warrants over an index, the Strike Level and the Closing Level.

Call Warrant

A call Warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the Warrant.

A call Warrant will be exercised if the Average Price/Closing Level is greater than the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level exceeds the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Level is at or below the Exercise Price/Strike Level (as the case may be), an investor in the call Warrant will lose all of his investment.

Put Warrant

A put Warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the Warrant.

A put Warrant will be exercised if the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Exercise Price/Strike Level is at or below the Average Price/Closing Level (as the case may be), an investor in the put Warrant will lose all of his investment.

Where can you find the Product Conditions applicable to our Warrants?

You should review the Product Conditions applicable to each type of the Warrants before your investment.

The Product Conditions applicable to each type of our Warrants are set out in Appendix 2 (as may be supplemented by any addendum or the relevant Launch Announcement and Supplemental Listing Document).

What are the factors determining the price of a derivative warrant?

The price of a warrant generally depends on the prevailing price/level of the Underlying Asset. However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

- (a) the Exercise Price/Strike Level of the warrants;
- (b) the value and volatility of the price/level of the Underlying Asset (being a measure of the fluctuation in the price/level of the Underlying Asset);
- (c) the time remaining to expiry: generally, the longer the remaining life of the warrant, the greater its value;
- (d) interest rate;
- (e) expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;
- (f) the liquidity of the Underlying Asset or the futures contracts relating to the underlying index;
- (g) the supply and demand for the warrant;
- (h) our related transaction cost; and
- (i) our creditworthiness.

What is your maximum loss?

Your maximum loss in Warrants will be your entire investment amount plus any transaction costs.

How can you get information about the warrants after issue?

You may visit the Stock Exchange website at http://www.hkex.com.hk/products/securities/derivative-warrants?sc_lang=en or our website gj-warrants.com.hk to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our Warrants.

OVERVIEW OF CBBCS

What are CBBCs?

CBBCs are a type of Structured Products that track the performance of an Underlying Asset. CBBCs can be issued on different types of Underlying Assets as prescribed by the Stock Exchange from time to time, including:

- (a) shares listed on the Stock Exchange;
- (b) unit trusts listed on the Stock Exchange; and/or
- (c) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index.

A list of eligible Underlying Assets for CBBCs is available on the website of the Stock Exchange at https://www.hkex.com.hk/Products/Securities/Callable-Bull-Bear-Contracts/CBBC-Eligible-Underlying-Assets?sc_lang=en.

CBBCs are issued either as bull CBBCs or bear CBBCs, allowing you to take either bullish or bearish positions on the Underlying Asset.

Bull CBBCs are designed for investors who have an optimistic view on the Underlying Asset. Bear CBBCs are designed for investors who have a pessimistic view on the Underlying Asset.

CBBCs have a mandatory call feature (the “**Mandatory Call Event**”) and, subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate our CBBCs upon the occurrence of a Mandatory Call Event. See “What are the mandatory call features of CBBCs?” below for further information.

There are 2 categories of CBBCs, namely:

- (a) Category R CBBCs; and
- (b) Category N CBBCs.

Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the CBBCs. See “Category R CBBCs vs. Category N CBBCs” below for further information.

If no Mandatory Call Event occurs, the CBBCs will be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if any) on the Settlement Date. The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price/Closing Level of the Underlying Asset on the Valuation Date and the Strike Price/Strike Level.

What are the mandatory call features of CBBCs?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed, we must terminate the CBBCs if a Mandatory Call Event occurs. A Mandatory Call Event occurs if the Spot Price/Spot Level of the Underlying Asset is:

- (a) at or below the Call Price/Call Level (in the case of a bull CBBC); or
- (b) at or above the Call Price/Call Level (in the case of a bear CBBC),

at any time during the Observation Period. The Observation Period starts from and includes the Observation Commencement Date of the relevant CBBCs and ends on and includes the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Product Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

- (a) all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event; and
- (b) where the Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session,

will be invalid and cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a Mandatory Call Event occurs will be determined by reference to:

- (a) in respect of CBBCs over single equities or CBBCs over single unit trusts listed on the Stock Exchange, the Stock Exchange's trading system time at which the Spot Price is at or below the Call Price (in the case of a bull CBBC) or is at or above the Call Price (in the case of a bear CBBC); or
- (b) in respect of CBBCs over index, the time the relevant Spot Level is published by the Index Compiler at which the Spot Level is at or below the Call Level (in the case of a bull CBBC) or is at or above the Call Level (in the case of a bear CBBC),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

Category R CBBCs vs. Category N CBBCs

The Launch Announcement and Supplemental Listing Document for the relevant series of CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

“**Category R CBBCs**” refer to CBBCs for which the Call Price/Call Level is different from their Strike Price/Strike Level. In respect of a series of Category R CBBCs, you may receive a cash payment called the Residual Value upon the occurrence of a Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

- (a) in respect of a series of bull CBBCs, the difference between the Minimum Trade Price/Minimum Index Level and the Strike Price/Strike Level of the Underlying Asset; and
- (b) in respect of a series of bear CBBCs, the difference between the Strike Price/Strike Level and the Maximum Trade Price/Maximum Index Level of the Underlying Asset.

“**Category N CBBCs**” refer to CBBCs for which the Call Price/Call Level is equal to their Strike Price/Strike Level. In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

You must read the applicable Product Conditions and the relevant Launch Announcement and Supplemental Listing Document to obtain further information on the calculation formula of the Residual Value applicable to Category R CBBCs.

You may lose all of your investment in a particular series of CBBCs if:

- (a) in the case of a series of bull CBBCs, the Minimum Trade Price/Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price/Strike Level; or
- (b) in the case of a series of bear CBBCs, the Maximum Trade Price/Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price/Strike Level.

How is the funding cost calculated?

The issue price of a series of CBBCs represents the difference between the initial reference spot price/spot level of the Underlying Asset as at the launch date of the CBBC and the Strike Price/Strike Level, plus the applicable funding cost.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant Launch Announcement and Supplemental Listing Document. The funding cost will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the Strike Price/Strike Level, the prevailing interest rate, the expected life of the CBBCs, expected notional dividends or distributions in respect of the Underlying Asset and the margin financing provided by us.

Further details about the funding cost applicable to a series of CBBCs will be described in the relevant Launch Announcement and Supplemental Listing Document.

Do you own the Underlying Asset?

CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on the ability of us and/or our affiliates to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivatives products linked to the Underlying Asset.

Where can you find the Product Conditions applicable to our CBBCs?

You should review the Product Conditions applicable to each type of the CBBCs before your investment.

The Product Conditions applicable to each type of our CBBCs are set out in Appendix 3 (as may be supplemented by any addendum or the relevant Launch Announcement and Supplemental Listing Document).

What are the factors determining the price of a series of CBBCs?

The price of a series of CBBCs tends to mirror the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one unit of the Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

- (a) the Strike Price/Strike Level and the Call Price/Call Level;
- (b) the likelihood of the occurrence of a Mandatory Call Event;
- (c) for Category R CBBCs only, the probable range of the Residual Value payable upon the occurrence of a Mandatory Call Event;
- (d) the time remaining to expiry;
- (e) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;

- (f) the supply and demand for the CBBCs;
- (g) the probable range of the Cash Settlement Amounts;
- (h) the liquidity of the Underlying Asset or futures contracts relating to the underlying index;
- (i) our related transaction cost; and
- (j) our creditworthiness.

What is your maximum loss in CBBCs?

Your maximum loss in CBBCs will be your entire investment amount plus any transaction cost.

How can you get information about the CBBCs after issue?

You may visit the Stock Exchange website at http://www.hkex.com.hk/products/securities/callable-bull-bear-contracts?sc_lang=en or our website gj-warrants.com.hk to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

INFORMATION ABOUT US

Place of incorporation

Guotai Junan Securities (Hong Kong) Limited is incorporated in Hong Kong with limited liability.

Background

Guotai Junan Securities (Hong Kong) Limited is a wholly-owned subsidiary of Guotai Junan (Hong Kong) Limited, which is a wholly-owned subsidiary of Guotai Junan International Holdings Limited (Stock Code: 1788.HK) (“**Guotai Junan International**”, together with its subsidiaries, the “**Group**”). The parent company of Guotai Junan International is Guotai Junan Securities Co., Ltd. which is listed on the Stock Exchange and Shanghai Stock Exchange (“**Guotai Junan Securities**”, Stock Code: 2611.HK; 601211.SS, together with its subsidiaries, the “**GTJA Group**”).

Business activities of Guotai Junan Securities (Hong Kong) Limited

Guotai Junan Securities (Hong Kong) Limited is principally engaged in the provision of securities dealing and broking services, and is also engaged in the provision of underwriting and wealth management services and margin financing.

Business activities of the Group

Based in Hong Kong, the Group provides diversified integrated financial services, with the five core services being (i) brokerage, (ii) corporate finance, (iii) loans and financing, (iv) asset management, and (v) financial products, market making and investments. The Group operates an effective risk management system for all lines of business to minimize risks and maximise returns for shareholders and investors. The Group’s team of dedicated professionals, who have in-depth knowledge and understanding of capital markets, has established a solid reputation for providing high quality financial services and tailored financial products to investors in Hong Kong, China and across the world.

Members of the Issuer’s board of directors as of 20 November 2019 are:

YIM Fung
WONG Tung Ching
QI Haiying
LI Guangjie
LAI Changhua
LEE Ming Chuan, Eric
ZHANG Jinhui

RISK FACTORS

Not all of the risk factors described below will be applicable to a particular series of Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Please read the following section together with the risk factors set out in the relevant Launch Announcement and Supplemental Listing Document.

General risks relating to us

Non-collateralised Structured Products

The Structured Products are not secured on any of our assets or any collateral. Each series of Structured Products constitutes our general unsecured contractual obligations and of no other person and will rank equally with our other unsecured contractual obligations and with our unsecured and unsubordinated debt. At any given time, the number of our Structured Products outstanding may be substantial.

Credit risk

If you purchase our Structured Products, you are relying upon our creditworthiness and have no rights under these products against:

- (a) any company which issues the underlying shares;
- (b) the trustee or the manager of the underlying trust; or
- (c) any index compiler of the underlying index.

As our obligations under the Structured Products are unsecured, we do not guarantee the repayment of your investment in any Structured Product.

If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

Repurchase of our Structured Products

We may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or at the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

No deposit liability or debt obligation

We are obliged to deliver to you the Cash Settlement Amount under the Conditions of each series of Structured Product upon expiry. We do not intend (expressly, implicitly or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of any Structured Product.

Conflicts of interest

The GTJA Group engages in financial activities for our own account or the account of others. The GTJA Group, in connection with our other business activities, may possess or acquire material information about the Underlying Assets to which a Structured Product is linked. Such activities may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities and exercise of creditor rights.

The GTJA Group:

- (a) has no obligation to disclose such information about the Underlying Assets or such activities. The GTJA Group and our officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;

- (b) may from time to time engage in transactions involving the Underlying Assets for our proprietary accounts and/or for accounts under our management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the price/level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;
- (c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;
- (d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and/or
- (e) may also act as underwriter in connection with future offerings of the Underlying Assets or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such Underlying Assets or the trustee or the manager of the unit trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

Not the ultimate holding company of the group

We are not the ultimate holding company of the group to which we belong. Our group holding company is Guotai Junan International Holdings Limited (stock code: 1788) which wholly owns us. Guotai Junan International Holdings Limited is majority owned by Guotai Junan Securities Co., Ltd. (stock code: 2611).

General risks in relation to Structured Products

The Structured Products are not principal protected and you may lose all your investment in the Structured Products

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest rate, foreign exchange, time value, market and/or political risks. Structured Products

may expire worthless. The past performance of a Structured Product or an Underlying Asset is not indicative of its future performance.

Options, warrants and equity linked instruments are priced primarily on the basis of the price/level of the Underlying Asset, the volatility of the Underlying Asset's price/level and the time remaining to expiry of the Structured Product.

The price of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or a significant part of your investment.

The Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the value of your investment.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on your investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price/level of the Underlying Asset specified in the relevant Launch Announcement and Supplemental Listing Document.

Changes in the price/level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price/level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price/level of the relevant Underlying Asset does not move in the anticipated direction.

The value of the Structured Products may be disproportionate or opposite to the movement in price/level of the Underlying Assets

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Asset. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. For example, for a call Warrant, it is possible that while the price or level of the Underlying Assets is increasing, the value of the Warrant is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset, you should recognise the complexities of utilizing Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price/level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset.

Furthermore, it may not be possible to liquidate the Structured Products at a level which directly reflects the price/level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

Possible illiquidity of secondary market

It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products and at what price such series of Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will use our best endeavours to appoint an alternative liquidity provider.

Interest rates

Value of the Structured Products in the secondary market may be sensitive to movements in interest rates with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

Time decay

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend upon, among others, the length of the period remaining to expiration and expectations concerning the range of possible future prices/levels of the Underlying Assets. The value of a Structured Product is likely to decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments.

Taxes

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities may change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See the section headed “Taxation” for further information.

Modification to the Conditions

Under the Conditions, we may, without your consent, effect any modification of the terms and conditions applicable to the Structured Products or the Instrument which, in our opinion is:

- (a) not materially prejudicial to the interests of the holder of the Structured Products generally (without considering the circumstances of any individual holder or the tax or other consequences of such modification in any particular jurisdiction);
- (b) of a formal, minor or technical nature;
- (c) made to correct a manifest error; or
- (d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Possible early termination for illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable:

- (a) for us to perform our obligations under the Structured Products in whole or in part as a result of (i) the adoption of or any change in any relevant law or regulation or (ii) the promulgation of, or any change, in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation, (each of (i) and (ii), a “**Change in Law Event**”); or

- (b) for us or our affiliates to maintain our hedging arrangements with respect to the Structured Product due to a Change in Law Event,

we may terminate early such Structured Products. If we terminate early the Structured Products, we will, if and to the extent permitted by applicable law, pay an amount determined by us in good faith and in commercially reasonable manner to be the fair market value notwithstanding the illegality or impracticability less the cost to us of unwinding any related hedging arrangements. Such amount may be substantially less than your initial investment and may be zero.

Exchange rate risk

There may be an exchange rate risk in the case of cash settled Structured Products where the Cash Settlement Amount will be converted from a foreign currency into the Settlement Currency. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies.

Risks in relation to the Underlying Asset

You have no right to the Underlying Asset

Unless specifically indicated in the Conditions, you will not be entitled to any:

- (a) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the underlying shares or units would normally be entitled to; or

- (b) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

Valuation risk

An investment in Structured Products may involve valuation risk with regards to the Underlying Asset to which the particular series of Structured Products relate. The price/level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors, speculation and, where the Underlying Asset is an index, changes in the formula for or the method of calculating the index.

Where the Structured Products are linked to certain Underlying Asset in a developing financial market, you should note a developing financial market differs from most developed markets in various aspects, including the growth rate, government involvement and control, level of development and foreign exchange control. Any rapid or significant changes in the economic, political or social condition and the government policies of the developing financial market may result in large fluctuations in the value or level of the Underlying Asset. Such fluctuations may affect the market value of the Structured Products and hence your investment return.

You must be experienced with dealings in these types of Structured Products and must understand the risks associated with dealings in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

Adjustment related risk

Certain events relating to the Underlying Asset require or, as the case may be, permit us to make certain adjustments or amendments to the Conditions. You have limited anti-dilution protection under the Conditions of the Structured Products. We may, in our sole and absolute discretion and in a commercially reasonable manner, adjust, among other things, the Entitlement, the Exercise Price, the Strike Level, the Strike Price, Closing Price, Closing Level, Call Price, Call Level (if applicable) or any other terms (including without limitation the closing price or the closing level of the Underlying Asset) of any series of Structured Product. However, we are not required to make an adjustment for every event that may affect an Underlying Asset, in which case the market price of the Structured Product and the return upon the expiry of the Structured Product may be affected.

In the case of Structured Products which relate to an index, in addition, the level of the index may be published by the index compiler at a time when one or more shares comprising the index are not trading. If this occurs on the Valuation Date but such occurrence does not constitute a Market Disruption Event under the Conditions, then the value of such share(s) may not be included in the level of the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method, but using only those securities that comprised the index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

Suspension of trading

Prior to the Expiry Date, if trading or dealing in the Underlying Assets is suspended on the Stock Exchange, trading or dealing in the relevant series of Structured Product will be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

Delay in settlement

Unless otherwise specified in the relevant Conditions, in the case of any expiry of Structured Products, there may be a time lag between the date on which the Structured Products expire and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of expiry and the determination of the settlement amount will be specified in the relevant Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the expiry of such Structured Products arising from a determination by us that a Market Disruption Event, Settlement Disruption Event or delisting of a company or trust has occurred at any relevant time or that adjustments are required in accordance with the Conditions.

The applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

You should note that in the event of a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount may be delayed as more fully described in the Product Conditions.

Risks relating to Structured Products over trusts

General risks

In the case of Structured Products which relate to units of a trust:

- (a) we and our affiliates do not have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interests of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and
- (b) we have no role in the relevant trust. The manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of the manager's actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

Exchange traded funds

In the case of Structured Products linked to units of an exchange traded fund (“ETF”), you should note that:

- (a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;
- (b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

- (c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

Synthetic exchange traded funds

Additionally, where the Underlying Asset comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track (“**Synthetic ETF**”), you should note that:

- (a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and
- (b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

Risks related to the ETF investing through RQFII and/or China Connect (“China ETF”)

Where the Underlying Asset comprises the units of a China ETF issued and traded outside Mainland China with direct investment in the Mainland China’s securities markets through the Renminbi Qualified Foreign Institutional Investor (“**RQFII**”) regime and/or the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, “**China Connect**”), you should note that, amongst others:

- (a) the novelty and untested nature of China Connect makes China ETFs riskier than traditional ETFs investing directly in more developed markets. The policy and rules for RQFII and China Connect prescribed by the Mainland China government are new and subject to change, and there may be uncertainty to its implementation. The uncertainty and change of the laws and regulations in Mainland China may adversely impact on the performance of the China ETFs and the trading price of the relevant units;
- (b) a China ETF primarily invests in securities traded in the mainland Chinese securities markets and is subject to concentration risk. Investment in the mainland Chinese securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks. The operation of a China ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets; and
- (c) investment by a China ETF in the mainland Chinese securities markets under the RQFII regime will be subject to its manager’s RQFII quota allocated to such China ETF. In addition, trading of securities invested by the China ETF under the China Connect will be subject to a daily quota which does not belong to such China ETF and is utilised on a first-come-first-serve basis. In the event that the RQFII quota allocated to such China

ETF and/or the daily quota under China Connect are reached, the manager may need to suspend creation of further units of such China ETF, and therefore may affect liquidity in unit trading of such China ETF. In such event, the trading price of a unit of such China ETF is likely to be at a significant premium to its net asset value, and may be highly volatile.

The above risks may have a significant impact on the performance of the China ETF and hence the market price of Structured Products linked to such China ETF.

Please read the offering documents of the China ETF to understand its key features and risks.

ETF traded through dual counters model

Where the Underlying Asset comprises the units of an ETF which adopts the dual counters model for trading its units on the Stock Exchange in Renminbi (“RMB”) and Hong Kong dollars (“HKD”) separately, the novelty and relatively untested nature of the Stock Exchange’s dual counters model may bring the following additional risks:

- (a) the Structured Products may be linked to the HKD-traded units or the RMB-traded units. If the Underlying Asset is the HKD-traded units, movements in the trading prices of the RMB-traded units should not directly affect the price of the Structured Products. Similarly, if the Underlying Asset is the RMB-traded units, movements in the trading prices of the HKD-traded units should not directly affect the price of the Structured Products;
- (b) if there is a suspension of inter-counter transfer of such units between the HKD counter and the RMB counter for any reason, such units will only be able to be traded in the relevant currency counter on the Stock Exchange, which may affect the demand and supply of such units and have an adverse effect on the price of the Structured Products; and

- (c) the trading price on the Stock Exchange of the HKD-traded units and RMB-traded units may deviate significantly due to different factors, such as market liquidity, RMB conversion risk, supply and demand in each counter and the exchange rate between RMB and HKD. Changes in the trading price of the Underlying Asset in HKD or RMB (as the case may be) may adversely affect the price of the Structured Products.

Real estate investment trust (“REIT”)

Where the Underlying Asset comprises the units of a REIT, you should note that the investment objective of a REIT is to invest in a real estate portfolio. Each REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates; (e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

The above risks may have a significant impact on the performance of the relevant units and the price of the Structured Products.

Risk relating to CBBCs

Correlation between the price of a CBBC and the price/level of the Underlying Asset

When the Underlying Asset of a CBBC is trading at a price/level close to its Call Price/Call Level, the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate to the change in the price/level of the Underlying Asset.

Mandatory Call Event is irrevocable except in limited circumstances

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

- (a) system malfunction or other technical errors of HKEX (such as the setting up of wrong Call Price/Call Level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or
- (b) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached between the Stock Exchange and us no later than such time as prescribed in the relevant Launch Announcement and Supplemental Listing Document. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

Non-recognition of Post MCE Trades

The Stock Exchange and its recognised exchange controller, HKEX, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of willful misconduct on the part of the Stock Exchange and/or HKEX) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading (“**Trading Suspension**”) or the non-recognition of trades after a Mandatory Call Event (“**Non-Recognition of Post MCE Trades**”), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a Mandatory Call Event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

Residual Value will not include residual funding cost

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event will not include the residual funding cost for the CBBCs. You will not receive any residual funding cost back from us upon early termination of a Category R CBBC following the occurrence of a Mandatory Call Event.

Delay in announcements of a Mandatory Call Event

The Stock Exchange will notify the market as soon as practicable after the CBBC has been called. You must however be aware that there may be delay in the announcements of a Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

Our hedging activities may adversely affect the price/level of the Underlying Asset

We and/or any of our affiliates may carry out activities that minimise our risks related to the CBBCs, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset whether for risk reduction purposes or otherwise. In addition, in connection with the offering of any CBBCs, we and/or any of our affiliates may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us and/or any of our affiliates, we and/or any of our affiliates may enter into transactions in the Underlying Asset which may affect the market price, liquidity or price/level of the Underlying Asset and/or the value of CBBCs and which could be deemed to be adverse to your interests. We and/or our affiliates are likely to modify our hedging positions throughout the life of the CBBCs whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which we and/or our affiliates provide in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

Unwinding of hedging arrangements

The trading and/or hedging activities of us or our affiliates related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price/level of the Underlying Asset and may trigger a Mandatory Call Event. In particular, when the Underlying Asset is trading close to the Call Price/Call Level, our unwinding activities may cause a fall or rise (as the case may be) in the trading price/level of the Underlying Asset, leading to a Mandatory Call Event as a result of such unwinding activities.

In respect of Category N CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCs at any time even if such unwinding activities may trigger a Mandatory Call Event.

In respect of Category R CBBCs, before the occurrence of a Mandatory Call Event, we or our affiliates may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from time to time. Upon the occurrence of a Mandatory Call Event, we or our affiliates may unwind any hedging transactions in relation to the CBBCs. Such unwinding activities after the occurrence of a Mandatory Call Event may affect the trading price/level of the Underlying Asset and consequently the Residual Value for the CBBCs.

Risks relating to the legal form of the Structured Products

Each series of Structured Products will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS).

Structured Products issued in global registered form held on your behalf within a clearing system effectively means evidence of your title and efficiency of ultimate delivery of the Cash Settlement Amount will be subject to the CCASS Rules. Amongst the risks, you should note that:

- (a) you will not receive any definitive certificates where the Structured Products are to remain in the name of HKSCC Nominees Limited for their entire life;
- (b) any register that is maintained by us or on our behalf, while available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;
- (c) you will have to rely solely upon your brokers/custodians and the statements you receive from such party as evidence of your interests in the investment;
- (d) notices or announcements will be published on the HKEX website and/or released by HKSCC to its participants via CCASS. You will need to check the HKEX website

regularly and/or rely on your brokers/custodians to obtain such notices/announcements; and

- (e) our obligations under the Conditions will be duly performed by the payment of the Cash Settlement Amount to HKSCC Nominees Limited as the registered holder of the Structured Products, all in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

United States federal tax may be withheld from payments with respect to Structured Products that are treated as “dividend equivalents”. This may have an adverse effect on the value and liquidity of the Structured Products.

A “dividend equivalent” payment generally is treated as a dividend from sources within the U.S. and such payments generally would be subject to a 30 percent (or a lower rate if an income tax treaty applies) U.S. federal withholding tax if paid to a Non-U.S. Holder (as defined in “United States taxation”). Under U.S. Treasury regulations issued pursuant to Section 871(m) of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), payments (including deemed payments) that are contingent upon or determined by reference to actual or estimated U.S. source dividends with respect to certain equity-linked instruments (such as U.S. equity securities or indices containing U.S. equity securities), may be treated as “dividend equivalents”. If we determine that withholding is required with respect to the Structured Products, we (or an applicable withholding agent) would be entitled to withhold taxes at the applicable rate without being required to pay any additional amounts with respect to amounts so withheld. As a result, payments on the Structured Products may be substantially less than the amounts specified in their terms.

Payments made by us to certain holders with respect to the Structured Products may be subject to U.S. withholding tax under the United States Foreign Account Tax Compliance Act.

The Foreign Account Tax Compliance Act of the United States (“FATCA”) generally imposes a 30 percent U.S. withholding tax on certain United

States source payments, including interest (and original issue discount), dividends (and “dividend equivalent” payments), or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce United States source interest or dividends (“**Withholdable Payments**”), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding United States account holders (including certain account holders that are foreign entities with United States owners) with such institution, or such institution otherwise complies with its obligations under FATCA. A Structured Product may constitute an account for these purposes. FATCA also generally imposes a withholding tax of 30 percent on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial United States owners or a certification identifying the direct and indirect substantial United States owners of the entity, or otherwise establishes an exemption.

In addition, under FATCA, “passthru payments” made by a foreign financial institution to “recalcitrant holders” or non-compliant foreign financial institutions are subject to a 30 percent U.S. withholding tax. A “recalcitrant holder” generally is a holder of an account with a foreign financial institution that fails to comply with certain requests for information that will help enable the relevant foreign financial institution to comply with its obligations under FATCA (a Structured Product may constitute an account for these purposes). Pursuant to U.S. Treasury regulations, a passthru payment includes any Withholdable Payment and any “foreign passthru payment”, which has yet to be defined.

If we determine that withholding is required with respect to the Structured Products, we (or an applicable withholding agent) would be entitled to withhold taxes at the applicable rate without being required to pay any additional amounts with respect to amounts so withheld. As a result, payments on the Structured Products may be substantially less than the amounts specified in their terms.

**Effect of the combination of risk factors
unpredictable**

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurances can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

TAXATION

The comments below are of a general nature and are based on current law and practice in Hong Kong and the United States. They are not intended to provide guidance, potential investors in Structured Products are strongly advised to consult their own tax advisers as to their respective tax position on sale, purchase, ownership, transfer, holding or exercise of any Structured Products, in particular the effect of any foreign, state or local tax laws to which potential investors are subject.

Hong Kong taxation

No tax is payable in Hong Kong by way of withholding or otherwise in respect of:

- (a) dividends of any company which has issued the underlying shares;
- (b) distributions of any trust which has issued the underlying units; or
- (c) any capital gains arising on the sale of the underlying assets or Structured Products,

except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

United States taxation

Section 871(m)

Under Section 871(m) of the Code, a “dividend equivalent” payment (as described below) generally is treated as a dividend from sources within the United States and such payments generally would be subject to a 30 percent (or a lower rate if an applicable income tax treaty applies) United States withholding tax if paid to a Non-U.S. Holder (as defined below), regardless of whether the payor is a U.S. person. Under U.S. Treasury regulations issued pursuant to Section 871(m) of the Code, payments (including deemed payments) that are contingent upon or determined by reference to actual or estimated U.S. source dividends with respect to certain equity-linked instruments (such as U.S. equity securities or indices containing U.S. equity securities), may be treated as “dividend equivalents”. The equity-linked instrument subject to Section 871(m) of the Code includes (i) a “simple” financial instrument that has a delta of 0.8 or greater with respect to an underlying U.S. stock or a U.S. stock component of an underlying index or basket and (ii) a “complex” financial instrument that meets the “substantial equivalence” test with respect to an underlying U.S. stock or a U.S. stock component of an underlying index or basket. However, the IRS has issued guidance that states that the U.S. Treasury Department and the IRS intend to amend the effective dates of the U.S. Treasury Department regulations to provide that withholding on dividend equivalent payments will not apply to certain equity-linked instruments that are not delta-one instruments and that are issued before January 1, 2021.

The regulations and administrative guidance on Section 871(m) are extremely complex. You are urged to consult your own tax adviser regarding the United States withholding tax considerations arising from your investment in the Structured Products.

The Launch Announcement and Supplemental Listing Documents may indicate if we have determined that the particular Structured Product is expected to be subject to withholding under Section 871(m). If we determine that any payments made on the Structured Products are treated as “dividend equivalents” subject to withholding, we (or an applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld. As a result, payments on the Structured Products may be substantially less than the amounts specified in their terms.

The Foreign Account Tax Compliance Act

FATCA (Sections 1471 through 1474 of the Code) generally imposes a 30 percent United States withholding tax on certain U.S. source payments, including interest (and original issue discount), dividends (and “dividend equivalent” payments), or other fixed or determinable annual or periodical gain, profits, and income, and on the gross proceeds from a disposition of property of a type which can produce United States source interest or dividends (“**Withholdable Payments**”), if paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding United States account holders (including certain account holders that are foreign entities with United States owners) with such institution, or such institution otherwise complies with its obligations under FATCA. A Structured Product may constitute an account for these purposes. FATCA also generally imposes a withholding tax of 30 percent on Withholdable Payments made to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial United States owners or a certification identifying the direct and indirect substantial United States owners of the entity, or otherwise establishes an exemption. Under certain circumstances, a holder may be eligible for refunds or credits of such taxes.

In addition, under FATCA, “passthru payments” made by a foreign financial institution to “recalcitrant holders” or non-compliant foreign financial institutions are subject to a 30 percent United States withholding tax. A “recalcitrant holder” generally is a holder of an account with a foreign financial institution that fails to comply with certain requests for information that will help enable the relevant foreign financial institution to comply with its obligations under FATCA (a Structured Product may constitute an account for these purposes). Pursuant to U.S. Treasury regulations, a passthru payment includes any Withholdable Payment and any “foreign passthru payment”, which has yet to be defined.

Under the current United States Treasury regulations and related guidance, the 30 percent United States withholding tax on “recalcitrant holders” or non-compliant foreign financial institutions generally may be imposed on Withholdable Payments (e.g. “dividend equivalent” payments) made by us with respect to the Structured Products after 30 June 2014 and on “foreign passthru payments” made by us with respect to the Structured Products after the later of (i) 31 December 2018 or (ii) the date of publication in the U.S. Federal Register of final regulations defining the term “foreign passthru payment.” However, payments on an obligation will not be treated as “foreign passthru payments” if such obligation is outstanding on or before (and not materially modified after) the date that is six months after the date on which final regulations defining the term “foreign passthru payment” are filed with the U.S. Federal Register. To date no final regulations defining the term “foreign passthru payment” have been filed with the U.S. Federal Register.

Recently issued proposed regulations would eliminate FATCA withholding tax on “gross proceeds” and delay the withholding on “foreign passthru payment” until the date that is two years after the date of publication in the Federal Register of final regulations defining the term “foreign passthru payment”. Taxpayers generally may rely on the proposed regulations until the final regulations are issued. No such final regulations have been issued.

The Launch Announcement and Supplemental Listing Documents may indicate if we have determined that the particular Structured Product is expected to be subject to withholding under FATCA. If we determine that any payments made on the Structured Products are subject to such withholding, we (or an applicable withholding agent) would be entitled to withhold taxes without being required to pay any additional amounts with respect to amounts so withheld. As a result, payments on the Structured Products may be substantially less than the amounts specified in their terms.

Foreign financial institutions and non-financial foreign entities located in jurisdictions that have an intergovernmental agreement with the United States governing FATCA may be subject to different rules. You are urged to consult with your own tax advisors regarding the possible implications of FATCA on your investment in the Structured Products, including the possibility of meeting certain documentation requirements to be exempt from FATCA withholding tax.

The above summary only applies to you if you are a Non-U.S. Holder. You are a Non-U.S. Holder unless you are: (1) an individual citizen or resident of the United States; (2) a corporation or a partnership that is formed or organized under the laws of the United States, any state thereof or the District of Columbia, (3) an estate that is subject to U.S. federal income taxation regardless of its source, or (4) a trust that is subject to the jurisdiction of a U.S. court and for which one or more “United States persons” (as defined in the Code) control all of the substantial decisions, or has otherwise made an appropriate election under U.S. tax regulations. If you are an investor treated as a partnership for U.S. federal income tax purposes, FATCA withholding tax may apply to you and your beneficial owners based on your and your beneficial owners’ activities and status and you should consult your own tax adviser regarding any FATCA withholding tax consideration arising from your investment in the Structured Products.

APPENDIX 1

GENERAL CONDITIONS OF STRUCTURED PRODUCTS

These General Conditions relate to each series of Structured Products and must be read in conjunction with, and are subject to, the relevant Product Conditions set out in Appendix 2 and Appendix 3 to this Base Listing Document and the supplemental terms and conditions contained in the Launch Announcement and Supplemental Listing Document in relation to the particular series of Structured Products. These General Conditions and the relevant Product Conditions together constitute the Conditions of the relevant Structured Products, and will be endorsed on the Global Certificate representing the relevant Structured Products. The Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Structured Products may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these General Conditions and the relevant Product Conditions, replace or modify these General Conditions and the relevant Product Conditions for the purpose of such series of Structured Products.

1. Definitions

“**Base Listing Document**” means the base listing document relating to Structured Products dated 21 November 2019 and issued by the Issuer (including any addenda to such base listing document issued by the Issuer from time to time);

“**Board Lot**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**CCASS**” means the Central Clearing and Settlement System established and operated by the HKSCC;

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the CCASS Rules in effect from time to time, subject to such modification and amendment prescribed by HKSCC from time to time;

“**Conditions**” means, in respect of a particular series of Structured Products, these General Conditions and the applicable Product Conditions;

“**Designated Bank Account**” means the relevant bank account designated by each Holder;

“**Exercise Expenses**” means, in respect of each series of Structured Products, any charges or expenses (including any taxes or duties) which are incurred in respect of the exercise of a Board Lot of Structured Products;

“**Expiry Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**General Conditions**” means these general terms and conditions. These General Conditions apply to each series of Structured Products;

“**Global Certificate**” means, in respect of the relevant Structured Products, a global certificate registered in the name of the Nominee;

“**HKSCC**” means Hong Kong Securities Clearing Company Limited;

“**Holder**” means, in respect of each series of Structured Products, each person who is for the time being shown in the Register as the holder of the Structured Products, and such person shall be treated by the Issuer as the absolute owner and holder of the Structured Products;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**Index**” means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document in respect of each series of Structured Products;

“**Instrument**” means an instrument dated 13 November 2019 (as amended, supplemented or replaced from time to time) executed by the Issuer by way of deed poll pursuant to which the Issuer creates and grants to the Holders certain rights in relation to the Structured Products;

“**Issuer**” means Guotai Junan Securities (Hong Kong) Limited;

“**Launch Announcement and Supplemental Listing Document**” means the launch announcement and supplemental listing document relating to a particular series of Structured Products;

“**Listing Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document and on which dealing of the Structured Products on the Stock Exchange commences;

“**Nominee**” means HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS);

“**Product Conditions**” means, in respect of each series of Structured Products, the product specific terms and conditions that apply to that particular series of Structured Products;

“**Register**” means, in respect of each series of Structured Products, the register of the Holders of such series of Structured Products kept by the Issuer in Hong Kong;

“**Settlement Currency**” means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Settlement Disruption Event**” means an event which is beyond the control of the Issuer and as a result of which, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date;

“**Share**” means the share specified as such in the relevant Launch Announcement and Supplemental Listing Document in respect of each series of Structured Products;

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited; and

“**Structured Products**” means derivative warrants (“**Warrants**”), callable bull/bear contracts (“**CBBCs**”) or such other structured products to be issued by the Issuer from time to time. References to “**Structured Products**” are to be construed as references to a particular series of Structured Products and, unless the context otherwise requires, any further Structured Products issued pursuant to General Condition 8.

Other capitalised terms will, unless otherwise defined, have the meanings given to them in the Base Listing Document, the relevant Product Conditions, the relevant Launch Announcement and Supplemental Listing Document and/or the Global Certificate.

2. Form, Status, Transfer and Additional Costs and Expenses

2.1 Form

The Structured Products are issued in registered form subject to and with the benefit of the Instrument. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Issuer.

The Structured Products are represented by a Global Certificate. No definitive certificate will be issued. The Structured Products can only be exercised by the Nominee.

2.2 Status of the Issuer’s obligations

The settlement obligation of the Issuer in respect of the Structured Products represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Structured Products represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of Structured Products deposit liabilities of the Issuer or a debt obligation of any kind.

2.3 Transfer of Structured Products

Transfers of Structured Products may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the CCASS Rules.

2.4 Additional Costs and Expenses

Holders shall be responsible for additional costs and expenses in connection with any exercise of the Structured Products including the Exercise Expenses which amount shall, subject to the General Condition 3.2 and to the extent necessary, be payable to the Issuer and collected from the Holders.

3. Rights and Exercise Expenses relating to the Structured Products

3.1 Entitlement of Holders

Every Board Lot initially entitles the Holders, upon due exercise or early expiration (as the case may be) and upon compliance with these General Conditions and the applicable Product Conditions, the rights to receive payment of the Cash Settlement Amount, if any.

3.2 Holders responsible for Exercise Expenses

Upon exercise or early expiration of a particular series of Structured Products, the Holders of such series will be required to pay a sum equal to all the expenses resulting from the exercise or early expiration of such Structured Products. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with the applicable Product Conditions.

4. Purchase

The Issuer or any of its subsidiaries may at any time purchase Structured Products at any price in the open market or by tender or by private treaty. Any Structured Products so purchased may be held or resold or surrendered for cancellation.

5. Global Certificate

A Global Certificate representing the Structured Products will be deposited with CCASS in the name of the Nominee. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

6. Meetings of Holders and Modification

6.1 Meetings of Holders

The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Structured Products or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Structured Products for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Structured Products for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Structured Products so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

6.2 *Modification*

The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the Structured Products or the Instrument which, in the opinion of the Issuer, is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holders or the tax or other consequences of such modification in any particular jurisdiction);
- (b) of a formal, minor or technical nature;
- (c) made to correct a manifest error; or
- (d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with General Condition 7.

7. **Notices**

All notices to the Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. The Issuer shall not be required to despatch copies of the notice to the Holders.

8. **Further Issues**

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further structured products so as to form a single series with the Structured Products.

9. **Good Faith and Commercially Reasonable Manner**

Any exercise of discretion by the Issuer under the Conditions will be made in good faith and in a commercially reasonable manner.

10. **Governing Law**

The Structured Products and the Instrument are governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the Structured Products) submit for all purposes in connection with the Structured Products and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

11. **Language**

In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions prevails.

12. **Prescription**

Claims against the Issuer for payment of any amount in respect of the relevant Structured Products will become void unless made within ten years of the Expiry Date or the end of the MCE Valuation Period (as the case may be) and thereafter, any sums payable in respect of such Structured Products shall be forfeited and shall revert to the Issuer.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Structured Products if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Structured Products in whole or in part as a result of:
 - (i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Structured Products due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Structured Products held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.

14. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to the Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Structured Products.

APPENDIX 2

PRODUCT CONDITIONS OF WARRANTS

The following pages set out the Product Conditions in respect of different types of Warrants.

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PART A

**PRODUCT CONDITIONS OF CASH SETTLED WARRANTS
OVER SINGLE EQUITIES**

These Product Conditions will, together with the General Conditions and the supplemental terms and conditions contained in the relevant Launch Announcement and Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants.

1. Definitions

For the purposes of these Product Conditions:

“**Average Price**” means the arithmetic mean of the closing prices of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount payable in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(a) In the case of a series of call Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) In the case of a series of put Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

“**Company**” means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Entitlement**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Price**” means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

“Market Disruption Event ” means:

- (a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:
 - (i) the Shares; or
 - (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either:
 - (i) results in the Stock Exchange being closed for trading for the entire day; or
 - (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session),

PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or

- (c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“Product Conditions” means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over single equities;

“Settlement Date” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

“Share” means the share specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

“Valuation Date” means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Exercise of Warrants

2.1 Exercise of warrants in Board Lots

The Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 Automatic exercise

The Warrants will be deemed to be automatically exercised on the Expiry Date (without notice given to the Holders) if the Issuer determines that the Cash Settlement Amount is positive. The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount. Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Exercise Expenses

Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Product Condition 2, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

2.4 Record in the Register

Upon automatic exercise of the Warrants on the Expiry Date of the Warrants in accordance with the Conditions, or in the event the Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the names of each Holder from the Register in respect of the number of relevant Warrants which are the subject of the automatic exercise or the number of relevant Warrants which have expired worthless, as the case may be, and thereby cancel the relevant Warrants and the Global Certificate.

2.5 Cash Settlement

Upon the automatic exercise of Warrants in accordance with the Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount minus the determined Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

Upon the occurrence of a Settlement Disruption Event, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with this Product Condition 2.5.

3. Adjustments

3.1 Rights Issues

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (“**Bonus Issue Adjustment Date**”) in accordance with the following formula:

Adjusted Entitlement = Adjustment Component × E

Where:

$$\text{Adjustment Component} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”), then:

- (a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and
- (b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

3.4 *Restructuring Events*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 Cash Distribution

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price as derived from the daily quotation sheet of the Stock Exchange on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution (“**Cash Distribution Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Share as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Share

OD: The amount of Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Dividend and Cash Distribution are different

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

3.6 Other Adjustments

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 Notice of Determinations

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with General Condition 7.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

5. Delisting

5.1 Adjustments following delisting

If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Listing on another exchange

Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 Adjustments binding

The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with General Condition 7 as soon as practicable after they are determined.

PART B

PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER INDEX

These Product Conditions will, together with the General Conditions and the supplemental terms and conditions contained in the relevant Launch Announcement and Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants.

1. Definitions

For the purposes of these Product Conditions:

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (I) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (II) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) In the case of a series of Call Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{Index Currency Amount}}{\text{Divisor} \times \text{one Board Lot}}$$

(b) In the case of a series of Put Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{Index Currency Amount}}{\text{Divisor} \times \text{one Board Lot}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

“**Closing Level**” means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Divisor**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**First Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

“**Index**” means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Index Business Day**” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

“**Index Compiler**” means the index compiler specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Index Currency Amount**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Index Exchange**” means the index stock exchange specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Interim Currency**” means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Market Disruption Event**” means:

- (a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
 - (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;
 - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
 - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition:

- (1) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and
- (2) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either:
- (i) results in the Stock Exchange being closed for trading for the entire day; or
 - (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session),

PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued;

- (c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“**Product Conditions**” means these product terms and conditions. These Product Conditions apply to each series of cash settled warrants over an index;

“**Second Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Settlement Date**” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with the Conditions;

“**Strike Level**” means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Successor Index Compiler**” means a successor to the Index Compiler acceptable to the Issuer; and

“**Valuation Date**” means the date specified in the relevant Launch Announcement and Supplemental Listing Document, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Exercise of Warrants

2.1 Exercise of warrants in Board Lots

The Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 Automatic exercise

The Warrants will be deemed to be automatically exercised on the Expiry Date (without notice given to the Holders) if the Issuer determines that the Cash Settlement Amount is positive. The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount. Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Exercise Expenses

Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Product Condition 2, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

2.4 Record in the Register

Upon automatic exercise of the Warrants on the Expiry Date of the Warrants in accordance with the Conditions, or in the event the Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the names of each Holder from the Register in respect of the number of relevant Warrants which are the subject of the automatic exercise or the number of relevant Warrants which have expired worthless, as the case may be, and thereby cancel the relevant Warrants and the Global Certificate.

2.5 Cash Settlement

Upon the automatic exercise of Warrants in accordance with the Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount minus the determined Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

Upon the occurrence of a Settlement Disruption Event, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with this Product Condition 2.5.

3. Adjustments to the Index

3.1 Successor Index Compiler Calculates and Reports Index

If the Index is:

- (a) not calculated and announced by the Index Compiler but is calculated and published by a Successor Index Compiler; or
- (b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

3.2 Modification and Cessation of Calculation of Index

If:

- (a) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities and other routine events), or
- (b) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of the published level for the Index, the level for the Index as of the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

3.3 Other Adjustments

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.4 Notice of Determinations

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with General Condition 7.

PART C

PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions and supplemental terms and conditions contained in the relevant Launch Announcement and Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of Warrants.

1. Definitions

For the purposes of these Product Conditions:

“**Average Price**” shall be the arithmetic mean of the closing prices of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount payable in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(a) In the case of a series of call Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) In the case of a series of put Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

“**Entitlement**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Price**” means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

“**Market Disruption Event**” means:

- (a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:
 - (i) the Units; or
 - (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either:
 - (i) results in the Stock Exchange being closed for trading for the entire day; or
 - (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session),

PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or

- (c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Product Conditions**” means these product terms and conditions. These Product Conditions apply to each series of cash settled Warrants over single unit trusts;

“**Settlement Date**” means the third CCASS Settlement Day after later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

“**Trust**” means the trust specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Unit**” means the unit specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

“**Valuation Date**” means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

- (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Launch Announcement and Supplemental Listing Document or the Global Certificate.

2. Exercise of Warrants

2.1 Exercise of warrants in Board Lots

The Warrants may only be exercised in Board Lots or integral multiples thereof.

2.2 Automatic exercise

The Warrants will be deemed to be automatically exercised on the Expiry Date (without notice given to the Holders) if the Issuer determines that the Cash Settlement Amount is positive. The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount. Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

2.3 Exercise Expenses

Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Product Condition 2, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

2.4 Record in the Register

Upon automatic exercise of the Warrants on the Expiry Date of the Warrants in accordance with the Conditions, or in the event the Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the names of each Holder from the Register in respect of the number of relevant Warrants which are the subject of the automatic exercise or the number of relevant Warrants which have expired worthless, as the case may be, and thereby cancel the relevant Warrants and the Global Certificate.

2.5 Cash Settlement

Upon the automatic exercise of Warrants in accordance with the Conditions the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount minus the determined Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

Upon the occurrence of a Settlement Disruption Event, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with this Product Condition 2.5.

3. Adjustments

3.1 Rights Issues

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component × E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

- E: Existing Entitlement immediately prior to the Rights Offer
- S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis
- R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights
- M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

“**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 Bonus Issues

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (“**Bonus Issue Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = 1 + N$$

- E: Existing Entitlement immediately prior to the Bonus Issue
- N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Units held prior to the Bonus Issue,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a “**Subdivision**”) or consolidate the Units or any class of its outstanding Units into a smaller number of units (a “**Consolidation**”), then:

- (a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and
- (b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

3.4 *Restructuring Events*

If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to, or may, sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 Cash Distribution

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) (“**Ordinary Distribution**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit’s closing price as derived from the daily quotation sheet of the Stock Exchange on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution (“**Cash Distribution Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Unit as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Unit

OD: The amount of Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be zero if the ex-entitlement dates of the relevant Ordinary Distribution and Cash Distribution are different

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with General Condition 7.

4. **Termination or Liquidation**

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) (“**Trustee**”) (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, the unexercised Warrants will lapse and shall cease to be valid on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, the unexercised Warrants will lapse and shall cease to be valid on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Product Condition 4, “**Termination**” means:

- (a) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) (“**Manager**”) is required to terminate the Trust under the trust deed (“**Trust Deed**”) constituting the Trust or applicable law, or the termination of the Trust commences;
- (b) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted;
- (c) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or
- (d) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

5. Delisting

5.1 Adjustments following delisting

If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Listing on another exchange

Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 Adjustment binding

The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with General Condition 7 as soon as practicable after they are determined.

APPENDIX 3

PRODUCT CONDITIONS OF CBBCS

The following pages set out the Product Conditions in respect of different types of CBBCs.

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PART A

PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

These Product Conditions will, together with the General Conditions and the supplemental terms and conditions contained in the relevant Launch Announcement and Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs.

1. Definitions

For the purposes of these Product Conditions:

“**Call Price**” means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount payable in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

“**Category N CBBCs**” means a series of CBBCs where the Call Price is equal to the Strike Price;

“**Category R CBBCs**” means a series of CBBCs where the Call Price is different from the Strike Price;

“**Closing Price**” means the closing price of one Share (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) as of the Valuation Date;

“**Company**” means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Entitlement**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

“**Mandatory Call Event**” occurs if the Spot Price is:

- (a) in the case of a series of bull CBBCs, at or below the Call Price; or
- (b) in the case of a series of bear CBBCs, at or above the Call Price,

at any time during a Trading Day in the Observation Period;

“**Market Disruption Event**” means:

- (a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:
 - (i) the Shares; or
 - (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm on any day which either:
 - (i) results in the Stock Exchange being closed for trading for the entire day; or
 - (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session),

PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal have been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Maximum Trade Price**” means the highest Spot Price of the Shares (subject to any adjustments to such spot prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

- (a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (ii) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price of the Shares (subject to any adjustments to such Spot Prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Observation Period**” means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Product Conditions**” means these product terms and conditions. These Product Conditions apply to each series of cash settled CBBCs over single equities;

“**Residual Value**” means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

“**Share**” means the share specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Spot Price” means:

- (a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and
- (b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“Strike Price” means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“Trading Day” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

“Trading Rules” means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

“Valuation Date” means the Trading Day immediately preceding the Expiry Date provided if, in the determination of the Issuer, a Market Disruption Event has occurred on that day, the Valuation Date shall be postponed until the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

- (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

2. Exercise of CBBCs

2.1 Exercise of CBBCs in Board Lots

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 Automatic exercise

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBC which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such CBBC shall cease.

2.3 Mandatory Call Event

- (a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 7. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.
- (b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:
 - (i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or
 - (ii) manifest errors caused by the relevant third party where applicable and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked;

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs, or such other time as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 Entitlement

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 *Cancellation*

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with this Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The Cash Settlement Amount minus the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer*

The Issuer or its agents shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

2.9 Liability of Issuer

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and the Issuer shall not incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. The Issuer shall not under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 Trading

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

- (a) immediately upon the occurrence of a Mandatory Call Event; or
- (b) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session),

whichever is the earlier.

3. Adjustments

3.1 Rights Issues

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (“**Rights Issue Adjustment Date**”) in accordance with the following formula:

Adjusted Entitlement = Adjustment Component × E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement (“**Bonus Issue Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”), then:

- (a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and
- (b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

3.4 *Restructuring Events*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

3.5 Cash Distribution

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution (“**Cash Distribution Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the existing Share as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The amount of Cash Distribution per Share

OD: The amount of Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Dividend and Cash Distribution are different

In addition, the Issuer shall adjust the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 7.

4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of the applicable law.

5. Delisting

5.1 Adjustments following delisting

If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Listing on another exchange

Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 Adjustments binding

The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with General Condition 7 as soon as practicable after they are determined.

PART B

PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX

These Product Conditions will, together with the General Conditions and the supplemental terms and conditions contained in the relevant Launch Announcement and Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs.

1. Definitions

For the purposes of these Product Conditions:

“**Call Level**” means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (I) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (II) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) following a Mandatory Call Event:

- (i) in the case of a series of Category R CBBCs, the Residual Value; or
- (ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

- (i) in the case of a series of bull CBBCs:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{Index Currency Amount} \times \text{one Board Lot}}{\text{Divisor}}$$

- (ii) in the case of a series of bear CBBCs:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{Index Currency Amount} \times \text{one Board Lot}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

“**Category N CBBCs**” means a series of CBBCs where the Call Level is equal to the Strike Level;

“**Category R CBBCs**” means a series of CBBCs where the Call Level is different from the Strike Level;

“**Closing Level**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Divisor**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**First Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

“**Index**” means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Index Business Day**” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

“**Index Compiler**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Index Currency Amount**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Index Exchange**” means the index exchange specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Interim Currency**” means the currency specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Mandatory Call Event**” occurs if the Spot Level is:

- (a) in the case of a series of bull CBBCs, at or below the Call Level; or
- (b) in the case of a series of bear CBBCs, at or above the Call Level,

at any time during an Index Business Day in the Observation Period;

“**Market Disruption Event**” means:

- (a) the occurrence or existence, on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
 - (i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;
 - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contract are traded; or
 - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition:

- (1) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and
 - (2) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or
- (b) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either:
- (i) results in the Stock Exchange being closed for trading for the entire day; or
 - (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session),

PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal have been issued;

- (c) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (d) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“**Maximum Index Level**” means the highest Spot Level during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Index Exchange during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Index Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which the Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

- (a) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (b) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (ii) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

“**Minimum Index Level**” means the lowest Spot Level during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Observation Period**” means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Price Source**”, if applicable, has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Product Conditions**” means these product terms and conditions. These Product Conditions apply to each series of cash settled CBBCs over an index;

“**Residual Value**” means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (I) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (II) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(a) In the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) In the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

“**Second Exchange Rate**” means the rate specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Settlement Date**” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with the Conditions (as the case may be);

“Spot Level” means:

- (a) if no Price Source is specified, the spot level of the Index as compiled and published by the Index Compiler; or
- (b) if a Price Source is specified, the spot level of the Index as published on the Price Source;

“Strike Level” means the level specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“Trading Day” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

“Valuation Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document, provided that, if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event, provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

2. Exercise of CBBCs

2.1 Exercise of CBBCs in Board Lots

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 Automatic exercise

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBC which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such CBBC shall cease.

2.3 Mandatory Call Event

- (a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 7. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.
- (b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:
 - (i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

- (ii) manifest errors caused by the relevant third party where applicable (such as miscalculation of the index level by the Index Compiler) and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked;

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs, or such other time as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 Entitlement

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 Cancellation

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 Exercise Expenses

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with this Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 Cash Settlement

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The Cash Settlement Amount minus the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer*

The Issuer or its agents shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities comprising the Index.

2.9 *Liability of Issuer*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and the Issuer shall not incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. The Issuer shall not under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 *Trading*

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

- (a) immediately upon the occurrence of a Mandatory Call Event; or
- (b) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session),

whichever is the earlier.

3. **Adjustments**

3.1 *Successor Index Compiler Calculates and Reports Index*

If the Index is:

- (a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Issuer; or
- (b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

3.2 Modification and Cessation of Calculation of Index

If:

- (a) on or prior to the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities and other routine events); or
- (b) on the Valuation Date, the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as of the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

3.3 Other Adjustments

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.4 Notice of Determinations

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 7.

PART C

PRODUCT CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS

These Product Conditions will, together with the General Conditions and the supplemental terms and conditions contained in the relevant Launch Announcement and Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Launch Announcement and Supplemental Listing Document in relation to the issue of any series of CBBCs may specify additional terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Product Conditions, replace or modify these Product Conditions for the purpose of such series of CBBCs.

1. Definitions

For the purposes of these Product Conditions:

“**Call Price**” means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount payable in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

“**Category N CBBCs**” means a series of CBBCs where the Call Price is equal to the Strike Price;

“**Category R CBBCs**” means a series of CBBCs where the Call Price is different from the Strike Price;

“**Closing Price**” means the closing price of one Unit (as derived from the daily quotation sheet of the Stock Exchange, subject to any adjustments to such closing price as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) as of the Valuation Date;

“**Entitlement**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions of Structured Products set out in Appendix 1 of the Base Listing Document;

“**Mandatory Call Event**” occurs if the Spot Price is:

- (a) in the case of a series of bull CBBCs, at or below the Call Price; or
- (b) in the case of a series of bear CBBCs, at or above the Call Price,

at any time during any Trading Day in the Observation Period;

“**Market Disruption Event**” means:

- (a) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:
 - (i) the Units; or
 - (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (b) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm on any day which either:
 - (i) results in the Stock Exchange being closed for trading for the entire day; or
 - (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session),

PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal have been issued; or

(c) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Maximum Trade Price**” means the highest Spot Price of the Units (subject to any adjustments to such spot prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session on the Stock Exchange during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

- (a) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (b) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (i) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and
- (ii) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price of the Units (subject to any adjustments to such spot prices as may be necessary to reflect any event as contemplated in Product Condition 3 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**Observation Commencement Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Observation Period**” means the period commencing from and including the Observation Commencement Date up to and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

“**Post MCE Trades**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Product Conditions**” means these product terms and conditions. These Product Conditions apply to each series of cash settled CBBCs over single unit trusts;

“**Residual Value**” means, in respect of every Board Lot, an amount calculated by the Issuer in accordance with the following formula:

(a) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

“**Settlement Date**” means the third CCASS Settlement Day after: (a) the end of the MCE Valuation Period; or (b) the later of: (i) the Expiry Date; and (ii) the day on which the Closing Price is determined in accordance with the Conditions (as the case may be);

“**Spot Price**” means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time.

“**Strike Price**” means the price specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Trading Day**” means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

“**Trading Rules**” means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

“**Trust**” means the trust specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Unit**” means the unit specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date provided that if, in the determination of the Issuer, a Market Disruption Event has occurred on that day, the Valuation Date shall be postponed until the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

- (a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

2. Exercise of CBBCs

2.1 Exercise of CBBCs in Board Lots

CBBCs may only be exercised in Board Lots or integral multiples thereof.

2.2 Automatic exercise

If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date if the Cash Settlement Amount is positive. Any CBBC which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such CBBC shall cease.

2.3 Mandatory Call Event

- (a) Subject to Product Condition 2.3(b) below, following a Mandatory Call Event, the CBBCs will be terminated automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) on the relevant Settlement Date. The Issuer will notify the Holders of the occurrence of the Mandatory Call Event in accordance with General Condition 7. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange or the Issuer.
- (b) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:
 - (i) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited and such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or
 - (ii) manifest errors caused by the relevant third party where applicable and such event is reported by the Issuer to the Stock Exchange, and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked;

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs, or such other time as prescribed by the Stock Exchange from time to time.

In both cases, the Mandatory Call Event so triggered will be reversed; and all cancelled trades (if any) will be reinstated and trading of the CBBCs will resume as soon as practicable in accordance with the rules and/or requirements prescribed by the Stock Exchange from time to time.

2.4 Entitlement

Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

2.5 Cancellation

Upon early expiration of the CBBCs at the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date (as the case may be) remove the name of the Holder from the Register in respect of the number of CBBCs which have expired or exercised (as the case may be) and thereby cancel the relevant CBBCs and if applicable, the Global Certificate.

2.6 *Exercise Expenses*

Any Exercise Expenses which are not determined by the Issuer by the end of the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holder in accordance with this Product Condition 2, shall be notified by the Issuer to the Holder as soon as practicable after determination thereof and shall be paid by the Holder to the Issuer immediately upon demand.

2.7 *Cash Settlement*

Upon early termination of the CBBCs following the occurrence of a Mandatory Call Event or an automatic exercise of the CBBCs on the Expiry Date (as the case may be), the Issuer will, in respect of every Board Lot, pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The Cash Settlement Amount minus the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

2.8 *Responsibility of Issuer*

The Issuer or its agents shall not have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions. The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Units.

2.9 *Liability of Issuer*

Exercise and settlement of the CBBCs is subject to all applicable laws, rules, regulations and guidelines in force at the relevant time and the Issuer shall not incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, rules, regulations or guidelines. The Issuer shall not under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

2.10 Trading

Subject to Product Condition 2.3(b), trading in CBBCs on the Stock Exchange shall cease:

- (a) immediately upon the occurrence of a Mandatory Call Event; or
- (b) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session),

whichever is the earlier.

3. Adjustments

3.1 Rights Issues

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (“**Rights Issue Adjustment Date**”) in accordance with the following formula:

Adjusted Entitlement = Adjustment Component × E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the daily quotation sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

“**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

3.2 *Bonus Issues*

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (“**Bonus Issue Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Component} \times E$$

Where:

$$\text{Adjustment Component} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue,

provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and the Call Price shall take effect on the Bonus Issue Adjustment Date.

3.3 *Subdivisions and Consolidations*

If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a “**Subdivision**”) or consolidate the Units or any class of its outstanding Units into a smaller number of units (a “**Consolidation**”), then:

- (a) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and
- (b) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

3.4 Restructuring Events

If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

3.5 Cash Distribution

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) (“**Ordinary Distribution**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit’s closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution (“**Cash Distribution Adjustment Date**”) in accordance with the following formula:

Adjusted Entitlement = Adjustment Component × E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

- E: The existing Entitlement immediately prior to the Cash Distribution
- S: The closing price of the existing Unit as derived from the daily quotation sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date
- CD: The amount of Cash Distribution per Unit
- OD: The amount of Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution shall have the same ex-entitlement date. For the avoidance of doubt, the OD shall be deemed to be zero if the ex-entitlement dates of the relevant Ordinary Distribution and Cash Distribution are different

In addition, the Issuer shall adjust the Strike Price and the Call Price (both of which shall be rounded to the nearest 0.001) by the reciprocal of the Adjustment Component, where the reciprocal of the Adjustment Component means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and the Call Price shall take effect on the Cash Distribution Adjustment Date.

3.6 *Other Adjustments*

Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
- (b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

3.7 *Notice of Determinations*

All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment or amendment and of the date from which such adjustment or amendment is effective by publication in accordance with General Condition 7.

4. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) (“**Trustee**”) (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose.

In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of the applicable law.

For the purpose of this Product Condition 4, "**Termination**" means:

- (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences;
- (ii) the Trust is held or is conceded by the Trustee or the Manager as not having been constituted or as having been imperfectly constituted;
- (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or
- (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

5. Delisting

5.1 Adjustments following delisting

If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

5.2 Listing on another exchange

Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, the Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.

5.3 Adjustments binding

The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with General Condition 7 as soon as practicable after they are determined.

APPENDIX 4

AUDITOR'S REPORT AND OUR FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Our audited financial statements for the year ended 31 December 2017 are set out in this Appendix 4. References to page numbers on the following pages are to the page numbers of such audited financial statements.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

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

安永會計師事務所
香港中環添美道1號
中環大廈22樓

Tel 電話: +852 2846 9688
Fax 傳真: +852 2868 4432
ey.com

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED**
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Guotai Junan Securities (Hong Kong) Limited (the "Company") set out on pages 4 to 59, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 820 (Revised), *The Audit of Licensed Corporations and Associated Entities of Intermediaries* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the report of the directors, which is separately issued by the Company on the same date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

In addition, the directors are required to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to obtain reasonable assurance about whether the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance

In our opinion, the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Certified Public Accountants
Hong Kong
18 April 2018

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	4	2,289,938	1,966,442
Other income		1,326	1,671
Revenue and other income		<u>2,291,264</u>	<u>1,968,113</u>
Commission expenses		(96,051)	(101,264)
Other operating expenses		<u>(768,473)</u>	<u>(716,966)</u>
Operating profit		1,426,740	1,149,883
Finance costs	5	<u>(220,168)</u>	<u>(191,573)</u>
Profit before tax	5	1,206,572	958,310
Income tax expense	7	<u>(164,228)</u>	<u>(123,977)</u>
Profit for the year and total comprehensive income for the year		<u><u>1,042,344</u></u>	<u><u>834,333</u></u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

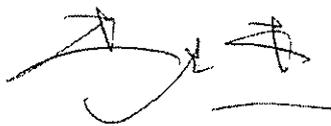
	Notes	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Intangible assets	9	1,500	1,500
Other assets	10	11,090	8,688
Deferred tax asset	26	41,699	-
Total non-current assets		<u>54,289</u>	<u>10,168</u>
Current assets			
Loans and advances to customers	11	12,616,008	13,291,347
Accounts receivable	13	3,175,987	978,489
Prepayments, deposits and other receivables	14	38,459	28,929
Financial assets at fair value through profit or loss	18	48,262	1,737,165
Derivative financial instruments	15	38,972	38,955
Receivable from reverse repurchase agreements	16	947,526	480,782
Amount due from the immediate holding company	29(b)(i)	2,102,102	-
Tax recoverable		-	7,163
Client trust bank balances	17	11,794,727	11,755,330
Cash and cash equivalents	17	500,436	705,055
Total current assets		<u>31,262,479</u>	<u>29,023,215</u>
Current liabilities			
Accounts payable	19	(15,581,236)	(12,722,717)
Other payables and accrued liabilities	20	(32,952)	(37,514)
Financial liabilities at fair value through profit or loss	22	(678,258)	(477,401)
Derivative financial instruments	15	(1,238)	(51,365)
Obligations under repurchase agreements	23	(190,647)	(157,996)
Bank borrowings	21	(3,486,223)	(2,111,433)
Subordinated loan from the immediate holding company	24	(1,050,000)	(1,050,000)
Amount due to the immediate holding company	29(b)(i)	-	(2,322,746)
Tax payable		(56,800)	-
Total current liabilities		<u>(21,077,354)</u>	<u>(18,931,172)</u>
Net current assets		<u>10,185,125</u>	<u>10,092,043</u>
Total assets less current liabilities		<u>10,239,414</u>	<u>10,102,211</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Non-current liabilities			
Deferred tax liabilities	26	-	(229)
Total non-current liabilities		-	(229)
Net assets			
		10,239,414	10,101,982
Equity			
Share capital	25	7,500,000	7,500,000
Retained profits		2,739,414	2,601,982
Total equity		10,239,414	10,101,982



LI Guangjie
Director



LEE Ming Chuan Eric
Director

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Notes	Share capital HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2016		4,700,000	1,957,649	6,657,649
Total comprehensive income for the year		-	834,333	834,333
Issuance of new shares		2,800,000	-	2,800,000
Dividend paid	8	-	(190,000)	(190,000)
At 31 December 2016 and 1 January 2017		7,500,000	2,601,982	10,101,982
Adjustments on adoption of HKFRS 9 (Note 2.2(a)(iii))		-	(174,912)	(174,912)
Total comprehensive income for the year		-	1,042,344	1,042,344
Dividend paid	8	-	(730,000)	(730,000)
At 31 December 2017		7,500,000	2,739,414	10,239,414

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Cash flows from operating activities			
Profit before tax		1,206,572	958,310
Adjustments for:			
Net impairment charge on loans and advances to customers	11	43,965	92,898
Net impairment charge on accounts receivable	13(a)	7,573	42
Net reversal of impairment charge on loan commitment		(135)	-
Net reversal of impairment charge on client trust bank balance		(9,308)	-
Net reversal of impairment charge on cash and cash equivalents		(2)	-
Net reversal of impairment charge on prepayments, deposits and other receivables		(30)	-
Net impairment charge on amount due from the immediate holding company		1,051	-
		<u>1,249,686</u>	<u>1,051,250</u>
Increase in other assets		(2,422)	(5,125)
Decrease/(increase) in loans and advances to customers		631,375	(1,421,962)
(Increase)/decrease in accounts receivable		(2,205,071)	600,664
Increase in prepayments, deposits and other receivables		(9,500)	(18,875)
Decrease/(increase) in financial assets at fair value through profit or loss		1,688,903	(116,529)
(Increase)/decrease in derivative financial instruments		(50,144)	7,596
(Increase)/decrease in receivable from reverse repurchase agreements		(466,744)	28,913
(Increase)/decrease in client trust bank balances		(30,089)	2,305,754
Increase/(decrease) in accounts payable		2,858,519	(4,563,520)
(Decrease)/increase in other payables and accrued liabilities		(4,428)	15,447
Increase/(decrease) in financial liabilities at fair value through profit or loss		200,857	(27,938)
Increase/(decrease) in obligations under repurchase agreements		32,651	(242,521)
Decrease in amount due to the immediate holding company		(2,322,746)	(2,438,602)
Increase in amount due from the immediate holding company		(2,103,153)	-
Provision for impairment on accounts receivable		(4,253)	-
Provision for impairment on client trust bank balances		(22,202)	-
Provision for impairment on loan commitments		(149)	-
Provision for impairment on loans and advances to customers		(182,823)	-
Provision for impairment on prepayments, deposits and other receivables		(47)	-
		<u>(741,780)</u>	<u>(4,825,448)</u>
Cash used in from operations		(741,780)	(4,825,448)
Hong Kong profits tax paid		(107,629)	(171,469)
		<u>(849,409)</u>	<u>(4,996,917)</u>
Net cash flows generated from operating activities		(849,409)	(4,996,917)
Net cash flows from investing activities		-	-

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Cash flows from financing activities			
Net repayment from bank borrowings		1,374,790	1,282,076
Proceeds from issuance of shares	25	-	2,800,000
Dividend paid	8	(730,000)	(190,000)
Net cash flows from financing activities		<u>644,790</u>	<u>3,892,076</u>
Net decrease in cash and cash equivalents		(204,619)	(1,104,841)
Cash and cash equivalents at beginning of year		705,055	1,809,896
Cash and cash equivalents at end of year		<u>500,436</u>	<u>705,055</u>
Analysis of balances of cash and cash equivalents	17	<u>500,436</u>	<u>705,055</u>
Cash and cash balances			
Cash flows from operating activities included:			
- Interest received		1,155,416	1,206,094
- Interest paid		224,388	184,927
- Dividend received		6	131
		<u>6</u>	<u>131</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. GENERAL INFORMATION

Guotai Junan Securities (Hong Kong) Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is 27th Floor, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

During the year, the Company acted as brokers and dealers in securities, and also engaged in the provision of underwriting and wealth management services and margin financing.

The Company is a wholly-owned subsidiary of Guotai Junan (Hong Kong) Limited, a company incorporated in Samoa. The ultimate holding company is Guotai Junan Securities Company Limited ("Guotai Junan"), a company registered in the People's Republic of China.

The financial statements were approved and authorised for issue by the board of directors on 18 April 2018.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

During the current year, management assessed the presentation of certain items in the statement of profit or loss and other comprehensive income. Accordingly the net impairment charges are included in other operating expenses. The comparative figures have been reclassified to conform to the current year's presentation. There is neither any effect on the profit or loss for the year in the comparative statement of profit or loss and other comprehensive income nor the net assets in the comparative statement of financial position.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise stated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

a) Early adoption of HKFRS 9

The Company has elected to early adopt HKFRS 9 from 1 January 2017. As permitted by the transitional provisions of HKFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition recognised in the opening retained profits of the current year.

The adoption of HKFRS 9 has resulted in changes in the accounting policies for classification and measurement of financial assets and financial liabilities and impairment of financial assets (refer to Note 2.4 Summary of significant accounting policies). The details of the significant accounting policies adopted for financial assets and liabilities for the year ended 31 December 2016 is presented in the Company's Audited Financial Statement 2016.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

a) Early adoption of HKFRS 9 (continued)

The Company has adopted HKFRS 7 Financial Instruments: Disclosures was updated and the Company together with HKFRS 9. Changes include transition disclosures as shown in Note 2.2(a)(i), detailed qualitative and quantitative information about the expected credit loss ("ECL") calculations such as the assumptions and inputs used are set out in Note 2.4.

Set out below are disclosures relating to the impact of the adoption of HKFRS 9 on the Company.

(i) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with HKAS 39 and HKFRS 9 at 1 January 2017 are compared as follows:

Financial assets	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK\$'000	New carrying amount under HKFRS 9 HK\$'000
Loans and advances to customers	Amortised cost (Loans and receivables)	Amortised cost	13,291,347	13,108,524
Client trust bank balances	Amortised cost (Loans and receivables)	Amortised cost	11,755,330	11,733,128
Financial assets at FVTPL	FVTPL (Held for trading) FVTPL (Designated)	FVTPL FVTPL	204,044 1,533,121	204,044 1,533,121
Accounts receivable	Amortised cost (Loans and receivables)	Amortised cost	978,489	974,236
Cash and cash equivalents	Amortised cost (Loans and receivables)	Amortised cost	705,055	705,053
Receivable from reverse repurchase agreements	Amortised cost (Loans and receivables)	Amortised cost	480,782	480,782
Derivative financial instruments	FVTPL	FVTPL	38,955	38,955
Financial assets included in prepayments, deposits and other receivables	Amortised cost (Loans and receivables)	Amortised cost	28,929	28,882
Other assets	Amortised cost (Loans and receivables)	Amortised cost	8,668	8,668

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

a) Early adoption of HKFRS 9 (continued)

(i) Classification and measurement of financial instruments (continued)

Financial liabilities	Original measurement category under HKAS 39	New measurement category under HKFRS 9	Original carrying amount under HKAS 39 HK\$'000	New carrying amount under HKFRS 9 HK\$'000
Financial liabilities at FVTPL	FVTPL (Held for trading)	FVTPL	477,401	477,401

(ii) Reconciliation of statement of financial position balances from HKAS 39 to HKFRS 9

For financial assets subject to ECL impairment, the carrying amounts in accordance with HKAS 39 has been remeasured upon transition to HKFRS 9 on 1 January 2017. The reconciliation of carrying amount in accordance with HKAS 39 and HKFRS 9 is as follow:

	HKAS 39 carrying amount as at 31 December 2016 HK\$'000	ECL allowance HK\$'000	HKFRS 9 carrying amount as at 1 January 2017 HK\$'000
Loans and advances to customers	13,291,347	(182,823)	13,108,524
Client trust bank balances	11,755,330	(22,202)	11,733,128
Accounts receivable	978,489	(4,253)	974,236
Cash and cash equivalents	705,055	(2)	705,053
Prepayments, deposits and other receivables	28,929	(47)	28,882

Deferred tax assets that arose from ECL allowance on the financial assets amounted to HK\$34,564,000 as at 1 January 2017.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

a) Early adoption of HKFRS 9 (continued)

(iii) Reconciliation of impairment allowance balance from HKAS 39 to HKFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2017:

	Impairment allowance under HKAS 39 HK\$'000	Adjustments HK\$'000	Impairment allowance under HKFRS 9 HK\$'000
Loans and advances to customers	93,828	182,823	276,651
Client trust bank balances	-	22,202	22,202
Accounts receivable	70	4,253	4,323
Cash and cash equivalents	-	2	2
Prepayments, deposits and other receivables	-	47	47
Loan commitments	-	149	149
Total	93,898	209,476	303,374

The adjustments on the opening retained profits as at 1 January 2017 amounted to HK\$174,912,000, net of deferred tax of HK\$34,564,000.

- b) The Company has adopted the following revised HKFRSs for the first time for the current year's financial statements which are applicable to the Company.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>

The nature and the impact of the amendments are described below:

- (i) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments have resulted in additional disclosures in note 27 to the financial statements.
- (ii) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no significant impact on the Company's financial statements.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective for the accounting year ended 31 December 2017, in the financial statements. Among the new and revised HKFRSs, the following are expected to be relevant to the Company's financial statements upon becoming effective:

HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹

¹ Effective for annual periods beginning on or after 1 January 2018

Further information about those HKFRSs that are expected to be applicable to the Company is as follows:

HKFRS 15 was issued in July 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and reduce the cost and complexity of applying the standard. The Company will adopt the new standard from 1 January 2018 and plans to adopt the modified retrospective approach.

The Company expects that the adoption of HKFRS 15 will have no impact on the timing of the revenue recognition but additional disclosures on the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers will be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Company measures its financial assets and financial liabilities at fair value through profit or loss, derivative financial instruments, debt investments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets, representing club membership and eligibility rights to trade on or through The Hong Kong Stock Exchange Limited (the "Stock Exchange") and The Hong Kong Futures Exchange Limited, with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (i) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (ii) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

(a) Financial assets

(i) *Classification and subsequent measurement*

The Company's financial assets include accounts receivable, deposits and other receivables, loans and advances to customers, financial assets at fair value through profit or loss, derivative financial instruments, receivable from reverse repurchase agreements, amount due from the immediate holding company, other assets, client trust bank balances and cash and cash equivalents. From 1 January 2017, the Company has applied HKFRS 9 and classifies its financial assets in the following measurement categories:

- (i) Fair value through profit or loss (FVTPL);
- (ii) Fair value through other comprehensive income (FVOCI); or
- (iii) Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- (i) the Company's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Business model assessment:

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI test:

The Company assesses the contractual terms of instruments to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' ("SPPI"). Financial assets that are consistent with a basic lending arrangement are considered to meet the SPPI criterion. In a 'basic lending arrangement', consideration for the time value of money and credit risk are typically the most significant elements of interest. It may also include consideration for other basic lending risks such as liquidity risks, costs associated with holding the financial assets for a period of time (e.g., servicing or administrative costs) and a profit margin.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) *Classification and subsequent measurement (continued)*

Debt instruments (continued)

Based on the above consideration, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) *Classification and subsequent measurement (continued)*

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when represent a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the statement of profit or loss and other comprehensive income.

(ii) *Impairment*

The Company applies a simplified approach to measure ECL on accounts receivable and a general approach to measure ECL on loans and advances to customers, time deposits and other financial assets accounted for at amortised cost as well as loan commitment.

Under the simplified approach, the Company measures the loss allowance based on lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(ii) Impairment (continued)

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. For certain portfolio of margin loans, the Company rebuts the presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due as management considers the probability of default is highly correlated with the collateral value rather than the past due days.

The Company assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(iii) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

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31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(iii) Modification of loans (continued)

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Company under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Company retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a subordinated residual interest.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities (continued)

(b) Financial liabilities

Classification and subsequent measurement

In both the current and prior year, financial liabilities are classified as subsequently measured at amortised cost, except for:

Financial liabilities at fair value through profit or loss: this classification is applied to derivatives and financial liabilities held for trading. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Derivative financial instruments

The Company's derivative financial instruments are initially recognised at their fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss and other comprehensive income.

Whilst the Company enters into a derivative contract for trading purposes or to provide economic hedges under the Company's risk management framework, it does not apply hedge accounting.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Client trust bank balances

The Company maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Company has classified the clients' monies as client trust bank balances under the current assets in the statement of financial position as the Company is allowed to retain some or all of the interest income on the clients' monies and recognised corresponding accounts payable to the respective customers in the current liabilities clients on grounds that it is liable for any loss or misappropriation of clients' monies. Under the Hong Kong Securities and Futures Ordinance (Cap. 571) and the Hong Kong Insurance Companies Ordinance (Cap. 41), the Company is not allowed to use the clients' monies to settle its own obligation.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary activities

Apart from the client trust bank balances as mentioned above, the Company provides brokerage and asset management services and the Company acts in a fiduciary capacity which results in the holding or placing of assets on behalf of its customers. These assets and any gains or losses arising thereon are not included in these financial statements as the Company has no contractual rights to these assets and its gains or losses under fiduciary activities.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Other assets

Other assets represent the deposits and admission fee paid to the Stock Exchange, Hong Kong Futures Exchange Limited, Hong Kong Securities Clearing Company Limited and other regulators. They are intended to be held on a long-term basis and are stated at cost less impairment losses.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Unconsolidated structured entity

A structured entity is an entity in which voting rights are not the dominant factor in deciding control. Structured entity is generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

Depending on the Company's power over the activities of the entity and its exposure to and the ability to influence its own returns, it may consolidate the entity. In other cases, it may sponsor or have an interest on such an entity but does not consolidate it. The Company sponsors an entity when:

- (i) It is the majority user of the entity;
- (ii) Its name appears in the name of the entity or on the products issued by the entity;
- (iii) It provides implicit or explicit guarantees of the entity's performance;
- (iv) It led the formation of the entity.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- (i) commission income from securities and options brokerage, on the transaction dates when the relevant contract notes are exchanged;
- (ii) commission income from the provision of insurance brokerage services, on an accrual basis in accordance with the terms of the underlying agreements;
- (iii) commission income from underwriting/placing/sub-underwriting in securities, on execution of each significant act based on the terms of underlying agreements and mandates;
- (iv) investment advisory fees and handling income, when the services have been rendered;
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (vi) dividend income, when the shareholders' right to receive payment has been established;
- (vii) net gains/losses on financial assets at fair value through profit or loss and those held for trading, including realised gains/losses which are recognised on the transaction dates when the relevant contract notes are exchanged; and unrealised fair value gains/losses which are recognised in the period in which they arise.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Securities borrowing and lending agreements

The Company has engaged in the securities borrowing and lending business with financial institutions and the Company's customers, under which all transactions are secured in the form of cash. The Company maintains no net position in such securities borrowing and lending transactions and is not subject to significant price risk. However, under the securities borrowing and lending arrangements, the cash collateral received and cash collateral placed is included in the accounts payable and accounts receivable from brokers and dealers respectively. Fees received or paid in connection with securities borrowing and lending is recorded as interest income or interest expense, respectively.

Assets sold under repurchase agreements (repos)

In addition, the Company may enter into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. The securities related to these agreements are not derecognised from the Company's financial statements, but are retained within the appropriate financial assets classification. The Company may be required to provide additional collateral based on the fair value of the underlying assets if necessary.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets purchased under agreements to resell (reverse repos)

The Company may enter into purchases of assets under agreements to resell. Reverse repos are initially recorded at the cost of the loan or collateral advanced in the statement of financial position. These securities are not recognised in the Company's statement of financial position as the counterparty retains substantially all risks and returns of the securities. In the event of failure by the counterparty to repay the loan, the Company has the right to the underlying assets.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Foreign currency transactions recorded by the Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss and other comprehensive income.

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Taxes

Significant judgement is required in determining the provisions for income. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which the determination is made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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4. REVENUE

An analysis of revenue is as follows:

	2017 HK\$'000	2016 HK\$'000
Commission income from securities dealing and broking	431,123	301,462
Handling income on dealing and broking	47,992	36,747
Placing, underwriting and sub-underwriting commission		
- Debt securities	350,503	250,249
- Equity securities	244,920	113,181
Clients' interest income and handling income	981,711	1,107,162
Interest income in respect of:		
- Banks	153,411	92,090
- Securities borrowing and lending	21,545	19,316
- Reverse repurchase agreements	5,304	461
- Listed debt securities	16,821	2,649
- Unlisted debt securities	243	213
- Others	1,356	1,113
Investment advisory income	1,641	2,833
Net fair value (loss)/gain on financial instruments held for trading		
- Listed securities	(14,836)	(12,204)
- Unlisted securities	(1,248)	427
Net fair value gain on financial products designated as fair value through profit and loss	34,089	41,219
Commission income from insurance broking	11,185	9,134
Commission income from options dealing and broking	222	259
Dividend income from listed securities held for trading	6	131
Interest recharged to immediate holding company	3,950	-
	<u>2,289,938</u>	<u>1,966,442</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

5. PROFIT BEFORE TAX

The Company's profit before tax is arrived at after charging/(crediting):

	2017 HK\$'000	2016 HK\$'000
Auditor's remuneration	789	772
Foreign exchange difference, net	(6,320)	(29,224)
Finance costs:		
Banks	38,675	30,784
Subordinated loan from the immediate holding company	33,633	30,868
Securities borrowing and lending	863	992
Repurchase agreements	8,310	1,164
Financial instruments at fair value through profit or loss		
- Listed debt securities held for trading	11,978	4,777
Others	1,116	938
Reimbursement to the immediate holding company	119,475	113,575
Reimbursement to the intermediate holding company	6,118	8,475
Management fee recharged and paid to the immediate holding company	651,508	585,234
Net impairment charge on loans and advances to customers	43,965	105,830
Net impairment charge on accounts receivable	7,573	42
Net reversal of impairment on other financial assets and loan commitments	(8,424)	-
	<u> </u>	<u> </u>

All employees of the Company were contractually employed by the immediate holding company, which was responsible for the payment of all staff costs. Staff costs of those employees who provided services to the Company were initially borne by the immediate holding company and recharged to the Company in the form of management fee.

The management fee paid to the immediate holding company was in respect of staff cost, attributable office premises expenses, central management and administrative support services rendered. It was calculated based on the costs incurred by the immediate holding company and allocated with reference to the gross profit of the Company relative to the gross profit of the other group companies.

The reimbursements to the immediate holding company and the intermediate holding company were in respect of the interest expenses from the syndicated loans of the immediate holding company and the Medium Term Note Programme ("MTN programme") by the intermediate holding company. The proceeds of the syndicated loans and the MTN programme are mainly used for the Company's operation during the year, the immediate holding company and intermediate holding company recharged the respective interest expenses to the Company in the form of the reimbursements.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

6. DIRECTORS' REMUNERATION

No director received any fees from the Company in respect of their services rendered to the Company during the year (2016: nil).

For the year ended 31 December 2017, the directors received remuneration from the Company's immediate holding company amounting to approximately HK\$59.9 million (2016: HK\$64.1 million), which included share-based compensation expense of approximately HK\$3.8 million (2016: HK\$6.6 million) attributable to share options granted and of approximately HK\$14.6 million (2016: HK\$18.1 million) attributable to share awards granted by the Company's intermediate holding company, part of which is in respect of their services to the Company.

No apportionment has been made as the directors do not believe that it is practicable to apportion this amount between their services to the Company's immediate holding company and each of that company's subsidiaries.

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2017 HK\$'000	2016 HK\$'000
Charge for the year	171,592	124,040
Deferred tax (Note 26)	(7,364)	(63)
Total tax charge for the year	<u>164,228</u>	<u>123,977</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before tax	<u>1,206,572</u>	<u>958,310</u>
Tax at the statutory tax rate at 16.5% (2016: 16.5%)	199,084	158,121
Income not subject to tax	(38,715)	(41,052)
Expenses not deductible for tax	4,398	6,911
Temporary difference not recognised	(539)	(3)
Tax charge for the year	<u>164,228</u>	<u>123,977</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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8. DIVIDENDS

	2017 HK\$'000	2016 HK\$'000
Interim, paid – HK\$0.097 (2016: HK\$0.025) per ordinary share	<u>730,000</u>	<u>190,000</u>

9. INTANGIBLE ASSETS

	2017 HK\$'000	2016 HK\$'000
Net carrying amounts as at 31 December	<u>1,500</u>	<u>1,500</u>

As at 31 December 2017 and 2016, the Company had three trading rights in The Stock Exchange of Hong Kong Limited. The intangible assets are not amortised for the years ended 31 December 2017 and 2016 as the trading rights have no expiry date.

10. OTHER ASSETS

	2017 HK\$'000	2016 HK\$'000
Deposits with The Stock Exchange of Hong Kong Limited:		
- Compensation fund	150	150
- Fidelity fund	150	150
- Stamp duty deposit	500	500
Admission fee paid to Hong Kong Securities Clearing Company Limited	150	150
Guarantee fund paid to Hong Kong Securities Clearing Company Limited	959	741
Fund deposits with the Securities and Futures Commission	50	50
Reserve fund with The SEHK Options Clearing House Limited	8,892	6,705
Settlement risk fund paid to the Shanghai Stock Exchange	239	222
	<u>11,090</u>	<u>8,668</u>

The carrying amounts of the Company's other assets approximate to their fair values.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

11. LOANS AND ADVANCES TO CUSTOMERS

	2017 HK\$'000	2016 HK\$'000
Margin loans	12,917,919	13,385,175
IPO loans	18,705	-
	<u>12,936,624</u>	<u>13,385,175</u>
Gross loans and advances to customers	12,936,624	13,385,175
Less: impairment	(320,616)	(93,828)
	<u><u>12,616,008</u></u>	<u><u>13,291,347</u></u>

Analysis of the gross carrying amount as at 31 December by the Company's internal credit rating and year end classification:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
<i>Internal rating grade</i>				
Performing	-	-	-	-
Excellent	9,597,642	-	-	9,597,642
Good	2,595,150	-	-	2,595,150
Non-performing	-	-	-	-
Individually impaired	-	-	743,832	743,832
	<u>12,192,792</u>	<u>-</u>	<u>743,832</u>	<u>12,936,624</u>

Analysis of the gross carrying amount and the corresponding ECL allowance is as follows:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
Gross carrying amount as at 1 January 2017	12,687,188	-	697,987	13,385,175
New assets originated or purchased	3,088,132	-	57,229	3,145,361
Assets derecognised or repaid	(3,582,528)	-	(11,384)	(3,593,912)
	<u>12,192,792</u>	<u>-</u>	<u>743,832</u>	<u>12,936,624</u>
Gross carrying amount as at 31 December 2017	<u><u>12,192,792</u></u>	<u><u>-</u></u>	<u><u>743,832</u></u>	<u><u>12,936,624</u></u>

As at 31 December 2017, there was no transfer to/from the other stages.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

11. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
ECL allowance as at 1 January 2017	(19,701)	-	(256,950)	(276,651)
New assets originated or purchased	(1,048)	-	(74,167)	(75,215)
Assets derecognised or repaid	14,829	-	16,421	31,250
	<hr/>	<hr/>	<hr/>	<hr/>
ECL allowance as at 31 December 2017	<u>(5,920)</u>	<u>-</u>	<u>(314,696)</u>	<u>(320,616)</u>

As at 31 December 2017, there was no transfer to/from the other stages.

	2016 <i>HK\$'000</i>
Specific provision for impairment	
As at 1 January	930
Impairment charged to profit or loss during the year	105,830
Amount written off during the year	(12,932)
	<hr/>
As at 31 December	<u>93,828</u>

The impairment charged to profit or loss included interest income on credit-impaired margin loans of HK\$52,059,000 (2016: HK\$26,576,000) for the year ended 31 December 2017.

Save as disclosed above, all loans and advances to customers were neither past due nor credit-impaired as at 31 December 2017 and 2016.

Margin financing operations

The Company provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The maximum credit limit granted for each customer is based on the customer's financial background and the quality of related collateral. The Company seeks to maintain strict control over its outstanding receivables and has a Credit and Risk Management Department to monitor credit risks.

Margin loans to the customers are secured by the underlying pledged securities, bear interest at a rate with reference to the Hong Kong dollar prime rate and are repayable on demand. The carrying value of margin loans approximates to their fair value. No aging analysis is disclosed as, in the opinion of the directors, an aging analysis does not give additional value in view of the nature of the margin loans business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Company. As at 31 December 2017, the total value of securities pledged as collateral in respect of the margin loans was approximately HK\$49,575 million (2016: HK\$49,194 million) based on the market value of the securities as at the end of the reporting periods.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

12. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name	At 31 December 2017 HK\$'000	Maximum amount outstanding during the year HK\$'000	At 31 December 2016 and 1 January 2017 HK\$'000	Maximum amount outstanding during the prior year HK\$'000	At 1 January 2016 HK\$'000	Collateral held
Mr. LEE Ming Chuan	1,592	2,326	-	5,747	3,291	Marketable Securities
Mr. LI Guangjie	-	1,933	-	1,648	364	Marketable Securities
	<u>1,592</u>	<u>4,259</u>	<u>-</u>	<u>7,395</u>	<u>3,655</u>	

The loans granted to directors bear interest at the Hong Kong dollar prime rate plus 3% per annum and have no fixed terms of repayment.

13. ACCOUNTS RECEIVABLE

(a) The carrying value of accounts receivable arising from the course of business of the Company are as follows:

	2017 HK\$'000	2016 HK\$'000
Accounts receivable arising from dealing and broking:		
- cash and custodian clients	173,709	22,446
- the Stock Exchange and other clearing houses	794,842	492,221
- brokers and dealers	1,987,518	406,534
Accounts receivable arising from securities borrowing and lending	123,444	27,898
Accounts receivable arising from insurance brokerage services		
- cash and custodian clients	168	19
Accounts receivable arising from underwriting and others		
- corporate clients	108,202	29,441
	<u>3,187,883</u>	<u>978,559</u>
Less: impairment	(11,896)	(70)
	<u>3,175,987</u>	<u>978,489</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. ACCOUNTS RECEIVABLE (CONTINUED)

(a) (continued)

The movements in the provision for impairment of accounts receivable are as follow:

	2017 HK\$'000	2016 HK\$'000
At 1 January	70	28
Adjustments on adoption of HKFRS 9	4,253	-
Impairment charged to profit or loss during the year	7,581	43
Impairment reversed during the year	(8)	(1)
At 31 December	<u>11,896</u>	<u>70</u>

(b) Accounts receivable neither past due nor credit-impaired

	Accounts receivable from cash and custodian clients HK\$'000	Accounts receivable from the Stock Exchange and other clearing houses HK\$'000	Accounts receivable from brokers and dealers HK\$'000	Accounts receivable arising from securities borrowing and lending HK\$'000	Accounts receivable arising from insurance brokerage services and others HK\$'000	Account receivable arising from underwriting and others HK\$'000	Total HK\$'000
As at 31 December 2017							
Neither past due nor credit-impaired	155,884	794,842	1,987,518	123,444	168	86,454	3,148,310
Less: impairment	(78)	(374)	(994)	(62)	-	(43)	(1,551)
	<u>155,806</u>	<u>794,468</u>	<u>1,986,524</u>	<u>123,382</u>	<u>168</u>	<u>86,411</u>	<u>3,146,759</u>
As at 31 December 2016							
Neither past due nor credit-impaired	<u>20,750</u>	<u>492,221</u>	<u>406,534</u>	<u>27,898</u>	<u>19</u>	<u>18,234</u>	<u>965,656</u>

Accounts receivable from cash and custodian clients which are neither past due nor credit-impaired represent unsettled client trades on various securities exchanges transacted on the last two to three business days prior to the end of the reporting year. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value in view of the nature of these accounts receivable.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. ACCOUNTS RECEIVABLE (CONTINUED)

(c) Accounts receivable past due but not credit-impaired

	Accounts receivable from cash and custodian clients HK\$'000	Accounts receivable from the Stock Exchange and other clearing houses HK\$'000	Accounts receivable from brokers and dealers HK\$'000	Accounts receivable arising from securities borrowing and lending HK\$'000	Accounts receivable arising from insurance brokerage services HK\$'000	Account receivable arising from underwriting and others HK\$'000	Total HK\$'000
As at 31 December 2017							
Past due less than 3 months	17,670	-	-	-	-	1,459	19,129
Past due 3 to 12 months	-	-	-	-	-	-	-
Past due over 12 months	-	-	-	-	-	-	-
Less: impairment	(4,771)	-	-	-	-	(9)	(4,780)
	<u>12,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,450</u>	<u>14,349</u>
As at 31 December 2016							
Past due less than 3 months	1,618	-	-	-	-	4,620	6,238
Past due 3 to 12 months	-	-	-	-	-	6,087	6,087
Past due over 12 months	-	-	-	-	-	500	500
	<u>1,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,207</u>	<u>12,825</u>

Accounts receivable from cash and custodian clients which are past due but not credit-impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash and custodian clients failed to settle on settlement date, the Company has the right to force-sell the collaterals underlying the securities transactions. The outstanding accounts receivable from cash and custodian clients as at 31 December 2017 and 2016 are considered as past due but not credit-impaired after taking into consideration the recoverability from collaterals. Collaterals held against such receivables are publicly traded securities.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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13. ACCOUNTS RECEIVABLE (CONTINUED)

(d) Credit-impaired accounts receivable

	Accounts receivable from cash and custodian clients HK\$'000	Accounts receivable from the Stock Exchange and other clearing houses HK\$'000	Accounts receivable from brokers and dealers HK\$'000	Accounts receivable arising from securities borrowing and lending HK\$'000	Accounts receivable arising from insurance brokerage services HK\$'000	Account receivable arising from underwriting and others HK\$'000	Total HK\$'000
As at 31 December 2017							
Credit-impaired accounts receivable	155	-	-	-	-	20,289	20,444
Less: impairment	(87)	-	-	-	-	(5,478)	(5,565)
	<u>68</u>					<u>14,811</u>	<u>14,879</u>
As at 31 December 2016							
Credit-impaired accounts receivable	78	-	-	-	-	-	78
Less: impairment	(70)	-	-	-	-	-	(70)
	<u>8</u>					<u>-</u>	<u>8</u>

Accounts receivable from cash and custodian clients are considered credit-impaired when clients failed to settle according to settlement terms after taking into consideration the recoverability of collateral.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK\$'000	2016 HK\$'000
Prepayments and deposits	3,003	2,242
Interest receivables	35,456	26,687
Total	<u>38,459</u>	<u>28,929</u>

None of the above assets is either past due or credit-impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivative are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000
As at 31 December 2017			
Foreign exchange forward	1,286,155	38,942	(1,218)
Index futures	7,358	30	(20)
	<u>1,293,513</u>	<u>38,972</u>	<u>(1,238)</u>
As at 31 December 2016			
Cross currency swap	565,243	36,566	(46,342)
Interest rate swap	370,273	175	(882)
Foreign exchange forward	485,835	1,880	(660)
Index futures	27,277	334	(216)
FX Option	232,665	-	(2,735)
Option	22,532	-	(530)
	<u>1,703,825</u>	<u>38,955</u>	<u>(51,365)</u>

The Company entered into International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreements or similar agreements with substantially all of its derivative counterparties. Where legally enforceable, these master netting agreements give the Company the right to offset cash collateral paid or received with the same counterparty. As at 31 December 2017, cash collateral of HK\$15.4 million was paid to and nil was received from respective counterparties (2016: HK\$47.6 million and HK\$35.6 million).

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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16. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

The receivable from reverse repurchase agreements arises when the securities are bought by the Company with a concurrent agreement to resell at a specified later date and price. These securities are not recognised in the Company's statement of financial position as the counterparty retains substantially all risks and returns of the securities. The amount paid by the Company is recognised as receivable. In the event of default by the counterparty, the Company has the right to sell the underlying securities for settling the outstanding receivable.

As at 31 December 2017, the outstanding amount paid for the reverse repurchase agreements was HK\$947,526,000 (2016: HK\$480,782,000) and was recognised as receivable from reverse repurchase agreements.

The fair value of financial liabilities held for trading received as collateral for the outstanding receivable at the year end was HK\$921,481,000 (2016: HK\$477,335,000).

17. CASH AND CASH EQUIVALENTS

	2017 HK\$'000	2016 HK\$'000
Cash and bank balances	<u>500,436</u>	<u>705,055</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no history of default.

As at 31 December 2017, the ECL allowance of client trust bank balances amounted to HK\$12,894,000. It was classified as Stage 1 under the ECL model and there was no transfer to/from the other stages.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK\$'000	2016 HK\$'000
Financial assets held for trading:		
- Listed equity investments	9,116	25,826
- Listed debt investments	39,146	178,218
Financial assets designated as fair value through profit or loss		
- Financial products (Note)	-	1,533,121
	<u>48,262</u>	<u>1,737,165</u>

Notes:

There was no financial products invested by the Company as at 31 December 2017.

As at 31 December 2016, the financial products invested by the Company included listed debt investments amounting HK\$1,533.1 million with the purpose of structuring these financial products for sales to customers. The financial products acquired by the Company are primarily driven by customers' investment needs and used as hedging instruments for structured notes issued under the MTN Programme of the Company's intermediate holding company - Guotai Junan International Holdings Limited.

19. ACCOUNTS PAYABLE

	2017 HK\$'000	2016 HK\$'000
Accounts payable arising from dealing and broking:		
- clients	11,835,698	11,690,660
- brokers and dealers	1,807,510	145,461
- the Stock Exchange and other clearing houses	374,634	239,687
Accounts payable arising from securities borrowing and lending	1,479,445	400,852
Accounts payable arising from underwriting:		
- corporate clients	71,388	79,342
Accounts payable arising from options trading	11,284	166,087
Accounts payable arising from insurance brokerage services	1,277	628
	<u>15,581,236</u>	<u>12,722,717</u>

The majority of the accounts payable are repayable on demand except for certain accounts payable to clients which represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

19. ACCOUNTS PAYABLE (CONTINUED)

The Company has a practice to satisfy all the requests for payment within one business day. No ageing analysis is disclosed as, in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of these businesses.

Accounts payable to clients also include those payables in trust accounts with authorised institutions of HK\$11,795 million (2016: HK\$11,755 million).

Accounts payable arising from insurance brokerage services includes those payables in trust accounts with authorised institutions of HK\$1,277,000 (2016: HK\$628,000). The accounts payable are non-interest bearing except for the accounts payable to the clients.

20. OTHER PAYABLES AND ACCRUED LIABILITIES

	2017 HK\$'000	2016 HK\$'000
Accrued liabilities	24,293	15,817
Other payables	8,659	21,697
	<u>32,952</u>	<u>37,514</u>

Other payables and accrued liabilities are non-interest-bearing and have an average term of three months.

21. BANK BORROWINGS

	2017 HK\$'000	2016 HK\$'000
Unsecured bank borrowings	<u>3,486,223</u>	<u>2,111,433</u>

The Company's bank borrowings bear interest at the Interbank Offered Rate plus an interest spread which was repayable within three months or less at the end of reporting period.

The carrying amounts of the bank borrowings approximate to their fair values as the impact on discounting is not significant.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

22. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK\$'000	2016 HK\$'000
Financial liabilities held for trading:		
- Listed equity securities	70	66
- Listed debt securities	678,188	477,335
	<u>678,258</u>	<u>477,401</u>

23. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The obligations under repurchase agreements arise when the securities are sold by the Company with a concurrent agreement to repurchase at a specified later date and price. These securities are not derecognised from the Company's statement of financial position and are retained within the appropriate financial assets classification. The amount received by the Company is recognised as liabilities as the Company retains substantially all risks and returns of the securities.

As at 31 December 2017, the outstanding amount received from repurchase agreements was HK\$190,647,000 (2016: HK\$157,996,000) and was recognised as obligations under repurchase agreements.

The following table specifies the amount included within financial assets at fair value through profit or loss subject to repurchase agreements at the year end.

	2017 HK\$'000	2016 HK\$'000
Financial assets held for trading		
- Listed debt securities	192,867	178,218
	<u>192,867</u>	<u>178,218</u>

24. SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY

	2017 HK\$'000	2016 HK\$'000
Unsecured and interest-bearing	1,000,000	1,000,000
Unsecured and interest-free	50,000	50,000
	<u>1,050,000</u>	<u>1,050,000</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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25. SHARE CAPITAL

	2017 HK\$'000	2016 HK\$'000
Issued and fully paid:		
At 1 January, 7,500,000,000 (2016: 4,700,000,000) ordinary shares	7,500,000	4,700,000
New issues	-	2,800,000
	<u>7,500,000</u>	<u>7,500,000</u>
At 31 December, 7,500,000,000 (2016: 7,500,000,000) ordinary shares	<u>7,500,000</u>	<u>7,500,000</u>

26. DEFERRED TAX

The movements on deferred tax assets and liabilities during the year are as follows:

	Fair value (gain)/loss		ECL allowance		Total	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
At 1 January	(229)	(292)	-	-	(229)	(292)
Adjustment on adoption of HKFRS 9	-	-	34,564	-	34,564	-
Deferred tax credited to profit or loss (Note 7)	539	63	6,825	-	7,364	63
	<u>310</u>	<u>(229)</u>	<u>41,389</u>	<u>-</u>	<u>41,699</u>	<u>(229)</u>
Deferred tax assets/(liabilities) at 31 December	<u>310</u>	<u>(229)</u>	<u>41,389</u>	<u>-</u>	<u>41,699</u>	<u>(229)</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

27. NOTES TO THE STATEMENT OF CASH FLOW

	Bank borrowings HK\$'000
At 1 January 2017	2,111,433
Changes from financing cash flows	1,368,648
Foreign exchange movement	6,142
Interest expense	38,650
Interest paid classified as operating cash flows	(37,839)
Increase in interest payable	(811)
	<u>3,486,223</u>
At 31 December 2017	<u>3,486,223</u>

28. UNCONSOLIDATED STRUCTURED ENTITY

The Company considers itself the sponsor of a structured entity where it is primarily involved in the design and establishment of the structured entity. The Company also transfers assets to the sponsored structured entity, it markets products associated with the structured entity in its own name.

Income from the sponsored structured entity and assets transferred to the structured entity are as follows:

	2017		2016	
	Commission and fees	Assets transferred	Commission and fees	Assets transferred
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets securitisations	<u>19,400</u>	<u>7,073,600</u>	<u>8,530</u>	<u>2,035,831</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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29. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances set out elsewhere in the financial statements, the Company had the following material transactions with related parties during the year

	Notes	2017 HK\$'000	2016 HK\$'000
Commission income from a public fund managed and invested by a fellow subsidiary	(i)	265	100
Commission income from a public fund managed by a fellow subsidiary	(ii)	39	136
Commission income from a private fund	(iii)	394	205
Commission expenses paid to the ultimate holding company	(iv)	(2,252)	(2,468)
Commission income from the ultimate holding company	(v)	70	34
Commission income from intermediate holding company	(vi)	127	953
Commission income from a fellow subsidiary	(vii)	526	134
Handling charges paid to a fellow subsidiary	(viii)	(17)	(76)
Consulting service fee paid to the ultimate holding company	(ix)	(8,698)	-
Underwriting fee income from the ultimate holding company	(x)	172,404	-

Notes:

- (i) Commission income from dealing in securities received from a public fund managed and invested by a fellow subsidiary was charged at percentage stated on the respective signed brokerage agreements with the Company.
- (ii) Commission income received from dealing in securities from a public fund managed by a fellow subsidiary was charged at percentage stated in the signed brokerage agreement with the Company.
- (iii) The total fees received from the private fund included commission income which was based on 0.15% (2016: 0.25%) of the transaction value.
- (iv) Commission expenses to the ultimate holding company were calculated based on the percentage of the transaction value stated in the Cooperation Agreement signed with the Company.
- (v) Commission income received from the ultimate holding company was calculated based on percentage stated on the respective signed brokerage agreement signed with the Company.
- (vi) Commission income received from the intermediate holding company was based on the pricing stated in the signed brokerage agreement with the intermediate holding companies.
- (vii) Commission income received from a fellow subsidiary was calculated based on percentage stated on the respective signed brokerage agreement signed with the Company.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) (continued)

Notes: (continued)

- (viii) Handling charges paid to a fellow subsidiary was based on the pricing stated in the signed brokerage agreement with the fellow subsidiary.
- (ix) The consultancy service fee paid to the ultimate holding company was based on the pricing stated in consultancy services agreement with the Company.
- (x) The underwriting and sponsor fee income received from the ultimate holding company was based on the underwriting and sponsor agreement with the ultimate holding company.

(b) Outstanding balances with related parties:

- (i) The amount due from/(to) the immediate holding company is non-interest bearing, unsecured and repayable on demand.
- (ii) Included in the Company's accounts receivable was a broker receivable due from the ultimate holding company of HK\$16,704,000 (2016: HK\$20,230,000) arising from the dealing in securities as at 31 December 2017. The credit terms provided to the ultimate holding company are consistent with the practice of the securities dealing industry. The balance was unsecured, interest-free and receivable on the settlement day under the relevant market practices.
- (iii) Included in the Company's accounts payable was a broker payable due to the ultimate holding company of HK\$6,723,000 (2016: HK\$8,006,000) arising from the dealing in securities as at 31 December 2017. The balance was unsecured, interest-free and payable on the settlement day under the relevant market practices.
- (iv) Included in the Company's accounts receivable was the accounts receivable from the public fund mentioned in note (a)(i) above arising from dealing in securities was HK\$2,959,000 (2016: nil) as at 31 December 2017.
- (v) Included in the Company's accounts payable was the accounts payable to the public fund mentioned in note (a)(ii) above arising from dealing in securities was HK\$263,000 as at 31 December 2017 (2016: nil).
- (vi) Included in the Company's accounts payable was the accounts payable to the private fund mentioned in note (a)(iii) above arising from dealing in securities was HK\$893,000 as at 31 December 2017 (2016: nil).
- (vii) Included in the Company's accounts payable were amounts due to the intermediate holding company of HK\$655,000 (2016: HK\$560,839,000), the ultimate holding company of HK\$221,000 (2016: HK\$1,328,000) and the fellow subsidiary of HK\$2,650,000 (2016: nil) arising from dealing in securities as at 31 December 2017. The balances were unsecured, interest-free and payable on demand.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties (continued):

(viii) Included in the Company's accounts payable were amounts due to funds managed by the fellow subsidiary of HK\$698,000 (2016: HK\$913,000) arising from dealing in securities as at 31 December 2017. The balance was unsecured, interest-free and payable on the settlement day under the relevant market practice.

(ix) Included in the Company's accounts receivable were amounts due from funds managed by the fellow subsidiary of HK\$6,325,000 (2016: nil) arising from dealing in securities as at 31 December 2017. The balance was unsecured, interest-free and receivable on the settlement day under the relevant market practices.

The Company's ultimate holding company, Guotai Junan, is subject to the control of the PRC Government which also controls a significant portion of assets and entities in the PRC (collectively referred to as "state-owned enterprises"). Therefore transactions with state-owned enterprises are regarded as related party transactions.

Majority of the bank borrowings and deposits of the Company were entered into with state-owned banks. In addition, the Company enters into transactions with state-owned enterprises that relates to the Company's normal business activities, including but not limited to brokerage services, corporate finance business and investment holding. These transactions are entered into in the ordinary course of business at an arm's length and under the normal commercial terms and conditions as to those that would have been entered into with non-state-owned enterprises, which were not considered as individually significant in accordance with HKAS 24.

(c) Compensation of key management personnel of the Company:

Directors of the Company represent the key management personnel of the Company. The compensation of key management personnel of the Company are paid by immediate holding company. Details of their remuneration are disclosed in note 6 to the financial statements.

30. OTHER COMMITMENTS

The Company has undertaken underwriting obligations on placing, IPO, takeover and merger activities and financial obligations to loans facilities granted to customers. As at 31 December 2017, the underwriting and financial obligations were approximately HK\$2,836 million and HK\$159 million, respectively (2016: HK\$576 million and HK\$375 million).

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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31. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to credit risk, market risk and liquidity risk. The Company's overall risk management programme focuses on the analysis, evaluation, acceptance and monitoring of these risks which are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Company's financial performance.

The Company's risk management policies are approved by the Board of Directors and are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information. The Board of Directors provides written principles for overall risk management. The Company regularly reviews its risk management policies to reflect any change in the market and clients.

The main risks arising from the Company's financial instruments are credit risk, market risk and liquidity risk. The policies for managing each of these risks are summarised below:

Credit risk

Credit exposures arise principally from loans and advances to customers, accounts receivable, debt securities, bank balances and client trust bank balances which are included in the Company's asset portfolio.

Credit risk limit control and mitigation policies

The Board of Directors delegates to the Credit Committee the duties to monitor the credit risk of the Company. Members of the Credit Committee include, inter alia, the Chief Executive Officer, Responsible Officers, the Chief Financial Officer and the Head of Equity Financing Department. The Credit Committee is responsible for the development of financing business and approval of major credit exposure.

The Equity Financing Department is responsible for approval, monitoring, review of the Company's credit risk of margin clients. It is also responsible for making settlement calls when the trades of margin clients exceed their respective limits. Failure to meet margin calls may result in liquidation of the client's position. The credit limit and margin limit for each client and the lending ratio of securities acceptable as margin collateral prepared by the Equity Financing Department will be further approved by the Credit Committee.

Loans and advances to customers including IPO loans for subscription of new shares are normally settled within 1 week from the drawdown date. Forced liquidation action would be taken if the customers fail to settle their shortfall within specific period of tolerance after IPO allotment result is announced.

For debt securities, external rating such as Standard & Poor's and Moody's ratings or their equivalents are used by the Risk Management Department for managing credit risk exposures as supplemented by the Company's own assessment through the use of internal rating tools.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Credit risk limit control and mitigation policies (continued)

The Company's bank balances are deposited in respectable, large commercial banks. For the client trust bank balances which are held in segregated accounts, they are deposited in authorised financial institutions in Hong Kong. The credit risk of bank balances and client trust bank balances are considered to be manageable.

Accounts receivable from clients represent receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 1 to 3 days. The Company allows credit up to the settlement dates of the respective securities transactions (normally from T+1 to T+3 days). All applications for credit limits must be reviewed by Credit Manager and approved by any member of the Credit Committee. However, no credit limit would be granted to new clients. The Equity Financing Department determines whether forced liquidation action is to be taken against clients with overdue balances on a case-by-case basis. The Credit Committee regularly reviews the overdue balances.

The Company only accepts margin deposits in the form of cash for options dealing and broking. No transaction is allowed to be executed if the current position of the customer exceeds its trading limit. The margin deposit placed and the aggregate of the required margin deposits of each options contract is timely monitored by both the dealers and the Risk Management Department. Margin calls will be executed by the on-site duty staff for options brokerage business if there is a deficit in the margin deposit. Forced liquidation of the customer's position will be executed if the customer fails to meet the margin calls.

With the above stated controls, management considers that the credit risk of the Company resulting from securities and options brokerage business as well as margin and other loan financing are manageable.

Accounts receivable from brokers and dealers are placed with large financial institutions which are governed by regulators. The credit risk of accounts receivable from brokers and dealers is considered to be manageable.

The credit risk of accounts receivable from corporate clients arising from investment holding and market making businesses are manageable as the credit rating and reputation of trade counterparties are sound.

The credit risk of accounts receivable from the Stock Exchange and other clearing houses is considered to be minimal.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Impairment and provisioning policies

The Company's policy requires the review of individual outstanding amounts at least monthly or more regularly depending on individual circumstances or market condition.

The Company has early adopted HKFRS 9, where the impairment requirements under HKFRS 9 are based on an ECL model. The Company applies simplified approach to measure ECL on accounts receivable and general approach to measure ECL on loans and advances to customers, time deposits and other financial assets accounted for at amortised cost as well as loan commitments. Under the simplified approach, the Company measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1: 12-months ECL, Stage 2: Lifetime ECL – not credit-impaired and Stage 3: Lifetime ECL – credit-impaired.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information. The loan and advances use the number of days past due ("DPD") and loan-to-collateral value ("LTV") to determine significant increase in credit risk. For non-standard financing, internally derived credit ratings have been identified as representing the best available determinant of credit risk. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition.

Calculation of expected credit losses

The ECL are assessed by the Company on semi-annual basis. Based on DPD, LTV and internally derived credit ratings, loans and advances to customers are classified into 3 stages

ECL for retail margin loan under stage 1 is calculated on collective basis. The probabilities of price changes of various scenarios are calculated based on the observed historical price movements of the underlying collateral stocks. The ECL of each scenario is then calculated in accordance with the respective loan exposure. When the retail margin loan classified under stage 2 and stage 3, the lifetime ECL is calculated.

The ECL of non-standard financing is calculated on individual basis. The Company has pre-defined loss rate of each loan's category. The loss rate are reference to the default rate for performing and non-performing grades from external rating agencies.

If there is material decrease in collateral value and the full recovery of the loan is in doubt, the retail and non-standard loan will be classified into stage 3. For the loans classified as stage 3, the Company may further calculate the ECL based on probability-weighted scenarios to measure the ECL. Each scenario is associated with different exposure at default and probability.

Incorporation of forward-looking information

When estimating the ECL on loan and advances to customers, the Company has incorporated forward-looking economic information through the use of industry trend and experienced credit judgement to reflect the qualitative factors, and through the use of multiple probability-weighted scenarios by the stock market analysis.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements

The Company's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the statement of financial position.

These amounts represent the worst case scenario of credit risk exposure to the Company at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements attached.

Concentration of risks of financial assets with credit risk exposure

(a) Bank balances and client trust bank balances

The counterparties of all client trust bank balances and majority of cash and bank balances are located in Hong Kong. As the Company's bank balances and client trust bank balances are deposited with a number of financially sound financial institutions, in the opinion of the directors, the concentration risk of the Company's bank balances and client trust bank balances is insignificant.

(b) Loans and advances to customers and accounts receivable from clients

The counterparties of majority of loans and advances to customers (including margin loans, IPO loans and other loan financing) and accounts receivable from clients are individual who are mainly located in China. The Equity Financing Department and Risk Management Department daily prepares an analysis of key margin client and options client exposure for review to avoid excessive concentration risk. As the Company trades with a large number of diversified clients, in the opinion of the directors, the concentration risk of loans and advances to customers and accounts receivable from client is manageable.

(c) Accounts receivable from brokers, dealers as well as clearing houses and others

The Company also has accounts receivable from clearing houses, brokers and dealers from its securities and options brokerage business as well as other receivables from investment holding and market marking businesses. Responsible Officers timely monitor excess deposit placed with dealers and brokers to ensure the concentration risk of accounts receivable is manageable.

Securities borrowing and lending

In the normal course of business, the Company may enter into securities borrowing and lending arrangements with financial institutions and the Company's customers. As at 31 December 2017, the Company borrowed equity securities of HK\$123,112,000 (2016: HK\$24,954,000) from financial institutions and set aside equity securities of HK\$1,263,034,000 (2016: HK\$370,908,000) pledged by margin clients, for such lending arrangements to customers. Cash collateral of HK\$1,479,445,000 (2016: HK\$400,852,000) was received from the customers while HK\$123,444,000 (2016: HK\$24,578,000) was placed to the financial institutions.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Securities borrowing and lending (continued)

The Company maintains no net position in such securities borrowing and lending transactions and is not subject to significant price risk. However, under the securities borrowing and lending arrangement, the cash collateral received and cash collateral placed are included in the accounts payable and accounts receivable from brokers and dealers, respectively. The Company is principally liable to repay the borrowed securities in case of any default by the customers.

In the normal course of investment holding and market making business, the Company may also enter into securities borrowing and lending arranged with financial institutions. As at 31 December 2017, the Company borrowed exchange-traded funds of nil amount (2016: HK\$3,162,000) from a financial institution for the market making activities and placed nil amount (2016: HK\$3,320,000) to the financial institution as cash collateral.

Market risk

The Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

The financial instruments held by the Company mainly exposed to interest rate risk and price risk. The main market risks include cash flow interest rate risk and price risk. The Company has established policies and procedures for monitoring and controlling the market risk arising from these financial instruments.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and advances to customers, accounts receivable, financial assets and liabilities at fair value through profit or loss, accounts payable to clients, bank borrowings, receivable from reverse repurchase agreements, obligations under repurchase agreements, client trust bank balances and cash and bank balances. Debt investments usually bear a fixed rate interest and they are managed through the strategy of trading them within a short period of time.

Interest on cash at banks will fluctuate at floating rates based on daily bank deposit rates. Bank borrowings and margin loans receivable at variable rates exposing the Company to cash flow interest rate risk. Other financial assets and liabilities which are mainly carried at amortised cost are either non-interest-bearing or fixed interest-bearing with short term maturities within one year, of which the interest rate risk is also considered to be minimal. The Company mitigates its interest rate risk by monitoring market interest rate movements and revising the interest rates offered to its customers on an ongoing basis in order to limit potential adverse effects of interest rate movements on net interest income. The Company regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of bank borrowings, margin loans receivable and interest-bearing bank deposits.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

If there would be a general increase/decrease in the interest rate by 1% (2016: 1%), with all other variables held constant, the profit before tax for the year ended 31 December 2017 would have been increased/decreased by approximately HK\$211.8 million (2016: HK\$229.6 million), but the fair value of the debt investments for the year ended 31 December 2017 would have been increased/decreased by approximately HK\$38.1 million (2016: HK\$10.3 million). The estimated 1% (2016: 1%) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting period. The sensitivity analysis is unrepresentative because the year-end exposure does not reflect the exposure during the year.

The financial products and derivative financial instruments held by the Company are structured as debt securities in issue for sales to customers. They are not subject to significant risk as the risk has been transferred to customers accordingly.

Equity price risk

The Company is exposed to equity securities price risk from equity instruments held by the Company which are classified in the statement of financial position as financial assets and liabilities at fair value through profit or loss. Price risk is the risk of changes in fair value of financial instruments from fluctuations, whether such a change in price is caused by factors specific to the individual instrument or factors affecting all instruments traded in the markets. The Company mitigates its price risk by performing detailed due diligence analysis of investments and dedicated professionals are assigned to oversee and monitor the performance of investments.

At 31 December 2017, the profit before tax would increase/decrease by HK\$0.7 million for the equity held for trading (2016: HK\$2.5 million) should the relevant indexes increase/decrease by 10% (2016: 10%). The analysis is based on the assumption that all the equity instruments move according to the historical correlation with the relevant indexes and with all other variables held constant. The sensitivity analysis is unrepresentative because the year-end exposure does not reflect the exposure during the year.

The asset quality of the margin clients' margin collateral will deteriorate when the market comes down drastically. Scenario analysis and stress testing are regularly performed on an individual client basis.

Foreign currency risk

Foreign currency risk refers to the risk that movements in foreign currency exchange rates will affect the Company's financial results and its cash flows.

The Company's principal operations are transacted and recorded in Hong Kong dollars, United States dollars ("USD") and Renminbi ("RMB"). The Company is not exposed to material foreign exchange risk because HKD is pegged with USD. The Company also conducts appropriate hedging activities when it is exposed to material exchange risk in RMB. Other foreign currency exposure is relatively minimal to its total assets and liabilities. The foreign exchange risk is daily managed and monitored by the Finance Department. As a result, it is considered that foreign exchange risk exposure is manageable.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the Finance Department maintains flexibility in funding by maintaining available committed credit facilities from the banks.

Sources of liquidity are daily reviewed by the Finance Department to ensure the availability of sufficient liquid funds to meet all obligations.

Management monitors rolling forecasts of the Company's liquidity reserve (comprising undrawn borrowing facility) and cash and cash equivalents on the basis of expected cash flows in strict compliance with statutory requirements. This is achieved by monitoring the liquidity position of the Company on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Hong Kong Securities and Futures (Financial Resources) Rules.

The following table summarises the maturity profiles of the Company's financial liabilities, based on the contractual and undiscounted cash flows.

As at 31 December 2017

	Up to 1 month HK\$'000	1 to less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Liabilities					
Accounts payable	15,581,236	-	-	-	15,581,236
Bank borrowings	3,487,545	-	-	-	3,487,545
Financial liabilities at fair value through profit or loss	678,258	-	-	-	678,258
Obligations under repurchase agreements	190,734	-	-	-	190,734
Subordinated loans from the immediate holding company	1,058,590	-	-	-	1,058,590
	<u>20,996,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,996,363</u>
Off-balance sheet items					
Underwriting obligations	2,836,419	-	-	-	2,836,419
Financial obligations to loan facilities	158,665	-	-	-	158,665
	<u>2,995,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,995,084</u>
Derivative cash flow					
Derivative financial instruments settled on a gross basis					
Total inflow	1,276,484	-	52,355	-	1,328,839
Total outflow	(1,236,659)	-	(53,843)	-	(1,290,502)
	<u>39,825</u>	<u>-</u>	<u>(1,488)</u>	<u>-</u>	<u>38,337</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

As at 31 December 2016

	On demand HK\$'000	Up to 1 month HK\$'000	1 to less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Liabilities						
Accounts payable	-	12,722,717	-	-	-	12,722,717
Bank borrowings	-	2,112,116	-	-	-	2,112,116
Financial liabilities at fair value through profit or loss	-	477,335	-	-	-	477,335
Obligations under repurchase agreements	-	157,996	-	-	-	157,996
Amount due to the immediate holding company	2,322,746	-	-	-	-	2,322,746
Subordinated loans from the immediate holding company	-	1,057,871	-	-	-	1,057,871
	<u>2,322,746</u>	<u>16,528,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,850,781</u>
Off-balance sheet items						
Underwriting obligations	-	575,655	-	-	-	575,655
Financial obligations to loan facilities	-	375,419	-	-	-	375,419
	<u>-</u>	<u>951,074</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>951,074</u>
Derivative cash flow						
Derivative financial instruments settled on a gross basis						
Total inflow	-	487,513	15,845	586,048	-	1,089,406
Total outflow	-	(486,051)	(13,026)	(592,668)	-	(1,091,745)
	<u>-</u>	<u>1,462</u>	<u>2,819</u>	<u>(6,620)</u>	<u>-</u>	<u>(2,339)</u>

Fair values of financial assets and liabilities

Financial instruments not measured at fair value

At the end of reporting period, the fair values of the Company's financial assets and liabilities not measured at fair value are not materially different from their carrying amounts due to their short term nature.

Financial instruments measured at fair value

Company's valuation process

The Level 1 and Level 2 fair values of financial assets are measured by reference to quoted market prices and brokers' quotes, respectively.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Company's financial instruments:

Assets measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets held for trading				
- Listed equity investments	9,116	-	-	9,116
- Listed debt investments	-	39,146	-	39,146
Financial assets designated as fair value through profit or loss				
- Derivative financial instruments	-	38,972	-	38,972
Total	9,116	78,118	-	87,234

As at 31 December 2016

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial assets held for trading				
- Listed equity investments	25,826	-	-	25,826
- Listed debt investments	-	178,218	-	178,218
Financial assets designated as fair value through profit or loss				
- Financial products	-	1,533,121	-	1,533,121
Derivative financial instruments	-	38,955	-	38,955
Total	25,826	1,750,294	-	1,776,120

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2017

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial liabilities held for trading				
- Listed equity securities	(70)	-	-	(70)
- Listed debt securities	-	(678,188)	-	(678,188)
Financial liabilities designated as fair value through profit or loss				
- Derivative financial instruments	-	(1,238)	-	(1,238)
Total	(70)	(679,426)	-	(679,496)

As at 31 December 2016

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial liabilities held for trading				
- Listed equity securities	(66)	-	-	(66)
- Listed debt securities	-	(477,335)	-	(477,335)
Financial liabilities designated as fair value through profit or loss				
- Derivative financial instruments	-	(51,365)	-	(51,365)
Total	(66)	(528,700)	-	(528,766)

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy (continued)

(a) Financial instruments in Level 1

The fair values of financial instruments traded in active markets are based on quoted market prices at the end of the reporting periods. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets and financial liabilities held by the Company is the current bid price and current ask price.

(b) Financial instruments in Level 2

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs used in the valuation for financial instruments are observable, the financial instruments are included in Level 2.

If one or more of the significant inputs is not based on observable market data, the financial instrument is included in Level 3.

(c) Financial instruments in Level 3

There is no financial instrument in Level 3 as at 31 December 2017 and 2016.

Capital management

The Company's objectives for managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

- to comply with the capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to support the Company's stability and growth; and
- to maintain a strong capital base to support the development of its business.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2017

31. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital management (continued)

The liquid capital is monitored daily by the Company's management, based on the Securities and Futures (Financial Resources) Rules. The required information is filed with the SFC on a timely basis. The SFC requires the Company to maintain a level of required liquid capital which is the higher of the floor requirement of HK\$3 million or 5% of the aggregate of its adjusted liabilities and clients' margin. The Company complied with its required liquid capital during the years ended 31 December 2017 and 2016.

The capital of the Company mainly comprises its total equity.

32. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company currently has a legally enforceable right to set off the Continuous Net Settlement (CNS) money obligations receivable and trade payables with HKSCC and it intends to settle on a net basis as accounts receivable from or accounts payable to the Stock Exchange. The net amount of CNS money obligations receivable or payable with HKSCC and guarantee fund placed in HKSCC do not meet the criteria for offsetting in the financial statements and the Company does not intend to settle the balances on a net basis.

	Gross amount of recognised financial assets/ (liabilities) HK\$'000	Gross amount of recognised financial liabilities offset in the financial statements HK\$'000	Net amount of financial liabilities reflected in the financial statements HK\$'000	Related amounts not set off in the statement of financial position HK\$'000	Net HK\$'000
<u>As at 31 December 2017</u>					
CNS money obligation receivable	895,209	(895,209)	-	-	-
CNS money obligation payable	(1,074,870)	895,209	(179,661)	-	(179,661)
<u>As at 31 December 2016</u>					
CNS money obligation receivable	1,091,696	(1,091,696)	-	-	-
CNS money obligation payable	(1,121,660)	1,091,696	(29,964)	-	(29,964)

The "net amounts of financial assets reflected in the financial statements", as set out above, is included in "accounts receivable and accounts payable arising from dealing and brokering – the Stock Exchange and other clearing houses" in notes 13 and 19 respectively.

APPENDIX 5

AUDITOR'S REPORT AND OUR FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Our audited financial statements for the year ended 31 December 2018 are set out in this Appendix 5. References to page numbers on the following pages are to the page numbers of such audited financial statements.

AUDITED FINANCIAL STATEMENTS

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2018

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

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

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED**
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of Guotai Junan Securities (Hong Kong) Limited (the "Company") set out on pages 4 to 60, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") and with reference to Practice Note 820 (Revised), *The Audit of Licensed Corporations and Associated Entities of Intermediaries* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the report of the directors, which is separately issued by the Company on the same date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

In addition, the directors are required to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the financial statements (continued)

In addition, the directors are required to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to obtain reasonable assurance about whether the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

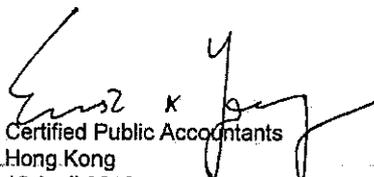
We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE MEMBERS OF GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)

Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance

In our opinion, the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.


Certified Public Accountants
Hong Kong
18 April 2019

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	4	2,177,424	2,289,938
Other income		3,324	1,326
Revenue and other income		2,180,748	2,291,264
Commission expenses		(104,146)	(96,051)
Other operating expenses		(939,808)	(768,473)
Operating profit		1,136,794	1,426,740
Finance costs	5	(118,400)	(220,168)
Profit before tax	5	1,018,394	1,206,572
Income tax expense	7	(128,652)	(164,228)
Profit for the year and total comprehensive income for the year		889,742	1,042,344

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Intangible assets	9	1,500	1,500
Other assets	10	3,458	11,090
Deferred tax assets	26	83,901	41,699
Total non-current assets		88,859	54,289
Current assets			
Loans and advances to customers	11	8,965,189	12,616,008
Accounts receivable	13	2,660,160	3,175,987
Prepayments, deposits and other receivables	14	58,277	38,459
Financial assets at fair value through profit or loss	15	83,956	48,262
Derivative financial instruments	16	9	38,972
Receivable from reverse repurchase agreements	17	2,462,191	947,526
Amount due from the immediate holding company	29(b)(i)	688,075	2,102,102
Client-trust bank balances	18	13,610,499	11,794,727
Cash and bank balances	18	2,819,574	500,436
Total current assets		31,347,930	31,262,479
Current liabilities			
Accounts payable	19	(17,166,281)	(15,581,236)
Other payables and accrued liabilities	20	(21,623)	(32,952)
Financial liabilities at fair value through profit or loss	21	(2,418,270)	(678,258)
Derivative financial instruments	15	(14)	(1,238)
Obligations under repurchase agreements	22	(75,635)	(190,647)
Bank borrowings	23	-	(3,486,223)
Subordinated loan from the immediate holding company	24	(1,050,000)	(1,050,000)
Tax payable		(45,810)	(56,800)
Total current liabilities		(20,777,633)	(21,077,354)
Net current assets		10,570,297	10,185,125
Total assets less current liabilities		10,659,156	10,239,414
Net assets		10,659,156	10,239,414

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Equity			
Share capital	25	7,500,000	7,500,000
Retained profits		3,159,156	2,739,414
Total equity		<u>10,659,156</u>	<u>10,239,414</u>



LI Guangjie
Director



LEE Ming Chuan Eric
Director

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Share capital HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2017		7,500,000	2,427,070	9,927,070
Total comprehensive income for the year		-	1,042,344	1,042,344
Dividend paid	8	-	(730,000)	(730,000)
At 31 December 2017 and 1 January 2018		7,500,000	2,739,414	10,239,414
Total comprehensive income for the year		-	889,742	889,742
Dividend paid	8	-	(470,000)	(470,000)
At 31 December 2018		7,500,000	3,159,156	10,659,156

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from operating activities			
Profit before tax		1,018,394	1,206,572
Adjustments for:			
Effect of impairment allowance on loans and advances to customers, net	11	240,503	43,965
Effect of impairment allowance on accounts receivable, net	13(a)	(6,918)	7,573
Effect of impairment allowance on loan commitment, net		324	(135)
Effect of impairment allowance on client trust bank balance, net		(4,618)	(9,308)
Effect of impairment allowance on cash and cash equivalents, net		-	(2)
Effect of impairment allowance on prepayments, deposits and other receivables, net		10	(30)
Effect of impairment allowance on reverse repurchase agreements, net		2	-
Effect of impairment allowance on amount due from the immediate holding company, net		(1,051)	1,051
		<u>1,246,646</u>	<u>1,249,686</u>
Decrease/(increase) in other assets		7,632	(2,422)
Decrease in loans and advances to customers		3,410,316	631,375
Decrease/(increase) in accounts receivable		522,745	(2,205,071)
Increase in prepayments, deposits and other receivables		(19,828)	(9,500)
(Increase)/decrease in financial assets at fair value through profit or loss		(35,694)	1,688,903
Decrease/(increase) in derivative financial instruments		37,739	(50,144)
Increase in receivable from reverse repurchase agreements		(1,514,667)	(466,744)
Increase in client trust bank balances		(1,811,154)	(30,089)
Increase in accounts payable		1,585,045	2,858,519
Decrease in other payables and accrued liabilities		(11,653)	(4,428)
Increase in financial liabilities at fair value through profit or loss		1,740,012	200,857
(Decrease)/increase in obligations under repurchase agreements		(115,012)	32,651
Decrease in amount due to the immediate holding company		-	(2,322,746)
Decrease/(increase) in amount due from the immediate holding company		1,415,078	(2,103,153)
Provision for impairment on accounts receivable		-	(4,253)
Provision for impairment on client trust bank balances		-	(22,202)
Provision for impairment on loan commitments		-	(149)
Provision for impairment on loans and advances to customers		-	(182,823)
Provision for impairment on prepayments, deposits and other receivables		-	(47)
		<u>6,457,205</u>	<u>(741,780)</u>
Cash generated from/(used in) from operations		(181,844)	(107,629)
Hong Kong profits tax paid			
Net cash flows from/(used in) operating activities		<u>6,275,361</u>	<u>(849,409)</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Cash flows from financing activities			
Net (repayment)/proceeds from bank borrowings		(3,486,223)	1,374,790
Dividend paid	8	(470,000)	(730,000)
Net cash flows (used in)/from financing activities		<u>(3,956,223)</u>	<u>644,790</u>
Net increase/(decrease) in cash and cash equivalents		2,319,138	(204,619)
Cash and cash equivalents at beginning of year		500,436	705,055
Cash and cash equivalents at end of year		<u>2,819,574</u>	<u>500,436</u>
Analysis of balances of cash and cash equivalents			
Cash and cash balances	18	<u>2,819,574</u>	<u>500,436</u>
Cash flows from operating activities included:			
- Interest received		1,109,105	1,155,416
- Interest paid		119,569	224,388
- Dividend received		-	6

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. GENERAL INFORMATION

Guotai Junan Securities (Hong Kong) Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is 27th Floor, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

During the year, the Company acted as brokers and dealers in securities, and also engaged in the provision of underwriting and wealth management services and margin financing.

The Company is a wholly-owned subsidiary of Guotai Junan (Hong Kong) Limited, a company incorporated in Samoa. The ultimate holding company is Guotai Junan Securities Company Limited ("GJSCL"), a company registered in the People's Republic of China.

Pursuant to a special resolution passed on 31 January 2019, it is desirous to change the Company's status from a private company to a public company and in connection therewith, the Company shall alter its Articles Of Association in accordance with section 94(1) Of the Companies Ordinance, Chapter 622 Of the laws Of Hong Kong.

The financial statements were approved and authorised for issue by the board of directors on 18 April 2019.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets and financial liabilities at fair value through profit or loss and derivative financial instruments which have been measured at fair value.

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise stated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the following new and revised HKFRSs for the first time in the current year's financial statements, which are applicable to the Company.

HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>

The nature and the impact of the new standards and amendments are described below:

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including the disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 4 to the financial statements. As a result of the application of HKFRS 15, the Company has changed its accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Company has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The adoption of HKFRS 15 does not have any material impact on the financial statements.

Amendments to HKAS 40 Transfers of Investment Property

Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Company.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
HK(IFRIC)-Int 23 <i>Annual Improvements</i> <i>2015-2017 Cycle</i>	<i>Uncertainty over Income Tax Treatments</i> ¹ Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

Further information about those HKFRSs that are expected to be applicable to the Company is described below.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS
(continued)

Amendments to HKFRS 3 were issued in January 2019 and clarify and provide additional guidance on the definition of a business. The amendments help entities determine whether an acquired set of activities and assets is a business. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments are to be applied prospectively to transactions occurring in reporting periods beginning on or after 1 January 2020. The amendments are not expected to have any significant impact on the Company's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Company expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Company's financial statements.

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Company expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Company's financial statements.

Amendments under Annual Improvements to HKFRSs 2015-2017 Cycle

Annual Improvements to HKFRSs 2015-2017 Cycle sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Company expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Company. Details of the amendments are as follows:

- **HKFRS 3 *Business Combinations*:** Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.
- **HKFRS 11 *Joint Arrangements*:** Clarifies that when an entity that participates in (but does not have joint control of) a joint operation obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS
(continued)

- HKAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividends.
- HKAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair value measurement

The Company measures its financial assets and financial liabilities at fair value through profit or loss, derivative financial instruments, debt investments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Intangible assets

Intangible assets are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets, representing club membership and eligibility rights to trade on or through The Hong Kong Stock Exchange Limited (the "Stock Exchange") and The Hong Kong Futures Exchange Limited, with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. These intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset.

At initial recognition, the Company measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") is recognised for financial assets measured at amortised cost which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (i) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 Input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (ii) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

(a) Financial assets

(i) *Classification and subsequent measurement*

The Company's financial assets include accounts receivable, deposits and other receivables, loans and advances to customers, financial assets at fair value through profit or loss, derivative financial instruments, receivable from reverse repurchase agreements, amount due from the immediate holding company, other assets, client trust bank balances and cash and cash equivalents. The Company has classified its financial assets in the following measurement categories:

- (i) Fair value through profit or loss (FVTPL);
- (ii) Fair value through other comprehensive income (FVOCI); or
- (iii) Amortised cost.

The classification requirements for debt and equity instruments are described below:

Debt instruments

Classification and subsequent measurement of debt instruments depend on:

- (i) the Company's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Business model assessment:

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI test:

The Company assesses the contractual terms of instruments to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' ("SPPI"). Financial assets that are consistent with a basic lending arrangement are considered to meet the SPPI criterion. In a 'basic lending arrangement', consideration for the time value of money and credit risk are typically the most significant elements of interest. It may also include consideration for other basic lending risks such as liquidity risks, costs associated with holding the financial assets for a period of time (e.g., servicing or administrative costs) and a profit margin.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

Debt instruments (continued)

Based on the above consideration, the Company classifies its debt instruments into one of the following three measurement categories:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss and other comprehensive income within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(i) *Classification and subsequent measurement* (continued)

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when represent a return on such investments, continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net trading income' line in the statement of profit or loss and other comprehensive income.

(ii) *Impairment*

The Company applies a simplified approach to measure ECL on accounts receivable and a general approach to measure ECL on loans and advances to customers, time deposits and other financial assets accounted for at amortised cost as well as loan commitment.

Under the simplified approach, the Company measures the loss allowance based on lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit-impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(ii) *Impairment* (continued)

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis. For certain portfolio of margin loans, the Company rebuts the presumption that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due as management considers the probability of default is highly correlated with the collateral value rather than the past due days.

The Company assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, remaining term to maturity and other relevant factors.

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the difference between all contractual cash flows that are due to the Company and all the cash flows that the Company expects to receive. The amount of the loss is recognised using a provision for doubtful debts account.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL.

(iii) *Modification of loans*

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

(a) Financial assets (continued)

(iii) Modification of loans (continued)

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Company under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Company retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a subordinated residual interest.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

(b) Financial liabilities

Classification and subsequent measurement

In both the current and prior year, financial liabilities are classified as subsequently measured at amortised cost, except for:

Financial liabilities at fair value through profit or loss: this classification is applied to derivatives and financial liabilities held for trading. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or expires.

Derivative financial instruments

The Company's derivative financial instruments are initially recognised at their fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss and other comprehensive income.

Whilst the Company enters into a derivative contract for trading purposes or to provide economic hedges under the Company's risk management framework, it does not apply hedge accounting.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Client trust bank balances

The Company maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Company has classified the clients' monies as client trust bank balances under the current assets in the statement of financial position as the Company is allowed to retain some or all of the interest income on the clients' monies and recognised corresponding accounts payable to the respective customers in the current liabilities clients on grounds that it is liable for any loss or misappropriation of clients' monies. Under the Hong Kong Securities and Futures Ordinance (Cap. 571) and the Hong Kong Insurance Companies Ordinance (Cap. 41), the Company is not allowed to use the clients' monies to settle its own obligation.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary activities

Apart from the client trust bank balances as mentioned above, the Company provides brokerage and asset management services and the Company acts in a fiduciary capacity which results in the holding or placing of assets on behalf of its customers. These assets and any gains or losses arising thereon are not included in these financial statements as the Company has no contractual rights to these assets and its gains or losses under fiduciary activities.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Other assets

Other assets represent the deposits and admission fee paid to the Stock Exchange, Hong Kong Futures Exchange Limited, Hong Kong Securities Clearing Company Limited and other regulators. They are intended to be held on a long-term basis and are stated at cost less impairment losses.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Unconsolidated structured entity

A structured entity is an entity in which voting rights are not the dominant factor in deciding control. Structured entity is generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.

Depending on the Company's power over the activities of the entity and its exposure to and the ability to influence its own returns, it may consolidate the entity. In other cases, it may sponsor or have an interest on such an entity but does not consolidate it. The Company sponsors an entity when:

- (i) It is the majority user of the entity;
- (ii) Its name appears in the name of the entity or on the products issued by the entity;
- (iii) It provides implicit or explicit guarantees of the entity's performance;
- (iv) It led the formation of the entity.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Company will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Provision of securities brokerage services

The performance obligation is satisfied at a point in time when the customer has obtained control of the service, generally when the trades are executed.

Provision of investment banking services

The performance obligation for certain consultancy and financial advisory services are fulfilled when all the relevant duties of a sponsor or a financial advisor as stated in the contract are completed.

Certain consultancy and financial advisory services' performance obligations are satisfied over time as services are rendered if the customer simultaneously receives and consumes the benefits provided by the Company.

Provision of wealth management service

The performance obligation relating to the insurance brokerage service is satisfied at the point when the terms of the insurance policy have been agreed contractually by the insurer and policyholder, and the insurer has a present right to payment from the policyholder (the 'transaction date').

Revenue from other sources and other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- (i) commission income from securities and options brokerage, on the transaction dates when the relevant contract notes are exchanged;
- (ii) commission income from the provision of insurance brokerage services, on an accrual basis in accordance with the terms of the underlying agreements;
- (iii) commission income from underwriting/placing/sub-underwriting in securities, on execution of each significant act based on the terms of underlying agreements and mandates;
- (iv) investment advisory fees and handling income, when the services have been rendered;
- (v) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;
- (vi) dividend income, when the shareholders' right to receive payment has been established;
- (vii) net gains/losses on financial assets at fair value through profit or loss and those held for trading, including realised gains/losses which are recognised on the transaction dates when the relevant contract notes are exchanged; and unrealised fair value gains/losses which are recognised in the period in which they arise.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Securities borrowing and lending agreements

The Company has engaged in the securities borrowing and lending business with financial institutions and the Company's customers, under which all transactions are secured in the form of cash. The Company maintains no net position in such securities borrowing and lending transactions and is not subject to significant price risk. However, under the securities borrowing and lending arrangements, the cash collateral received and cash collateral placed is included in the accounts payable and accounts receivable from brokers and dealers respectively. Fees received or paid in connection with securities borrowing and lending is recorded as interest income or interest expense, respectively.

Assets sold under repurchase agreements (repos)

In addition, the Company may enter into repurchase agreements whereby securities are sold to third parties with a concurrent agreement to repurchase the securities at a specified date. The securities related to these agreements are not derecognised from the Company's financial statements, but are retained within the appropriate financial assets classification. The Company may be required to provide additional collateral based on the fair value of the underlying assets if necessary.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assets purchased under agreements to resell (reverse repos)

The Company may enter into purchases of assets under agreements to resell. Reverse repos are initially recorded at the cost of the loan or collateral advanced in the statement of financial position. These securities are not recognised in the Company's statement of financial position as the counterparty retains substantially all risks and returns of the securities. In the event of failure by the counterparty to repay the loan, the Company has the right to the underlying assets.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Foreign currency transactions recorded by the Company are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the currency translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss and other comprehensive income.

Related parties

A party is considered to be related to the Company if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Company are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Company are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Taxes

Significant judgement is required in determining the provisions for income. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which the determination is made.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment allowances on financial assets

The measurement of impairment losses under HKFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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4. REVENUE

The Company's revenue is disaggregated as follows:

	2018 HK\$'000	2017 HK\$'000
<i>Revenue from contracts with customers</i>		
Commission income from securities dealing and broking	366,746	431,123
Handling income on dealing and broking	52,765	47,992
Placing, underwriting and sub-underwriting commission		
- Debt securities	483,303	350,503
- Equity securities	84,204	244,920
Commission income from insurance broking	7,658	11,185
Commission income from options dealing and broking	191	222
Investment advisory income	24	1,641
Handling income on financial products	45,676	34,089
	<u>1,040,567</u>	<u>1,121,675</u>
<i>Revenue from other sources</i>		
Clients' interest income and handling income	790,158	981,711
Interest income in respect of:		
- Banks	251,396	153,411
- Securities borrowing and lending	56,342	21,545
- Reverse repurchase agreements	29,529	5,304
- Listed debt securities	1,366	16,821
- Unlisted debt securities	-	243
- Others	729	1,356
Net fair value loss on financial instruments held for trading		
- Listed securities	(5,297)	(14,836)
- Unlisted securities	(513)	(1,248)
Dividend income from listed securities held for trading	-	6
Interest recharged to immediate holding company	13,147	3,950
	<u>1,136,857</u>	<u>1,168,263</u>
	<u>2,177,424</u>	<u>2,289,938</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. PROFIT BEFORE TAX

This is arrived at after charging/(crediting):

	2018 HK\$'000	2017 HK\$'000
Auditors' remuneration	876	789
Foreign exchange difference, net	(13,478)	(6,320)
Finance costs:		
Banks	25,047	38,675
Subordinated loan from the immediate holding company	41,637	33,633
Securities borrowing and lending	2,330	863
Repurchase agreements	1,728	8,310
Financial instruments at fair value through profit or loss		
- Listed debt securities held for trading	43,573	11,978
Others	4,085	1,116
Reimbursement to the immediate holding company	-	119,475
Reimbursement to the intermediate holding company	-	6,118
	<u>118,400</u>	<u>220,168</u>
Management fee recharged and paid to the immediate holding company	659,517	651,508
Net impairment charge on loans and advances to customers	240,503	43,965
Net (reversal)/charge of impairment on accounts receivable	(6,918)	7,573
Net reversal of impairment on other financial assets and loan commitments	(5,333)	(8,424)
	<u><u>118,400</u></u>	<u><u>220,168</u></u>

All employees of the Company were contractually employed by the immediate holding company, which was responsible for the payment of all staff costs. Staff costs of those employees who provided services to the Company were initially borne by the immediate holding company and recharged to the Company in the form of management fee.

The management fee paid to the immediate holding company was in respect of staff cost, attributable office premises expenses, central management and administrative support services rendered. It was calculated based on the costs incurred by the immediate holding company and allocated with reference to the gross profit of the Company relative to the gross profit of the other group companies.

The reimbursements to the immediate holding company and the intermediate holding company were in respect of the interest expenses from the syndicated loans of the immediate holding company and the Medium Term Note Programme ("MTN programme") by the intermediate holding company. The proceeds of the syndicated loans and the MTN programme are mainly used for the Company's operation during the year, the immediate holding company and intermediate holding company recharged the respective interest expenses to the Company in the form of the reimbursements.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. DIRECTORS' REMUNERATION

No director received any fees from the Company in respect of their services rendered to the Company during the year (2017: nil).

For the year ended 31 December 2018, the directors received remuneration from the Company's immediate holding company amounting to approximately HK\$67 million (2017: HK\$59.9 million), which included share-based compensation expense of approximately HK\$3.5 million (2017: HK\$3.8 million) attributable to share options granted and of approximately HK\$17.1 million (2017: HK\$14.6 million) attributable to share awards granted by the Company's intermediate holding company, part of which is in respect of their services to the Company.

No apportionment has been made as the directors do not believe that it is practicable to apportion this amount between their services to the Company's immediate holding company and each of that company's subsidiaries.

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2018 HK\$'000	2017 HK\$'000
Charge for the year	157,253	171,592
Under provision in prior years	13,601	-
Deferred tax (note 26)	(42,202)	(7,364)
Total tax charge for the year	<u>128,652</u>	<u>164,228</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2018 HK\$'000	2017 HK\$'000
Profit before tax	<u>1,018,394</u>	<u>1,206,572</u>
Tax at the statutory tax rate at 16.5% (2017: 16.5%)	168,035	199,084
Income not subject to tax	(58,064)	(38,715)
Expenses not deductible for tax	5,086	4,398
Under provision in prior years	13,601	-
Temporary difference not recognised	(6)	(539)
Tax charge at the effective rate of 12.6% (2017: 13.6%)	<u>128,652</u>	<u>164,228</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

8. DIVIDENDS

	2018 HK\$'000	2017 HK\$'000
Interim, paid – HK\$0.063 (2017: HK\$0.097) per ordinary share	<u>470,000</u>	<u>730,000</u>

9. INTANGIBLE ASSETS

	2018 HK\$'000	2017 HK\$'000
Net carrying amounts as at 31 December	<u>1,500</u>	<u>1,500</u>

As at 31 December 2018 and 2017, the Company had three trading rights in The Stock Exchange of Hong Kong Limited. The intangible assets are not amortised for the years ended 31 December 2018 and 2017 as the trading rights have no expiry date.

10. OTHER ASSETS

	2018 HK\$'000	2017 HK\$'000
Deposits with The Stock Exchange of Hong Kong Limited:		
- Compensation fund	150	150
- Fidelity fund	150	150
- Stamp duty deposit	500	500
Admission fee paid to Hong Kong Securities Clearing Company Limited	150	150
Guarantee fund paid to Hong Kong Securities Clearing Company Limited	690	959
Fund deposits with the Securities and Futures Commission	50	50
Reserve fund with The SEHK Options Clearing House Limited	1,541	8,892
Settlement risk fund paid to the Shanghai Stock Exchange	227	239
	<u>3,458</u>	<u>11,090</u>

The carrying amounts of the Company's other assets approximate to their fair values.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. LOANS AND ADVANCES TO CUSTOMERS

	2018 HK\$'000	2017 HK\$'000
Margin loans	9,430,753	12,917,919
IPO loans	-	18,705
Gross loans and advances to customers	<u>9,430,753</u>	<u>12,936,624</u>
Less: impairment	(465,564)	(320,616)
	<u>8,965,189</u>	<u>12,616,008</u>

As at 31 December 2018, margin loans balances included loans to directors of HK\$2,341,000 (2017: HK\$1,592,000) as detailed in note 12 to the financial statements.

Loans and advances are categorised into excellent, good and individually impaired. Excellent refers to exposures which margin obligation can be met and payment of interest and principal is not in doubt, with good quality and liquidity of collaterals. Good refers to exposures which principal and interest are partially or fully secured but at a relatively low level. Individually impaired refers to exposures which loss, partial or full, has incurred and with insufficient collateral.

Analysis of the gross carrying amount as at 31 December by the Company's internal credit rating and year end classification:

As at 31 December 2018	12-months ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
<i>Internal rating grade</i>				
Performing				
Excellent	8,479,812	-	-	8,479,812
Good	-	-	-	-
Non-performing				
Individually impaired	-	-	950,941	950,941
	<u>8,479,812</u>	<u>-</u>	<u>950,941</u>	<u>9,430,753</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. LOANS AND ADVANCES TO CUSTOMERS (continued)

As at 31 December 2017	12-months ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
<i>Internal rating grade</i>				
Performing				
Excellent	9,597,642	-	-	9,597,642
Good	2,595,150	-	-	2,595,150
Non-performing				
Individually impaired	-	-	743,832	743,832
	<u>12,192,792</u>	<u>-</u>	<u>743,832</u>	<u>12,936,624</u>

Analysis of the gross carrying amount and the corresponding ECL allowance is as follows:

	12-months ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
Gross carrying amount as at 1 January 2017	12,687,188	-	697,987	13,385,175
New assets originated or purchased	3,088,132	-	57,229	3,145,361
Assets derecognised or repaid	(3,582,528)	-	(11,384)	(3,593,912)
Gross carrying amount as at 31 December 2017 and 1 January 2018	<u>12,192,792</u>	<u>-</u>	<u>743,832</u>	<u>12,936,624</u>
New assets originated or purchased	2,631,284	-	336,767	2,968,051
Assets derecognised or repaid	(6,344,264)	-	(34,101)	(6,378,365)
Amount written off	-	-	(95,557)	(95,557)
Gross carrying amount as at 31 December 2018	<u>8,479,812</u>	<u>-</u>	<u>950,941</u>	<u>9,430,753</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. LOANS AND ADVANCES TO CUSTOMERS (continued)

The movements in the ECL impairment allowance on loans and advances to customers are as follows:

	12-months ECL (Stage 1) HK\$'000	Lifetime ECL not credit- impaired (Stage 2) HK\$'000	Lifetime ECL credit- impaired (Stage 3) HK\$'000	Total HK\$'000
ECL allowance as at 1 January 2017	(19,701)	-	(256,950)	(276,651)
New assets originated or purchased	(1,048)	-	(74,167)	(75,215)
Assets derecognised or repaid	14,829	-	16,421	31,250
ECL allowance as at 31 December 2017 and 1 January 2018	(5,920)	-	(314,696)	(320,616)
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid	2,085	-	-	2,085
Changes to risk parameters	(8,036)	-	(173,759)	(181,795)
Transfer from stage 1 to stage 3	164	-	(164)	-
Changes arising from transfer of stage	-	-	(60,795)	(60,795)
Amount written off during the year	-	-	95,557	95,557
ECL allowance as at 31 December 2018	(11,707)	-	(453,857)	(465,564)

The contractual amount outstanding on loans and advances to customers that have been written off, but were still subject to enforcement activity was HK\$95,557,000 at 31 December 2018 (2017: nil).

Margin financing operations

The Company provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The maximum credit limit granted for each customer is based on the customer's financial background and the quality of related collateral. The Company seeks to maintain strict control over its outstanding receivables and has a Credit and Risk Management Department to monitor credit risks.

Margin loans to the customers are secured by the underlying pledged securities, bear interest at a rate with reference to the Hong Kong dollar prime rate and are repayable on demand. The carrying value of margin loans approximates to their fair value. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value in view of the nature of the margin loans business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Company. As at 31 December 2018, the total value of securities pledged as collateral in respect of the margin loans was approximately HK\$25,580 million (2017: HK\$49,575 million) based on the market value of the securities as at the end of the reporting periods.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

12. LOANS TO DIRECTORS

Loans to directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Name	At 31 December 2018 HK\$'000	Maximum amount outstanding during the year HK\$'000	At 31 December 2017 and 1 January 2018 HK\$'000	Maximum amount outstanding during the prior year HK\$'000	At 1 January 2017 HK\$'000	Collateral held
Mr. LEE Ming Chuan	2,088	9,433	1,592	2,326	-	Marketable Securities
Mr. LI Guangjie	-	4,982	-	1,933	-	Marketable Securities
Mr. WONG Tung Ching	253	253	-	-	-	Marketable Securities
	<u>2,341</u>	<u>14,668</u>	<u>1,592</u>	<u>4,259</u>	<u>-</u>	

The loans granted to directors, included in note 11 as presented in the statement of financial position, bear interest range from Hong Kong dollar prime rate +/- 3% per annum depending on risk assessment on collateral received and the facilities were granted to the directors for a period of 3 years ending on 31 December 2020.

13. ACCOUNTS RECEIVABLE

(a) The carrying value of accounts receivable arising from the course of business of the Company are as follows:

	2018 HK\$'000	2017 HK\$'000
Accounts receivable arising from dealing and broking:		
- cash and custodian clients	33,503	173,709
- the Stock Exchange and other clearing houses	1,174,486	794,842
- brokers and dealers	1,226,520	1,987,518
Accounts receivable arising from securities borrowing and lending	129,116	123,444
Accounts receivable arising from insurance brokerage services		
- cash and custodian clients	23	168
Accounts receivable arising from underwriting and others		
- corporate clients	101,490	108,202
	<u>2,665,138</u>	<u>3,187,883</u>
Less: impairment	(4,978)	(11,896)
	<u>2,660,160</u>	<u>3,175,987</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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13. ACCOUNTS RECEIVABLE (continued)

(a) (continued)

The movements in the provision for impairment of accounts receivable are as follow:

	2018 HK\$'000	2017 HK\$'000
At 1 January	11,896	4,323
Impairment charged to profit or loss during the year	252	7,581
Impairment reversed during the year	(7,170)	(8)
At 31 December	<u>4,978</u>	<u>11,896</u>

(b) Accounts receivable neither past due nor credit-impaired

	Accounts receivable from cash and custodian clients HK\$'000	Accounts receivable from the Stock Exchange and other clearing houses HK\$'000	Accounts receivable from brokers and dealers HK\$'000	Accounts receivable arising from securities borrowing and lending HK\$'000	Accounts receivable arising from insurance brokerage services and others HK\$'000	Account receivable arising from underwriting and others HK\$'000	Total HK\$'000
As at 31 December 2018							
Neither past due nor credit-impaired	21,809	1,174,486	1,226,520	129,116	23	99,921	2,651,875
Less: impairment	(11)	(574)	(613)	(65)	-	(50)	(1,313)
	<u>21,798</u>	<u>1,173,912</u>	<u>1,225,907</u>	<u>129,051</u>	<u>23</u>	<u>99,871</u>	<u>2,650,562</u>
As at 31 December 2017							
Neither past due nor credit-impaired	155,884	794,842	1,987,518	123,444	168	86,454	3,148,310
Less: impairment	(78)	(374)	(994)	(62)	-	(43)	(1,551)
	<u>155,806</u>	<u>794,468</u>	<u>1,986,524</u>	<u>123,382</u>	<u>168</u>	<u>86,411</u>	<u>3,146,759</u>

Accounts receivable from cash and custodian clients which are neither past due nor credit-impaired represent unsettled client trades on various securities exchanges transacted on the last two to three business days prior to the end of the reporting year. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value in view of the nature of these accounts receivable.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. ACCOUNTS RECEIVABLE (continued)

(c) Accounts receivable past due but not credit-impaired

	Accounts receivable from cash and custodian clients HK\$'000	Accounts receivable from the Stock Exchange and other clearing houses HK\$'000	Accounts receivable from brokers and dealers HK\$'000	Accounts receivable arising from securities borrowing and lending HK\$'000	Accounts receivable arising from insurance brokerage services HK\$'000	Account receivable arising from underwriting and others HK\$'000	Total HK\$'000
As at 31 December 2018							
Past due less than 3 months	11,514	-	-	-	-	3	11,517
Past due 3 to 12 months	-	-	-	-	-	-	-
Past due over 12 months	-	-	-	-	-	-	-
Less: impairment	(3,109)	-	-	-	-	-	(3,109)
	<u>8,405</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>8,408</u>
As at 31 December 2017							
Past due less than 3 months	17,670	-	-	-	-	1,459	19,129
Past due 3 to 12 months	-	-	-	-	-	-	-
Past due over 12 months	-	-	-	-	-	-	-
Less: impairment	(4,771)	-	-	-	-	(9)	(4,780)
	<u>12,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,450</u>	<u>14,349</u>

Accounts receivable from cash and custodian clients which are past due but not credit-impaired represent client trades on various securities exchanges which are unsettled beyond the settlement date. When the cash and custodian clients failed to settle on settlement date, the Company has the right to force-sell the collaterals underlying the securities transactions. The outstanding accounts receivable from cash and custodian clients as at 31 December 2018 and 2017 are considered as past due but not credit-impaired after taking into consideration the recoverability from collaterals. Collaterals held against such receivables are publicly traded securities.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

13. ACCOUNTS RECEIVABLE (continued)

(d) Credit-impaired accounts receivable

	Accounts receivable from cash and custodian clients HK\$'000	Accounts receivable from the Stock Exchange and other clearing houses HK\$'000	Accounts receivable from brokers and dealers HK\$'000	Accounts receivable arising from securities borrowing and lending HK\$'000	Accounts receivable arising from insurance brokerage services HK\$'000	Account receivable arising from underwriting and others HK\$'000	Total HK\$'000
As at 31 December 2018							
Credit-impaired accounts receivable	180	-	-	-	-	1,566	1,746
Less: impairment	(133)	-	-	-	-	(423)	(556)
	<u>47</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,143</u>	<u>1,190</u>
As at 31 December 2017							
Credit-impaired accounts receivable	155	-	-	-	-	20,289	20,444
Less: impairment	(87)	-	-	-	-	(5,478)	(5,565)
	<u>68</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,811</u>	<u>14,879</u>

Accounts receivable from cash and custodian clients are considered credit-impaired when clients failed to settle according to settlement terms after taking into consideration the recoverability of collateral.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Prepayments and deposits	3,772	3,003
Interest receivables	54,505	35,456
Total	<u>58,277</u>	<u>38,459</u>

None of the above assets is either past due or credit-impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK\$'000	2017 HK\$'000
Financial assets held for trading:		
- Listed equity investments	5,935	9,116
- Listed debt investments	78,021	39,146
	<u>83,956</u>	<u>48,262</u>

16. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of the derivative are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	Notional amount HK\$'000	Fair value	
		Assets HK\$'000	Liabilities HK\$'000
As at 31 December 2018			
Foreign exchange forwards	2,090,348	-	-
Index futures	6,274	9	(14)
	<u>2,096,622</u>	<u>9</u>	<u>(14)</u>
As at 31 December 2017			
Foreign exchange forwards	1,286,155	38,942	(1,218)
Index futures	7,358	30	(20)
	<u>1,293,513</u>	<u>38,972</u>	<u>(1,238)</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

16. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Company entered into International Swaps and Derivatives Association, Inc. ("ISDA") master netting agreements or similar agreements with substantially all of its derivative counterparties. Where legally enforceable, these master netting agreements give the Company the right to offset cash collateral paid or received with the same counterparty. As at 31 December 2018, cash collateral of HK\$6.4 million was paid to and nil amount was received from respective counterparties (2017: HK\$15.4 million and nil).

17. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

The receivable from reverse repurchase agreements arises when the securities are bought by the Company with a concurrent agreement to resell at a specified later date and price. These securities are not recognised in the Company's statement of financial position as the counterparty retains substantially all risks and returns of the securities. The amount paid by the Company is recognised as receivable. In the event of default by the counterparty, the Company has the right to sell the underlying securities for settling the outstanding receivable.

As at 31 December 2018, the outstanding amount paid for the reverse repurchase agreements was HK\$2,462,191,000 (2017: HK\$947,526,000) and was recognised as receivable from reverse repurchase agreements.

The fair value of financial liabilities held for trading received as collateral for the outstanding receivable at the year end was HK\$2,418,211,000 (2017: HK\$921,481,000).

18. CASH AND BANK BALANCES

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no history of default.

As at 31 December 2018, the ECL allowance of client trust bank balances amounted to HK\$8,276,000 (2017: HK\$12,894,000). It was classified as Stage 1 under the ECL model and there was no transfer to/from the other stages.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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19. ACCOUNTS PAYABLE

	2018 HK\$'000	2017 HK\$'000
Accounts payable arising from dealing and broking:		
- clients	14,142,063	11,835,698
- brokers and dealers	1,059,830	1,807,510
- the Stock Exchange and other clearing houses	302,901	374,634
Accounts payable arising from securities borrowing and lending	730,926	1,479,445
Accounts payable arising from underwriting:		
- corporate clients	923,178	71,388
Accounts payable arising from options trading	5,830	11,284
Accounts payable arising from insurance brokerage services	1,553	1,277
	<u>17,166,281</u>	<u>15,581,236</u>

The majority of the accounts payable are repayable on demand except for certain accounts payable to clients which represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

The Company has a practice to satisfy all the requests for payment within one business day. No ageing analysis is disclosed as, in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of these businesses.

Accounts payable to clients also include those payables in trust accounts with authorised institutions of HK\$13,610 million (2017: HK\$11,795 million).

Accounts payable arising from insurance brokerage services includes those payables in trust accounts with authorised institutions of HK\$1,553,000 (2017: HK\$1,277,000). The accounts payable are non-interest bearing except for the accounts payable to the clients.

20. OTHER PAYABLES AND ACCRUED LIABILITIES

	2018 HK\$'000	2017 HK\$'000
Accrued liabilities	20,438	24,293
Other payables	1,185	8,659
	<u>21,623</u>	<u>32,952</u>

Other payables and accrued liabilities are non-interest-bearing and have an average term of three months.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK\$'000	2017 HK\$'000
Financial liabilities held for trading:		
- Listed equity securities	59	70
- Listed debt securities	2,418,211	678,188
	<u>2,418,270</u>	<u>678,258</u>

22. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The obligations under repurchase agreements arise when the securities are sold by the Company with a concurrent agreement to repurchase at a specified later date and price. These securities are not derecognised from the Company's statement of financial position and are retained within the appropriate financial assets classification. The amount received by the Company is recognised as liabilities as the Company retains substantially all risks and returns of the securities.

As at 31 December 2018, the outstanding amount received from repurchase agreements was HK\$75,635,000 (2017: HK\$190,647,000) and was recognised as obligations under repurchase agreements.

The following table specifies the amount included within financial assets at fair value through profit or loss subject to repurchase agreements at the year end.

	2018 HK\$'000	2017 HK\$'000
Financial assets held for trading		
- Listed debt securities	78,021	192,867
	<u>78,021</u>	<u>192,867</u>

23. BANK BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Unsecured bank borrowings	-	3,486,223
	<u>-</u>	<u>3,486,223</u>

The Company's bank borrowings bear interest at the Interbank Offered Rate plus an interest spread which was repayable within three months or less at the end of reporting period.

The carrying amounts of the bank borrowings approximate to their fair values as the impact on discounting is not significant.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

24. SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY

	2018 HK\$'000	2017 HK\$'000
Unsecured and interest-bearing	1,000,000	1,000,000
Unsecured and interest-free	50,000	50,000
	<u>1,050,000</u>	<u>1,050,000</u>

25. SHARE CAPITAL

	2018 HK\$'000	2017 HK\$'000
Issued and fully paid: 7,500,000,000 (2017: 7,500,000,000) ordinary shares	<u>7,500,000</u>	<u>7,500,000</u>

26. DEFERRED TAX

The movements on deferred tax assets and liabilities during the year are as follows:

	Fair value (gain)/loss		ECL allowance		Total	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
At 1 January	310	(229)	41,389	34,564	41,699	34,335
Deferred tax credited to profit or loss (note 7)	4,540	539	37,662	6,825	42,202	7,364
Deferred tax assets at 31 December	<u>4,850</u>	<u>310</u>	<u>79,051</u>	<u>41,389</u>	<u>83,901</u>	<u>41,699</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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27. NOTES TO THE STATEMENT OF CASH FLOW

Bank borrowings
HK\$'000

At 1 January 2017	2,111,433
Changes from financing cash flows	1,368,648
Foreign exchange movement	6,142
Interest expense	38,650
Interest paid classified as operating cash flows	(37,839)
Increase in interest payable	(811)
	<hr/>
At 1 January 2018	3,486,223
Changes from financing cash flows	(3,485,339)
Foreign exchange movement	(884)
Interest expense	24,991
Interest paid classified as operating cash flows	(23,840)
Increase in interest payable	(1,151)
	<hr/>
At 31 December 2018	-

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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28. UNCONSOLIDATED STRUCTURED ENTITIES

The Company considers itself the sponsor of structured entities where it is primarily involved in the design and establishment of the structured entities. The Company also transfers assets to the sponsored structured entities, it markets products associated with the structured entities in its own name.

Income from the sponsored structured entities and assets transferred to the structured entities are as follows:

	2018		2017	
	Commission and fees HK\$'000	Assets transferred HK\$'000	Commission and fees HK\$'000	Assets transferred HK\$'000
Assets securitisations	<u>15,635</u>	<u>597,963</u>	<u>19,400</u>	<u>7,073,600</u>

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in the financial statements, the Company had the following material transactions with related parties during the year:

	Notes	2018 HK\$'000	2017 HK\$'000
Commission income from a public fund managed and invested by a fellow subsidiary	(i)	397	265
Commission income from a public fund managed by a fellow subsidiary	(ii)	41	39
Commission income from a private fund	(iii)	177	394
Commission expenses paid to the ultimate holding company and fellow subsidiary	(iv)	(1,644)	(2,252)
Commission income from the ultimate holding company	(v)	23	70
Commission income from intermediate holding companies	(vi)	767	127
Commission income from fellow subsidiaries	(vii)	91	526
Handling charges paid to a fellow subsidiary	(viii)	(19)	(17)
Consulting service fee paid to the ultimate holding company	(ix)	(26,808)	(8,698)
Underwriting fee income from the ultimate holding company	(x)	-	172,404
Commission income and handling income from another fellow subsidiary	(xi)	64	13
Management fee expense paid to a fellow subsidiary	(xii)	<u>(16,629)</u>	<u>-</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

29. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

- (i) Commission income from dealing in securities received from a public fund managed and invested by a fellow subsidiary was charged at percentage stated on the respective signed brokerage agreements with the Company.
- (ii) Commission income received from dealing in securities from a public fund managed by a fellow subsidiary was charged at percentage stated in the signed brokerage agreement with the Company.
- (iii) The total fees received from the private fund included commission income which was based on 0.15% (2017: 0.15%) of the transaction value.
- (iv) Commission expenses to the ultimate holding company were calculated based on the percentage of the transaction value stated in the Cooperation Agreement signed with the Company.
- (v) Commission income received from the ultimate holding company was calculated based on percentage stated on the respective signed brokerage agreement signed with the Company.
- (vi) Commission income received from the intermediate holding companies was based on the pricing stated in the signed brokerage agreement with the intermediate holding companies.
- (vii) Commission income received from fellow subsidiaries was calculated based on percentage stated on the respective signed brokerage agreement signed with the Company.
- (viii) Handling charges paid to a fellow subsidiary was based on the pricing stated in the signed brokerage agreement with the fellow subsidiary.
- (ix) The consultancy service fee paid to the ultimate holding company was based on the pricing stated in consultancy services agreement with the Company.
- (x) The underwriting and sponsor fee income received from the ultimate holding company was based on the underwriting and sponsor agreement with the ultimate holding company.
- (xi) The commission income and handling income received from another fellow subsidiary was based on the pricing stated in the signed brokerage agreement with a wholly-owned subsidiary of the Company.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

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29. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties:

Notes:

- (xii) The management fee expenses paid to a fellow subsidiary were based on the percentage prescribed in the management agreement.
- (xiii) The amount due from/(to) the immediate holding company is non-interest bearing, unsecured and repayable on demand.
- (xiv) Included in the Company's accounts receivable was a broker receivable due from the ultimate holding company of HK\$17,644,000 (2017: HK\$16,704,000) arising from the dealing in securities as at 31 December 2018. The credit terms provided to the ultimate holding company are consistent with the practice of the securities dealing industry. The balance was unsecured, interest-free and receivable on the settlement day under the relevant market practices.
- (xv) Included in the Company's accounts payable was a broker payable due to the ultimate holding company of HK\$6,383,000 (2017: HK\$6,723,000) arising from the dealing in securities as at 31 December 2018. The balance was unsecured, interest-free and payable on the settlement day under the relevant market practices.
- (xvi) Included in the Company's accounts receivable was the accounts receivable from the public fund mentioned in note (a)(i) above arising from dealing in securities was nil amount (2017: HK\$2,959,000) as at 31 December 2018.
- (xvii) Included in the Company's accounts payable was the accounts payable to the public fund mentioned in note (a)(ii) above arising from dealing in securities was nil amount as at 31 December 2018 (2017: HK\$263,000).
- (xviii) Included in the Company's accounts payable was the accounts payable to the private fund mentioned in note (a)(iii) above arising from dealing in securities was nil amount as at 31 December 2018 (2017: HK\$893,000).
- (xix) Included in the Company's accounts payable were amounts due to the intermediate holding company of nil amount (2017: HK\$655,000), the ultimate holding company of HK\$79,000 (2017: HK\$221,000) and the fellow subsidiaries of HK\$45,713,000 (2017: HK\$4,915,000) arising from dealing in securities as at 31 December 2018. The balances were unsecured, interest-free and payable on demand.
- (xx) Included in the Company's accounts payable was the accounts payable to the ultimate holding company for the consulting service fee and corporate finance service fee of HK\$5,000,000 (2017: nil) as at 31 December 2018.
- (xxi) Included in the Company's accounts receivable was the accounts receivable from the fellow subsidiary of HK\$2,921,000 (2017: HK\$1,631,000) as at 31 December 2018.

The Company's ultimate holding company, GJSCL, is subject to the control of the PRC Government which also controls a significant portion of assets and entities in the PRC (collectively referred to as "state-owned enterprises"). Therefore transactions with state-owned enterprises are regarded as related party transactions.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

29. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties: (continued)

Majority of the bank borrowings and deposits of the Company were entered into with state-owned banks. In addition, the Company enters into transactions with state-owned enterprises that relates to the Company's normal business activities, including but not limited to brokerage services, corporate finance business and investment holding. These transactions are entered into in the ordinary course of business at an arm's length and under the normal commercial terms and conditions as to those that would have been entered into with non-state-owned enterprises, which were not considered as individually significant in accordance with HKAS 24.

(c) Compensation of key management personnel of the Company:

Directors of the Company represent the key management personnel of the Company. The compensation of key management personnel of the Company are paid by immediate holding company. Details of their remuneration are disclosed in note 6 to the financial statements.

30. OTHER COMMITMENTS

The Company has undertaken underwriting obligations on placing, IPO, takeover and merger activities and financial obligations to loans facilities granted to customers. As at 31 December 2018, the underwriting and financial obligations were approximately HK\$451 million and HK\$53 million, respectively (2017: HK\$2,836 million and HK\$159 million).

31. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to credit risk, market risk and liquidity risk. The Company's overall risk management programme focuses on the analysis, evaluation, acceptance and monitoring of these risks which are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Company's financial performance.

The Company's risk management policies are approved by the board of directors and are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date information. The board of directors provides written principles for overall risk management. The Company regularly reviews its risk management policies to reflect any change in the market and clients.

The policies for managing credit risk, market risk and liquidity risk are summarised below:

Credit risk

Credit exposures arise principally from loans and advances to customers, accounts receivable, debt securities, bank balances and client trust bank balances which are included in the Company's asset portfolio.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk limit control and mitigation policies

The board of directors delegates to the credit committee the duties to monitor the credit risk of the Company. Members of the credit committee include, inter alia, the chief executive officer, responsible officers, the chief financial officer and the head of equity financing department. The credit Committee is responsible for the development of financing business and approval of major credit exposure.

The equity financing department is responsible for approval, monitoring, review of the Company's credit risk of margin clients. It is also responsible for making settlement calls when the trades of margin clients exceed their respective limits. Failure to meet margin calls may result in liquidation of the client's position. The credit limit and margin limit for each client and the lending ratio of securities acceptable as margin collateral prepared by the equity financing department will be further approved by the credit committee.

Loans and advances to customers including IPO loans for subscription of new shares are normally settled within 1 week from the drawdown date. Forced liquidation action would be taken if the customers fail to settle their shortfall within specific period of tolerance after IPO allotment result is announced.

For debt securities, external rating such as Standard & Poor's and Moody's ratings or their equivalents are used by the risk management department for managing credit risk exposures as supplemented by the Company's own assessment through the use of internal rating tools.

The Company's bank balances are deposited in respectable, large commercial banks. For the client trust bank balances which are held in segregated accounts, they are deposited in authorised financial institutions in Hong Kong. The credit risk of bank balances and client trust bank balances are considered to be manageable.

Accounts receivable from clients represent receivables from clients arising from dealing in securities, which normally had a delivery-against payment settlement term of 1 to 3 days. The Company allows credit up to the settlement dates of the respective securities transactions (normally from T+1 to T+3 days). All applications for credit limits must be reviewed by credit manager and approved by risk management department or the credit committee. The risk management department and equity financing department determines whether a forced liquidation action is to be taken against clients with overdue balances on a case-by-case basis. The credit committee regularly reviews the overdue balances.

The Company only accepts margin deposits in the form of cash for options dealing and broking. No transaction is allowed to be executed if the current position of the customer exceeds its trading limit. The margin deposit placed and the aggregate of the required margin deposits of each options contract is timely monitored by both the dealers and the risk management department. Margin calls will be executed by the on-site duty staff for options brokerage business if there is a deficit in the margin deposit. Forced liquidation of the customer's position will be executed if the customer fails to meet the margin calls.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit risk limit control and mitigation policies (continued)

With the above stated controls, management considers that the credit risk of the Company resulting from securities and options brokerage business as well as margin and other loan financing are manageable.

Accounts receivable from brokers and dealers are placed with large financial institutions which are governed by regulators. The credit risk of accounts receivable from brokers and dealers is considered to be manageable.

The credit risk of accounts receivable from corporate clients arising from investment holding and market making businesses are manageable as the credit rating and reputation of trade counterparties are sound.

The credit risk of accounts receivable from the Stock Exchange and other clearing houses is considered to be minimal.

Impairment and provisioning policies

The Company's policy requires the review of individual outstanding amounts at least monthly or more regularly depending on individual circumstances or market condition.

The impairment requirements under HKFRS 9 are based on an ECL model. The Company applies simplified approach to measure ECL on accounts receivable and other financial assets accounted for at amortised cost as well as loan commitments. The Company applies general approach to measure ECL on loans and advances to customers and time deposits. Under the simplified approach, the Company measures the loss allowance at an amount equal to lifetime ECL. Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition: Stage 1: 12-months ECL, Stage 2: Lifetime ECL – not credit-impaired and Stage 3: Lifetime ECL – credit-impaired.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Company considers both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information. The loan and advances use the number of days past due ("DPD") and loan-to-collateral value ("LTV") to determine significant increase in credit risk. For non-standard financing, internally derived credit ratings have been identified as representing the best available determinant of credit risk. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Impairment and provisioning policies (continued)

Calculation of ECL

The ECL are assessed by the Company on semi-annual basis. Based on DPD, LTV and internally derived credit ratings, loans and advances to customers are classified into 3 stages

ECL for retail margin loan under stage 1 is calculated on collective basis. The probabilities of price changes of various scenarios are calculated based on the observed historical price movements of the underlying collateral stocks. The ECL of each scenario is then calculated in accordance with the respective loan exposure. When the retail margin loan classified under stage 2 and stage 3, the lifetime ECL is calculated.

The ECL of non-standard financing is calculated on individual basis. The Company has pre-defined loss rate of each loan's category. The loss rate are reference to the default rate for performing and non-performing grades from external rating agencies. As at 31 December 2018, the average loss rate for 12-month ECL and lifetime ECL was 0.14% (2017: 0.05%) and 47.73% (2017: 42.31%) respectively

If there is material decrease in collateral value and the full recovery of the loan is in doubt, the retail and non-standard loan will be classified into stage 3. For the loans classified as stage 3, the Company may further calculate the ECL based on probability-weighted scenarios to measure the ECL. Each scenario is associated with different exposure at default and probability.

Incorporation of forward-looking information

When estimating the ECL on loan and advances to customers, the Company has incorporated forward-looking economic information through the use of industry trend and experienced credit judgement to reflect the qualitative factors, and through the use of multiple probability-weighted scenarios by the stock market analysis.

Maximum exposure to credit risk before collateral held or other credit enhancements

The Company's maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the reporting period, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the statement of financial position.

These amounts represent the worst case scenario of credit risk exposure to the Company at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancements attached.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure

(a) Bank balances and client trust bank balances

The counterparties of all client trust bank balances and majority of cash and bank balances are located in Hong Kong. As the Company's bank balances and client trust bank balances are deposited with a number of financially sound financial institutions, in the opinion of the directors, the concentration risk of the Company's bank balances and client trust bank balances is insignificant.

(b) Loans and advances to customers and accounts receivable from clients

The counterparties of majority of loans and advances to customers (including margin loans, IPO loans and other loan financing) and accounts receivable from clients are individual who are mainly located in China. The equity financing department and risk management department daily prepares an analysis of key margin client and options client exposure for review to avoid excessive concentration risk. As the Company trades with a large number of diversified clients, in the opinion of the directors, the concentration risk of loans and advances to customers and accounts receivable from client is manageable.

(c) Accounts receivable from brokers, dealers as well as clearing houses and others

The Company also has accounts receivable from clearing houses, brokers and dealers from its securities and options brokerage business as well as other receivables from investment holding and market marking businesses. Responsible Officers timely monitor excess deposit placed with dealers and brokers to ensure the concentration risk of accounts receivable is manageable.

Securities borrowing and lending

In the normal course of business, the Company may enter into securities borrowing and lending arrangements with financial institutions and the Company's customers. As at 31 December 2018, the Company borrowed equity securities of HK\$125,785,000 (2017: HK\$123,112,000) from financial institutions and set aside equity securities of HK\$549,155,000 (2017: HK\$1,263,034,000) pledged by margin clients, for such lending arrangements to customers. Cash collateral of HK\$730,926,000 (2017: HK\$1,479,445,000) was received from the customers while HK\$129,116,000 (2017: HK\$123,444,000) was placed to the financial institutions.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Securities borrowing and lending (continued)

The Company maintains no net position in such securities borrowing and lending transactions and is not subject to significant price risk. However, under the securities borrowing and lending arrangement, the cash collateral received and cash collateral placed are included in the accounts payable and accounts receivable from brokers and dealers, respectively. The Company is principally liable to repay the borrowed securities in case of any default by the customers.

In the normal course of investment holding and market making business, the Company may also enter into securities borrowing and lending arranged with financial institutions. As at 31 December 2018, the Company borrowed exchange-traded funds of nil amount (2017: nil) from a financial institution for the market making activities and placed nil amount (2017: nil) to the financial institution as cash collateral.

Market risk

The Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

The financial instruments held by the Company mainly exposed to interest rate risk and price risk. The main market risks include cash flow interest rate risk and price risk. The Company has established policies and procedures for monitoring and controlling the market risk arising from these financial instruments.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and advances to customers, accounts receivable, financial assets and liabilities at fair value through profit or loss, accounts payable to clients, bank borrowings, receivable from reverse repurchase agreements, obligations under repurchase agreements, client trust bank balances and cash and bank balances. Debt investments usually bear a fixed rate interest and they are managed through the strategy of trading them within a short period of time.

Interest on cash at banks will fluctuate at floating rates based on daily bank deposit rates. Bank borrowings and margin loans receivable at variable rates exposing the Company to cash flow interest rate risk. Other financial assets and liabilities which are mainly carried at amortised cost are either non-interest-bearing or fixed interest-bearing with short term maturities within one year, of which the interest rate risk is also considered to be minimal. The Company mitigates its interest rate risk by monitoring market interest rate movements and revising the interest rates offered to its customers on an ongoing basis in order to limit potential adverse effects of interest rate movements on net interest income. The Company regularly calculates the impact on profit or loss of a possible interest rate shift on its portfolio of bank borrowings, margin loans receivable and interest-bearing bank deposits.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

If there would be a general increase/decrease in the interest rate by 1% (2017: 1%), with all other variables held constant, the profit before tax for the year ended 31 December 2018 would have been increased/decreased by approximately HK\$267.9 million (2017: HK\$211.8 million), but the fair value of the debt investments for the year ended 31 December 2018 would have been increased/decreased by approximately HK\$117.1 million (2017: HK\$38.1 million). The estimated 1% (2017: 1%) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting period. The sensitivity analysis is unrepresentative because the year-end exposure does not reflect the exposure during the year.

The financial products and derivative financial instruments held by the Company are structured as debt securities in issue for sales to customers. They are not subject to significant risk as the risk has been transferred to customers accordingly.

Equity price risk

The Company is exposed to equity securities price risk from equity instruments held by the Company which are classified in the statement of financial position as financial assets and liabilities at fair value through profit or loss. Price risk is the risk of changes in fair value of financial instruments from fluctuations, whether such a change in price is caused by factors specific to the individual instrument or factors affecting all instruments traded in the markets. The Company mitigates its price risk by performing detailed due diligence analysis of investments and dedicated professionals are assigned to oversee and monitor the performance of investments.

At 31 December 2018, the profit before tax would increase/decrease by HK\$0.6 million for the equity held for trading (2017: HK\$0.7 million) should the relevant indexes increase/decrease by 10% (2017: 10%). The analysis is based on the assumption that all the equity instruments move according to the historical correlation with the relevant indexes and with all other variables held constant. The sensitivity analysis is unrepresentative because the year-end exposure does not reflect the exposure during the year.

The asset quality of the margin clients' margin collateral will deteriorate when the market comes down drastically. Scenario analysis and stress testing are regularly performed on an individual client basis.

Foreign currency risk

Foreign currency risk refers to the risk that movements in foreign currency exchange rates will affect the Company's financial results and its cash flows.

The Company's principal operations are transacted and recorded in Hong Kong dollars, United States dollars ("USD") and Renminbi ("RMB"). The Company is not exposed to material foreign exchange risk because HKD is pegged with USD. The Company also conducts appropriate hedging activities when it is exposed to material exchange risk in RMB. Other foreign currency exposure is relatively minimal to its total assets and liabilities. The foreign exchange risk is daily managed and monitored by the treasury department. As a result, it is considered that foreign exchange risk exposure is manageable.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, the treasury department maintains flexibility in funding by maintaining available committed credit facilities from the banks.

Sources of liquidity are daily reviewed by the treasury department to ensure the availability of sufficient liquid funds to meet all obligations.

Management monitors rolling forecasts of the Company's cash and cash equivalents on the basis of expected cash flows in strict compliance with statutory requirements. This is achieved by monitoring the liquidity position of the Company on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations and compliance with the statutory requirements such as the Hong Kong Securities and Futures (Financial Resources) Rules.

The following table summarises the maturity profiles of the Company's financial liabilities, based on the contractual and undiscounted cash flows.

As at 31 December 2018

	Up to 1 month HK\$'000	1 to less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Total HK\$'000
Liabilities				
Accounts payable	17,166,281	-	-	17,166,281
Financial liabilities at fair value through profit or loss	2,418,270	-	-	2,418,270
Obligations under repurchase agreements	75,659	-	-	75,659
Bank borrowings	-	-	-	-
Subordinated loans from the immediate holding company	1,061,705	-	-	1,061,705
	<u>20,721,915</u>	<u>-</u>	<u>-</u>	<u>20,721,915</u>
Off-balance sheet items				
Underwriting obligations	451,204	-	-	451,204
Financial obligations to loan facilities	53,295	-	-	53,295
	<u>504,499</u>	<u>-</u>	<u>-</u>	<u>504,499</u>
Derivative cash flows				
Derivative financial instruments settled on a gross basis				
Total inflows	2,187,311	-	-	2,187,311
Total outflows	(2,192,820)	-	-	(2,192,820)
	<u>(5,509)</u>	<u>-</u>	<u>-</u>	<u>(5,509)</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2017

	Up to 1 month HK\$'000	1 to less than 3 months HK\$'000	3 to less than 12 months HK\$'000	Total HK\$'000
Liabilities				
Accounts payable	15,581,236	-	-	15,581,236
Financial liabilities at fair value through profit or loss	678,258	-	-	678,258
Obligations under repurchase agreements	190,734	-	-	190,734
Bank borrowings	3,487,545	-	-	3,487,545
Subordinated loans from the Immediate holding company	1,058,590	-	-	1,058,590
	<u>20,996,363</u>	<u>-</u>	<u>-</u>	<u>20,996,363</u>
Off-balance sheet items				
Underwriting obligations	2,836,419	-	-	2,836,419
Financial obligations to loan facilities	158,665	-	-	158,665
	<u>2,995,084</u>	<u>-</u>	<u>-</u>	<u>2,995,084</u>
Derivative cash flows				
Derivative financial instruments settled on a gross basis				
Total inflows	1,276,484	-	52,355	1,328,839
Total outflows	(1,236,659)	-	(53,843)	(1,290,502)
	<u>39,825</u>	<u>-</u>	<u>(1,488)</u>	<u>38,337</u>

Fair values of financial assets and liabilities

Financial instruments not measured at fair value

At the end of reporting period, the fair values of the Company's financial assets and liabilities not measured at fair value are not materially different from their carrying amounts due to their short term nature.

Financial instruments measured at fair value

Company's valuation process

The Level 1 and Level 2 fair values of financial assets are measured by reference to quoted market prices and brokers' quotes, respectively.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Company's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable Inputs (Level 2) HK\$'000	Significant unobservable Inputs (Level 3) HK\$'000	
Financial assets held for trading				
- Listed equity investments	5,935	-	-	5,935
- Listed debt Investments	-	78,021	-	78,021
Financial assets at fair value through profit or loss				
- Derivative financial instruments	-	9	-	9
Total	5,935	78,030	-	83,965

As at 31 December 2017

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable Inputs (Level 2) HK\$'000	Significant unobservable Inputs (Level 3) HK\$'000	
Financial assets held for trading				
- Listed equity investments	9,116	-	-	9,116
- Listed debt Investments	-	39,146	-	39,146
Financial assets at fair value through profit or loss				
- Derivative financial instruments	-	38,972	-	38,972
Total	9,116	78,118	-	87,234

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable Inputs (Level 2) HK\$'000	Significant unobservable Inputs (Level 3) HK\$'000	
Financial liabilities held for trading				
- Listed equity securities	(59)	-	-	(59)
- Listed debt securities	-	(2,418,211)	-	(2,418,211)
Financial liabilities designated as fair value through profit or loss				
- Derivative financial instruments	-	(14)	-	(14)
Total	(59)	(2,418,225)	-	(2,418,284)

As at 31 December 2017

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable Inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Financial liabilities held for trading				
- Listed equity securities	(70)	-	-	(70)
- Listed debt securities	-	(678,188)	-	(678,188)
Financial liabilities designated as fair value through profit or loss				
- Derivative financial instruments	-	(1,238)	-	(1,238)
Total	(70)	(679,426)	-	(679,496)

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Fair values of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

Fair value hierarchy (continued)

(a) Financial instruments in Level 1

The fair values of financial instruments traded in active markets are based on quoted market prices at the end of the reporting periods. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets and financial liabilities held by the Company is the current bid price and current ask price.

(b) Financial instruments in Level 2

The fair values of financial instruments that are not traded in an active market (for example, over-the-counter) are determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs used in the valuation for financial instruments are observable, the financial instruments are included in Level 2.

If one or more of the significant inputs is not based on observable market data, the financial instrument is included in Level 3.

(c) Financial instruments in Level 3

There is no financial instrument in Level 3 as at 31 December 2018 and 2017.

Capital management

The Company's objectives for managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

- to comply with the capital requirements under the Hong Kong Securities and Futures (Financial Resources) Rules;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to support the Company's stability and growth; and
- to maintain a strong capital base to support the development of its business.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

The liquid capital is monitored daily by the Company's management, based on the Securities and Futures (Financial Resources) Rules. The required information is filed with the SFC on a timely basis. The SFC requires the Company to maintain a level of required liquid capital which is the higher of the floor requirement of HK\$3 million or 5% of the aggregate of its adjusted liabilities and clients' margin. The Company complied with its required liquid capital during the years ended 31 December 2018 and 2017.

The capital of the Company mainly comprises its total equity.

32. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Company currently has a legally enforceable right to set off the Continuous Net Settlement (CNS) money obligations receivable and trade payables with HKSCC and it intends to settle on a net basis as accounts receivable from or accounts payable to the Stock Exchange. The net amount of CNS money obligations receivable or payable with HKSCC and guarantee fund placed in HKSCC do not meet the criteria for offsetting in the financial statements and the Company does not intend to settle the balances on a net basis.

	Gross amount of recognised financial assets/ (liabilities) HK\$'000	Gross amount of recognised financial liabilities offset in the financial statements HK\$'000	Net amount of financial liabilities reflected in the financial statements HK\$'000	Related amounts not set off in the statement of financial position HK\$'000	HK\$'000
<u>As at 31 December 2018</u>					
CNS money obligation receivable	609,368	(328,663)	280,705	-	280,705
CNS money obligation payable	(328,663)	328,663	-	-	-
<u>As at 31 December 2017</u>					
CNS money obligation receivable	895,209	(895,209)	-	-	-
CNS money obligation payable	(1,074,870)	895,209	(179,661)	-	(179,661)

The "net amounts of financial assets reflected in the financial statements", as set out above, is included in "accounts receivable and accounts payable arising from dealing and brokering – the Stock Exchange and other clearing houses" in notes 13 and 19 respectively.

APPENDIX 6

OUR INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

Our interim financial statements for the period ended 30 June 2019 are set out in this Appendix 6. References to page numbers on the following pages are to the page numbers of such interim financial statements.

INTERIM FINANCIAL STATEMENTS

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

FOR THE PERIOD ENDED 30 JUNE 2019

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

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GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	For the six months ended 30 June	
		2019 Unaudited HK\$'000	2018 Unaudited HK\$'000
Revenue	3	1,103,519	1,294,773
Other income		2,767	792
Revenue and other income		<u>1,106,286</u>	<u>1,295,565</u>
Commission expenses		(72,356)	(44,430)
Other operating expenses		(843,058)	(574,333)
Operating profit		<u>190,872</u>	<u>676,802</u>
Finance costs	4	(79,842)	(60,728)
Profit before tax	4	<u>111,030</u>	<u>616,074</u>
Income tax credit/(expense)		8,911	(79,782)
Profit and total comprehensive income for the period		<u><u>119,941</u></u>	<u><u>536,292</u></u>
Profit and total comprehensive income attributable to:			
- shareholders		119,941	536,292
- non-controlling interests		-	-
Profit and total comprehensive income for the period		<u><u>119,941</u></u>	<u><u>536,292</u></u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION

		As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Non-current assets	Notes		
Intangible assets		1,500	1,500
Other assets		3,591	3,458
Deferred tax assets		164,021	83,901
		<hr/>	<hr/>
Total non-current assets		169,112	88,859
		<hr/>	<hr/>
Current assets			
Loans and advances to customers	5	9,791,265	8,965,189
Accounts receivable	6	3,720,679	2,660,160
Prepayments, deposits and other receivables		38,276	58,277
Financial assets at fair value through profit or loss		47,186	83,956
Derivative financial instruments		-	9
Receivable from reverse repurchase agreements		1,633,299	2,462,191
Amount due from the immediate holding company		1,987,404	688,075
Client trust bank balances		14,467,538	13,610,499
Cash and bank balances		3,255,560	2,819,574
		<hr/>	<hr/>
Total current assets		34,941,207	31,347,930
		<hr/>	<hr/>
Current liabilities			
Accounts payable	7	(18,272,259)	(17,166,281)
Other payables and accrued liabilities		(27,527)	(21,623)
Financial liabilities at fair value through profit or loss		(1,787,418)	(2,418,270)
Derivative financial instruments		(515)	(14)
Obligations under repurchase agreements		(1,242,532)	(75,635)
Bank borrowings	8	(2,380,000)	-
Subordinated loan from the immediate holding company	9	(1,050,000)	(1,050,000)
Tax payable		(70,971)	(45,810)
		<hr/>	<hr/>
Total current liabilities		(24,831,222)	(20,777,633)
		<hr/>	<hr/>
Net current assets		10,109,985	10,570,297
		<hr/>	<hr/>
Total assets less current liabilities		10,279,097	10,659,156
		<hr/>	<hr/>
Net assets		10,279,097	10,659,156
		<hr/>	<hr/>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF FINANCIAL POSITION (continued)

	Notes	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Equity			
Share capital		7,500,000	7,500,000
Retained profits		2,779,097	3,159,156
		<hr/>	<hr/>
Total equity		10,279,097	10,659,156
		<hr/> <hr/>	<hr/> <hr/>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2018		7,500,000	2,739,414	10,239,414
Total comprehensive income for the period		-	536,292	536,292
Dividend paid		-	-	-
At 30 June 2018		<u>7,500,000</u>	<u>3,275,706</u>	<u>10,775,706</u>
At 1 January 2019		7,500,000	3,159,156	10,659,156
Total comprehensive income for the period		-	119,941	119,941
Dividend paid		-	(500,000)	(500,000)
At 30 June 2019		<u>7,500,000</u>	<u>2,779,097</u>	<u>10,279,097</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

1. GENERAL INFORMATION

Guotai Junan Securities (Hong Kong) Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is 27th Floor, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.

During the period, the Company acted as brokers and dealers in securities, and also engaged in the provision of underwriting, wealth management services and margin financing.

The Company is a wholly-owned subsidiary of Guotai Junan (Hong Kong) Limited, a company incorporated in Samoa. The ultimate holding company is Guotai Junan Securities Company Limited ("GJSCL"), a company registered in the People's Republic of China.

Pursuant to a special resolution passed on 31 January 2019, it is desirous to change the Company's status from a private company to a public company and in connection therewith, the Company shall alter its Articles Of Association in accordance with section 94(1) Of the Companies Ordinance, Chapter 622 Of the laws Of Hong Kong.

2. Basis of preparation and changes in accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and usual account policies and procedures of the Company as required under Chapter 15A.21(3) of the Main Board Listing Rules, including the adoption of new amendments to Hong Kong Financial Reporting Standards as detailed in note 2.2 below.

Accounting policies adopted by the Company, save for changes as detailed in note 2.2 below, are disclosed in audited financial statements for the year ended 31 December 2018.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases and HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

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2. Basis of preparation and changes in accounting policies (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

HK(IFRIC) - Int 23, "Uncertainty over Income Tax Treatments"

The Interpretation addresses the accounting for income taxes when tax treatments (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

Amendments to HKAS 28: Long-term interests in associates and joint ventures

The amendments clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied.

Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group does not have long-term interests in its associate and joint venture upon adoption of the amendments on 1 January 2019 and concluded these amendments had no impact on the consolidated financial statements.

Annual Improvements 2015-2017 Cycle

HKFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

HKFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in HKFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

2. Basis of preparation and changes in accounting policies (continued)

2.2 New standards, interpretations and amendments adopted by the Group (continued)

Annual Improvements 2015-2017 Cycle (Continued)

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

HKAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

HKAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

3. REVENUE

The Company's revenue is disaggregated as follows:

	For the six months ended	
	30 June	
	2019	2018
	Unaudited	Unaudited
	HK\$'000	HK\$'000
<i>Revenue from contracts with customers</i>		
Commission income from securities dealing and broking	252,029	227,479
Handling income on dealing and broking	32,195	26,518
Placing, underwriting and sub-underwriting commission		
- Debt securities	324,536	258,439
- Equity securities	92,778	65,860
Commission income from insurance broking	3,243	5,511
Commission income from options dealing and broking	41	28
Investment advisory income	-	24
Net income on structured financial products	26,120	42,396
	<u>730,942</u>	<u>626,255</u>
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<i>Revenue from other sources</i>		
Clients' interest income and handling income	224,153	485,487
Interest income in respect of:		
- Banks	163,195	102,844
- Securities borrowing and lending	19,342	35,620
- Reverse repurchase agreements	23,114	11,082
- Listed debt securities	1,025	399
- Others	303	388
Net fair value (loss)/gain on financial instruments held for trading		
- Listed securities	(73,558)	24,747
- Unlisted securities	-	(458)
Dividend income from listed securities held for trading	15	-
Net interest recharged to immediate holding company	14,987	8,409
	<u>372,576</u>	<u>668,518</u>
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	<u><u>1,103,518</u></u>	<u><u>1,294,773</u></u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

4. PROFIT BEFORE TAX

This is arrived at after charging/(crediting):

	For the six months ended	
	30 June	
	2019	2018
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Foreign exchange difference, net	4,798	1,209
Finance costs:		
Banks	16,577	20,074
Subordinated loan from the immediate holding company	21,898	18,839
Securities borrowing and lending	3,493	1,621
Repurchase agreements	4,826	825
Financial instruments at fair value through profit or loss		
- Listed debt securities held for trading	26,061	18,771
Others	6,988	598
	<u>84,641</u>	<u>61,937</u>
Management fee recharged and paid to the immediate holding company	308,070	354,938
Net impairment charge on loans and advances to customers	490,215	180,277
Net charge of impairment on accounts receivable	3,483	2,360
Net reversal of impairment on other financial assets and loan commitments	(1,499)	(2,192)
	<u><u>84,641</u></u>	<u><u>61,937</u></u>

All employees of the Company were contractually employed by the immediate holding company, which was responsible for the payment of all staff costs. Staff costs of those employees who provided services to the Company were initially borne by the immediate holding company and recharged to the Company in the form of management fee.

The management fee paid to the immediate holding company was in respect of staff cost, attributable office premises expenses, central management and administrative support services rendered. It was calculated based on the costs incurred by the immediate holding company and allocated with reference to the gross profit of the Company relative to the gross profit of the other group companies.

The reimbursements to the immediate holding company and the intermediate holding company were in respect of the interest expenses from the syndicated loans of the immediate holding company and the Medium Term Note Programme ("MTN programme") by the intermediate holding company. The proceeds of the syndicated loans and the MTN programme are mainly used for the Company's operation during the year, the immediate holding company and intermediate holding company recharged the respective interest expenses to the Company in the form of the reimbursements.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

5. LOANS AND ADVANCES TO CUSTOMERS

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Margin loans	10,747,045	9,430,753
Less: impairment	(955,780)	(465,564)
	9,791,265	8,965,189
	9,791,265	8,965,189

Loans and advances are categorised into excellent, good and individually impaired. Excellent refers to exposures which margin obligation can be met and payment of interest and principal is not in doubt, with good quality and liquidity of collaterals. Good refers to exposures which principal and interest are partially or fully secured but at a relatively low level. Individually impaired refers to exposures which loss, partial or full, has incurred and with insufficient collateral.

The contractual amount outstanding on loans and advances to customers that have been written off, but were still subject to enforcement activity was nil at 30 June 2019 (at 31 December 2018: HK\$95,557,000).

Margin financing operations

The Company provides customers with margin financing for securities transactions, which are secured by customers' securities held as collateral. The maximum credit limit granted for each customer is based on the customer's financial background and the quality of related collateral. The Company seeks to maintain strict control over its outstanding receivables and has a Credit and Risk Management Department to monitor credit risks.

Margin loans to the customers are secured by the underlying pledged securities, bear interest at a rate with reference to the Hong Kong dollar prime rate and are repayable on demand. The carrying value of margin loans approximates to their fair value. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis does not give additional value in view of the nature of the margin loans business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Company. As at 30 June 2019, the total value of securities pledged as collateral in respect of the margin loans was approximately HK\$31,381 million (2018: HK\$25,580 million) based on the market value of the securities as at the end of the reporting periods.

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

6. ACCOUNTS RECEIVABLE

(a) The carrying value of accounts receivable arising from the course of business of the Company are as follows:

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Accounts receivable arising from dealing and broking:		
- cash and custodian clients	163,692	33,503
- the Stock Exchange and other clearing houses	2,780,847	1,174,486
- brokers and dealers	586,671	1,226,520
Accounts receivable arising from securities borrowing and lending	61,974	129,116
Accounts receivable arising from insurance brokerage services		
- cash and custodian clients	38	23
Accounts receivable arising from underwriting and others		
- corporate clients	135,919	101,490
	<u>3,729,141</u>	<u>2,665,138</u>
Less: impairment	(8,462)	(4,978)
	<u><u>3,720,679</u></u>	<u><u>2,660,160</u></u>

7. ACCOUNTS PAYABLE

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Accounts payable arising from dealing and broking:		
- clients	13,756,474	14,142,063
- brokers and dealers	187,999	1,059,830
- the Stock Exchange and other clearing houses	1,985,844	302,901
Accounts payable arising from securities borrowing and lending	1,096,784	730,926
Accounts payable arising from underwriting:		
- corporate clients	1,235,572	923,178
Accounts payable arising from options trading	8,116	5,830
Accounts payable arising from insurance brokerage services	1,470	1,553
	<u>18,272,259</u>	<u>17,166,281</u>

GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2019

8. BANK BORROWINGS

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Unsecured bank borrowings	2,380,000	-

The Company's bank borrowings bear interest at the Interbank Offered Rate plus an interest spread which was repayable within three months or less at the end of reporting period.

The carrying amounts of the bank borrowings approximate to their fair values as the impact on discounting is not significant.

9. SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY

	As at 30 June 2019 Unaudited HK\$'000	As at 31 December 2018 Audited HK\$'000
Unsecured and interest-bearing	1,000,000	1,000,000
Unsecured and interest-free	50,000	50,000
	<u>1,050,000</u>	<u>1,050,000</u>

PARTIES

OUR OFFICE

Guotai Junan Securities (Hong Kong) Limited

14/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

LIQUIDITY PROVIDER

Guotai Junan Securities (Hong Kong) Limited

14/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

King & Wood Mallesons

13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

AUDITOR

Ernst & Young

32/F, One Taikoo Place
Taikoo Place
979 King's Road
Quarry Bay, Hong Kong